



202 South Main Street
Le Sueur, Minnesota 56058
Toll Free: (888) 931-3411
Fax: (507) 934-6675
www.greatermngas.com

March 16, 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: Greater Minnesota Gas, Inc.'s Reply Comments
Docket No. G022/S-14-1051

Dear Mr. Wolf:

Attached hereto, please find Greater Minnesota Gas, Inc.'s Reply Comments in the above-referenced docket regarding its Petition for Approval of 2015 Capital Structure and Permission to Issue Securities.

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-14-1051**

filed this 16th day of March, 2015.

/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_14-1051_S-14-1051
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_14-1051_S-14-1051
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_14-1051_S-14-1051
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_14-1051_S-14-1051
John	Lindell	agorud.ecf@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_14-1051_S-14-1051
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_14-1051_S-14-1051
Eric	Swanson	eswanson@winthrop.com	Winthrop Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_14-1051_S-14-1051
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_14-1051_S-14-1051

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. G022/S-14-1051

**In the Matter of Greater Minnesota
Gas, Inc.'s Petition For Approval Of
2015 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 2015 capital structure and permission to issue securities on December 19, 2014. The Petition requests that the Commission approve GMG’s proposed 2015 capital structure which will enable it to provide natural gas to areas of rural Minnesota that are currently unserved. On March 6, 2015, 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 a proposed modification, and discussed several issues. While GMG does not generally object to the Department’s suggestions, GMG provides additional information herein regarding the following aspects of the Petition and Comments in order to clarify the record and request a stay of the proposed modification:

- Discussion regarding submission of information.
- Impact of GMG’s growth on its financial performance.
- Request a one year stay on inclusion of short-term debt in equity ratio.
- Beneficial impact of GMG’s continued aggressive growth plan.

DISCUSSION IN REPLY

GMG appreciates the Department's recommendation that its capital structure be approved; and, GMG does not generally object to the Department's recommendations. However, GMG respectfully requests that the proposed modified calculation method be stayed for one year as discussed below. The Department stated that its "intention remains unchanged" in that its capital structure recommendations are intended "to allow GMG some flexibility to pursue its expansion projects while maintaining a minimum degree of financial integrity." (Comments, page 12.) GMG understands the basis for the extra protection necessitated in recent capital structure orders that limits its flexibility to increase its debt load without adding additional equity. GMG further agrees to comply with the ongoing requirement to maintain a minimum level equity ratio (equity ratio floor) at all times rather than being afforded the flexibility of a 60 day violation window often extended to other utilities. The structure proposed by GMG protects its customers while providing the maximum benefit to new customers during 2015; and, modifying GMG's capital structure filing in subsequent years provides a balance approach to meet mutual GMG and Department goals.

1. GMG Did Not Withhold Information Regarding Loans.

GMG provided information regarding its financing in a variety of ways. Although the Comments state that GMG did not report loan issuances to the Commission, the Comments also confirm that the loans were reported on GMG's financial statements in its monthly filings. While a Department footnote to its Comments implies that GMG may have intentionally failed to comply with the Commission order regarding providing notice of debt issuance, the totality of the circumstances demonstrates that it simply not the case. GMG provided information regarding various bank proposals and timing of issuances in its 2014 capital structure filing and information request responses. Additionally, GMG filed monthly financial statements disclosing its debt placement. The financing obtained by GMG during 2014 stemmed from conventional bank financing that incorporated restatement of existing agreements that were previously disclosed to the Commission. GMG did not intentionally disregard filing; and, GMG's inclusion of the debts in its monthly compliance filings demonstrates that GMG did not cloak the existence of the financing. Moreover, GMG did not obtain financing that was not disclosed in its financial statements. During preparation of the Department's Comments, GMG staff and Department staff communicated about their differing interpretations of the notice requirement. GMG assured Department staff, and hereby assures the Commission, that it will henceforth submit a letter identifying debt issuance regardless of whether it is based on issuance of a new stock pledge, a restatement of a prior agreement, a conventional promissory note, or other type of debt instrument.

2. GMG's Main Extension Policy Protects Existing Customers And Supports Corporate Improvement.

The Department opined that GMG's growth is only marginally helping GMG's financial performance. GMG agrees with that assessment; however, that is due to GMG's main extension policy rationale. GMG's main extension policy is based on the idea that old customers should not be obligated to subsidize service to new customers. Likewise, new customers should not be

required to subsidize old customers. GMG's main extension policy essentially attempts to balance equal contribution from new customers just being added to the GMG system with that of GMG's previous customers.

