

## Staff Briefing Papers

Meeting Date April 15, 2021 Agenda Item 1\*

Company Greater Minnesota Gas, Inc. (GMG)

Docket No. **G-022/S-20-837**

**In the Matter of the Petition by Greater Minnesota Gas, Inc. for Approval of its  
2021 Capital Structure and Permission to Issue Securities**

Issues Should the Commission approve GMG’s proposed 2021 capital structure and grant permission to issue long-term and short-term securities?

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 **Relevant Documents**

**Date**

GMG – 2021 Capital Structure Petition	November 23, 2020
Department of Commerce – Comments	February 2, 2021
GMG – Reply Comments	February 3, 2021

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

## I. Statement of the Issues

Should the Commission approve GMG's proposed 2021 capital structure and grant permission to issue long-term and short-term securities?

## II. Background

Under Minnesota Rule 7825.1400, all electric and gas utilities incorporated within the state of Minnesota are required to file for approval of capital structure and capitalization.

On November 23, 2020, Greater Minnesota Gas, Inc. (GMG) filed a petition seeking approval of its proposed 2021 capital structure and permission to issue securities within the scope of the proposed capital structure, plus contingencies.

On February 2, 2021, the Minnesota Department of Commerce, Division of Energy Resources (the Department) submitted its comments, recommending approval with certain additional requirements and modifications. These modifications would require GMG to propose in its next capital structure petition a plan that would:

- a. Result in an equity ratio of 39 percent by December 31, 2022;
- b. Increase its equity floor from 35 to 36 percent beginning March 31, 2022; and
- c. Increase its equity floor from 36 to 37 percent by March 31, 2023.

On February 3, 2021, GMG filed reply comments which agreed to the Department recommendations.

## III. Initial Filing and Parties' Comments

### A. GMG's Petition

In its November 23, 2020 petition, GMG requests approval of a total capitalization of up to \$47,500,000, inclusive of a contingency of \$1,290,850 and a projected year-end 2021 capitalization of \$46,209,150. The following is a summary of GMG's current and projected capital structure:

**Table 1: Greater Minnesota Gas Capital Structure as of 3<sup>rd</sup> Qtr. 2020**

Type of Capital	Capital Structure			
	September 30, 2020 (Actual)		December 31, 2021 (Projected)	
Common Equity	\$15,508,830	36.34%	\$17,949,530	38.84%
Preferred Equity	\$0	0.00%	\$0	0.00%
Short Term Debt	\$1,486,237	3.48%	\$1,487,900	3.22%
Long Term Debt	\$25,676,370	60.17%	\$26,771,720	57.94%
<b>Total Capitalization</b>	<b>\$42,671,437</b>	<b>100.00%</b>	<b>\$46,209,150</b>	<b>100.00%</b>
Contingency			\$1,290,850	
<b>Total with Contingency</b>			<b>\$47,500,000</b>	

GMG requests authorization to issue long-term debt, provided that the Company remains within the approved contingency ranges and does not exceed them for more than 60 days. GMG anticipates issuing approximately \$1.5 million in long-term debt and anticipates approximately \$2.3 million in 2021 capital expenditures. It also requests permission to issue short-term debt amounting to no more than 10 percent of total capitalization at any time while the 2021 capital structure is in effect.

**Table 2: Greater Minnesota Gas 2021 Capital Expenditures**

<b>Category</b>	<b>Budget</b>
System Replacement & Reinforcement	\$500,000
Vehicles, Equipment, & Facilities	\$300,000
Customer Additions and Main Extensions	\$1,500,000
<b>Total Capital Expenditure</b>	<b>\$2,300,000</b>

GMG requests that an equity floor of 34 percent be approved, rising to 35 percent on March 31, 2021, instead of an equity range. GMG further requests that this capital structure be approved to be in effect until the Commission approves a capital structure for 2022.

**B. Department Comments**

On February 2, 2021, the Department filed its comments on the GMG capital structure petition. The Department concludes that the filing is compliant with Commission rules. The Department also concludes that the filing contains the information required for GMG in all capital structure petitions, found in the Order for Docket 08-1416, points 1, 3, and 4.<sup>1</sup> These require GMG to provide the following:

Docket 08-1416 Order	Requirement	Location
Order Point 1	Exhibit providing projection of capital needs, expenditures, sources, and timing	Table 1 and 2 Above. Attachment 11 for capital needs
Order Point 3	Report of actual issuances and uses of funds from prior year	Attachment 9 – Loans Attachment 10 – Sources and Uses of Funds
Order Point 4	Information on each non-recurring issue within 20 days	March 31, 2020 Filing S-18-749 May 5, 2020 Filing in S-18-749

<sup>1</sup> ORDER AUGMENTING INFORMATION REQUIRED IN CONNECTION WITH SECURITIES ISSUANCES AND ANNUAL CAPITAL STRUCTURE FILINGS, In the Matter of Commission Inquiry into the Review and Approval of Securities Issuances and Capital Structures, Docket No. E,G-999/CI-08-1416 (May 12, 2009) <https://www.edockets.state.mn.us/EFiling/edockets/searchDocuments.do?method=showPoup&docum entId={8C341638-4016-4DDF-8232-0B50A964A>

The Department found that GMG fulfilled these requirements in its filing.