Throughout GMG's recent growth period, GMG has made significant investment to improve the company's performance and standards. GMG has added personnel in operations management, engineering, field staff, customer service, financial reporting and regulatory arenas. GMG's additional investments are of a nature that provides a long-term payback rather than immediately visible cash flow benefits. Two examples are GIS mapping that improves the ability to locate customer facilities and avoid damage; and, the deployment of the Honeywell Mercury system that provides remote monitoring capability of pressure and flows on GMG's system. GMG's investments in its people, technology, and systems will continue to decrease GMG's operating costs over the long-term. Additionally, GMG was able to make such valuable investments without increasing the cost to customers. GMG's growth has offset the cost of the investments, thereby improving GMG's system integrity and customer service with no rate increase. Ergo, while there may not be a readily visible increased financial performance, there is a readily visible improvement in GMG's holistic structure, system, and service.

3. GMG Respectfully Requests That Inclusion Of Short-Term Debt In Its Capital Structure Calculations Be Stayed For One Year.

The Department's analysis modified GMG's proposal by including amounts drawn on GMG's line of credit in deriving its equity ratio and discusses the impact that has. GMG does not object to the Department's suggestion that short-term debt be included its equity ratio calculations in the future. However, since GMG did not plan for that change in developing and planning its 2015 capital projects, instituting that requirement immediately will likely preclude GMG from providing service to some new areas this year. The need for GMG's line of credit is driven by GMG's increase in customer numbers and the related accounts receivable. GMG pays for the natural gas used by the customers before it receives payment from those customers. The projected increased in accounts receivable from October, 2014 to December, 2015 is approximately \$1 million. GMG respectfully requests that the inclusion of its line of credit in calculating its equity ratio be stayed for one year. If such a stay is not granted, GMG will need to reduce its capital projects and will not be able to serve consumers who do not currently have access to natural gas. As discussed below, GMG proposed a change to developing its capital structure proposal; and, GMG proposes that the Department and GMG re-evaluate the appropriate equity ratio calculation method as part of that development.

4. A Scenario Permitting Longer-Term Planning By GMG Will Continue To Directly Benefit Unserved Minnesota Residents.

GMG has outlined its plan for continued growth with the Commission, Commission staff, and Department staff in a variety of discussions; and, GMG does not believe that either the Commission or the Department objects to GMG's growth. Between 2012 and 2014, GMG increased its send out by 715,804 dekatherms, which essentially displaced just over 7.8 million gallons of propane. Assuming a standard rate of one dollar per gallon savings, the direct benefit

to Minnesota consumers is approximately 7.8 million dollars per year in lower energy costs. In addition, the energy savings directly correlates to improved economic activity for the communities that are now served by natural gas, including the intangible benefit of being more marketable to commercial community participants.

GMG is aware that a reduced growth rate would accelerate improvement in its balance sheet; however, reduced growth would deny access to energy cost savings to thousands of unserved Minnesota customers. Since 2012, GMG's aggressive growth plan has delivered energy savings to Minnesota customers who would otherwise still be relegated to propane, fuel oil, or other alternative heating sources. Nonetheless, an alternative that provides an opportunity to improve GMG's balance sheet and still provide access to natural gas for unserved Minnesotans exists. By providing the tools to raise additional equity for the company, GMG, the Department, and the Commission can cooperatively adopt a strategy that will continue to benefit rural Minnesota areas.

GMG's investors have been providing capital to the company for up to twenty years without any return on their investments. GMG proposes that the Commission order it and the Department to set forth a five year capital plan in GMG's 2016 capital structure filing. The plan would not only include minimum equity ratios required for GMG; but, it would also include the terms under which dividends could be paid to GMG's shareholders. A five year capital plan will provide more predictability for the Department and the Commission regarding GMG's capital structure. It would also allow GMG to provide its shareholders with some sense of when they will begin to obtain some return on their investments. That, in turn, will help GMG establish a reasonable framework under which the Company could raise additional equity and, thereby, decrease its reliance on outside financing.

REQUEST FOR COMMISSION ACTION

GMG remains confident that its 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 2015 proposed capital structure and grant permission to issue securities in accordance with the limits identified in the Department's Comments and the equity ratio calculation method proposed in its original Petition. Further, GMG requests that the Commission direct that GMG's subsequent capital structure filing propose a five-year structure and re-evaluate the equity and debt ratios.

Dated: March 16, 2015

Respectfully submitted,

/s/

Kristine A. Anderson
Corporate Attorney
Greater Minnesota Gas, Inc.
202 S. Main Street
Le Sueur, MN 56068
Phone: 888-931-3411