The Department also found that GMG complied with the Commission Order<sup>2</sup> on GMG's 2020 capital structure in which the Commission required that GMG propose in its 2021 capital structure filing:

- A plan that would be expected to result in a 38 percent equity ratio by December 31, 2021, assuming normal weather, or explain why such an increase is not possible.
- An increase in GMG's equity ratio floor from 34% to 35% beginning March 31, 2021, or explain why such an increase is not possible.
- An increase in GMG's equity ratio floor from 35% to 36% beginning March 31, 2022, or explain why such an increase is not possible.

The Department analyzed GMG's financial metrics over time, and found that:

- GMG's revenue, gross margin, and pretax operating income have increased relatively steadily from year-to-year between 2016 and 2019, with 2019 representing the Company's best performance year for these three financial metrics.
- Compared to the 12 months ending September 30, 2019, GMG improved both its gross margin and pretax operating income for the 12 months ending September 30, 2020.
- The Company forecasts incremental increases in its income-related metrics for 2021, and these projections generally follow the pattern of improvement seen over prior years.
- GMG's interest coverage ratio (pre-tax operating income divided by interest expense) continues to increase year over year.

The Department evaluated the GMG capital structure, and found that, though the equity ratio has improved in recent years, GMG still carries a relatively low equity ratio, and as such recommended the following:

- The Commission continue to require that GMG maintain its equity ratio above its floor at all times, as an exception to the usual allowance for a 60 day 'grace' period to either cure or get Commission authorization for the exception.

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<sup>2</sup> Order, In the Matter of the Petition of GMG for Approval of its 2020 Capital Structure and Permission to Issue Securities, Docket No. G-022/S-19-727 (June 12, 2020)  
<https://www.edockets.state.mn.us/EFiling/edockets/searchDocuments.do?method=showPoup&documentId={30A6A872-0000-C71C-8A8E-B3082024BF1>

- The Commission require that GMG propose in its next Capital Structure filing:
  - An equity ratio of 39 by December 31, 2022.
  - A Step increase in its equity ratio floor from 35 to 36 percent beginning March 31, 2022.
  - A step increase in its equity ratio floor from 36 to 37 percent beginning March 31, 2023.

The Department notes that the 10% short-term equity cap of 10% is consistent with what the Commission has granted in recent years, and recommends approval, with allowance for GMG to exceed that cap for up to 60 days so long that the equity ratio mentioned above does NOT fall below the established floor.

The Department also notes that the long-term debt limits implied by the GMG filing are consistent with recent Commission orders and recommends approval.

In summary, the Department recommended the following:

- Approve GMG's proposed 2021 capital structure.
- Approve a total capitalization of \$46.2 million with a 10 percent capitalization contingency of \$4.6 million (resulting in a total capitalization of \$50.8 million, including contingency).
- Require that GMG maintain at all times an equity ratio floor of at least 34 percent, increasing to 35 percent beginning March 31, 2021.
- Require GMG to propose in its next capital structure petition a plan that would be expected to result in:
  - An equity ratio of 39 percent by December 31, 2022.
  - A step increase in its equity floor from 35 to 36 percent beginning March 31, 2022.
  - A step increase in its equity floor from 36 to 37 percent beginning March 31, 2023.
- Approve a short-term debt contingency cap of 10% of GMG's total capitalization and allow GMG to violate the short-term debt contingency cap for up to 60 days.
- Permit the company to issue long-term debt so long as it (1) remains at or above the approved equity floor at all times and (2) remains within the approved short-term debt contingency range (GMG is not to exceed its short-term debt contingency range for more than 60 days).
- Allow the approved 2021 capital structure to remain in effect until the Commission issues a 2022 capital structure order for GMG.
- Require GMG to file its next capital structure petition no later than January 1, 2022.

### **C. GMG Reply Comments**

In its February 3, 2021 Reply Comments, GMG had no objection to the Department recommendations, appreciates the Department's careful analysis, and asks that the matter be placed on a Commission agenda.

#### IV. Staff Comment

Staff finds that the Department has conducted a thorough and thoughtful analysis of GMG's filings. Staff thanks all parties for their excellent work.

#### V. Decision Options

1. Approve GMG's proposed 2021 capital structure, with an equity floor of 35 percent by March 31, 2021.
2. Approve a total capitalization of \$46.2 million with a 10 percent capitalization contingency of \$4.6 million (resulting in a total capitalization of \$50.8 million, including contingency).
3. Require that GMG maintain at all times an equity ratio floor of at least 34 percent, increasing to 35 percent beginning March 31, 2021.
4. Require GMG to propose in its next capital structure petition a plan that would be expected to result in:
  5. An equity ratio of 39 percent by December 31, 2022.
  6. A step increase in its equity floor from 35 percent to 36 percent beginning March 31, 2022.
  7. A step increase in its equity floor from 36 percent to 37 percent beginning March 31, 2023.
8. Approve a short-term debt contingency cap of 10 percent of GMG's total capitalization and allow GMG to violate the short-term debt contingency cap for up to 60 days.
9. Permit the Company to issue long-term debt so long as it (1) remains at or above the approved equity floor at all times, and (2) remains within the approved short-term debt contingency range (GMG is not to exceed its short-term debt contingency range for more than 60 days.)
10. Allow the approved 2021 capital structure to remain in effect until the Commission issues a 2022 capital structure order for GMG.
11. Require GMG to file its next capital structure petition no later than January 1, 2022.
12. Take any other action as deemed appropriate by the Commission.