MINNESOTA DEPARTMENT OF COMMERCE

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March 6, 2015

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

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G022/S-14-1051

Dear Mr. Wolf:

Attached are the 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 2015 Capital Structure and Permission to Issue Securities.

The petition was filed on December 19, 2014 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

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

COMMENTS OF THE
MINNESOTA DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

DOCKET NO. G022/S-14-1051

I. SUMMARY OF GREATER MINNESOTA GAS, INC.'S PROPOSAL

On December 19, 2014, Greater Minnesota Gas, Inc. (GMG or the Company) filed a petition (Petition) for approval of its 2015 capital structure and permission to issue securities. The Company is seeking:

- Approval of its proposed 2015 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 2015 capital structure to remain valid until the Commission issues a 2016 capital structure order.

II. DETAILS OF GMG'S PROPOSAL

GMG requests approval of its estimated December 31, 2015 capital structure. Table 1 summarizes GMG's actual capital structure as of October 31, 2014, its projected capital structure on December 31, 2015, and the differences between the two.

Table 1: GMG's Projected Capital Structure
December 31, 2014[1]

	Actual October 31, 2014		Projected December 31, 2015		
	Amount	Percent	Amount	Percent	Difference
Common Equity	9,138,601	31.56%	10,647,652	31.66%	1,509,051
Preferred Shares	-	0.00%	-	0.00%	-
Short-Term Debt	1,394,102	4.81%	1,182,000	3.51%	(212,102)
Long-Term Debt	18,420,727	63.62%	21,799,227	64.82%	3,378,500
Total Capitalization	28,953,430	100.00%	33,628,879	100.00%	4,675,449
Contingency			1,871,121	5.56%	
Total with Contingency			35,500,000	105.56%	

Source: Petition, Attachment 3

GMG's proposed capital structure reflects:

- the net issuance of $3.9 million of long-term debt (including the current portion of long-term debt);
- an increase of $0.6 million in short-term debt (excluding the current portion of long-term debt); and
- GMG's projected net income for 14 months ending December 31, 2015 of $1.5 million.

Specific provisions for which the Company seeks approval include:

- a total capitalization of $34.2 million, excluding the proposed contingency;
- a total capitalization contingency of $1.9 million, or 5.5 percent;
- an equity ratio of 31.66 percent and an equity range of 31.59 percent to 38.61 percent;
- the ability to issue short-term debt not to exceed 10 percent of total capitalization while the 2015 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

[1] The Department notes that GMG's calculation of its actual capital structure as of October 31, 2014 in Attachment 3 to its Petition includes accrued expenses and other liabilities in the short-term debt total. The Department typically excludes these items when calculating capital structure. The Department also notes that while GMG appropriately excluded accrued expenses and other liabilities in calculating its *projected* capital structure, the Company inappropriately excluded amounts drawn on its line of credit. The Department presents corrected actual and projected capital structure calculations below.

- approval of the 2015 capital structure until the Minnesota Public Utilities Commission (Commission) issues a 2016 capital structure order.

III. 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 contain the filing requirements for capital structure petitions.

The Minnesota 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 2015 capital expenditures, including $500,000 for system replacement and reinforcement, and $4.8 million for customer additions and main extensions.

With respect to Point 3, Attachment No. 9 to GMG's Petition identifies three new loans issued during 2014. One is a renegotiation of an existing loan, and two are new loans totaling 4.9 million.[2] All of these loans are reflected in the financial statements included in GMG's monthly compliance filings in Docket No. G022/S-13-1169 (the 2014 Capital

[2] Attachment 9 also identifies three new loans from Ford Motor Credit, all with four-year terms, totaling $0.1 million.

Structure Docket). However, GMG did not report these issuances to the Commission as required by the Commission's Order in the 2014 Capital Structure Docket. The Commission's Order requires GMG to provide the following information within 20 days of each non-recurring issuance of securities:[3]

(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.

In response to Department Information Request No. 8, GMG stated that these loans were not securities, but rather were conventional bank financing, implying that GMG was not required to report these loans to the Commission.[4]

However, Minn. Stat. § 216B.49, subd. 1 defines the term "security" broadly to include stocks, loans, lines of credit, and other instruments evidencing indebtedness, as follows:

> **Definition of security.** For the purpose of this section, "security" means any note; stock; treasury stock; bond; debenture; evidence of indebtedness; assumption of any obligation or liability as a guarantor, endorser, surety, or otherwise in the security of another person; certificate of interest or participation in any profit-sharing agreement; collateral trust certificate; preorganization certificate or subscription; transferable shares; investment contract; voting trust certificate; certificate of deposit for a security; certificate of interest or participation in an oil, gas, or mining right, title, or lease or in payments out of production under an oil, gas, or mining right, title, or lease; or, in general, any interest or instrument commonly known as a security, or any certificate for, receipt for guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing.

Additionally, the Department notes that the Commission's March 15 Order in Docket G022/S-12-1370 (the 2013 Capital Structure Docket) required GMG to interpret the Commission's reporting requirements broadly in determining which financial transactions are reportable securities issuance in the future. Thus the Department concludes that GMG should have reported these transactions to the Commission as required by the Commission's Order in the 2014 Capital Structure Docket.

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[3] These reporting requirements are also required by Ordering Point 4 of the Commission's May 12, 2009 Order in Docket No. E,G999/CI-08-1416, *In the Matter of a Commission Inquiry into the Review and Approval of Securities Issuances and Capital Structures.*
[4] See Department Attachment 1.

The Department recommends that the Commission continue to direct GMG to report the information detailed above to the Commission within 20 days of each non-recurring issuance of securities, including conventional bank financing. The Department also requests that GMG confirm in reply comments that it will henceforth comply with the Commission's reporting requirements.[5]

IV. 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.

[5] The Department notes that Minn. Stat. §216B.57 requires that every person "who knowingly and intentionally fails, omits, or neglects to obey, observe, or comply with any lawful order, or any part or provision thereof, of the commission is subject to a penalty of not less than $100 nor more than $1,000 for each violation." The Department is unable to definitively conclude that GMG "knowingly and intentionally" failed to comply with the Commission's Orders.

B. SUMMARY OF GMG'S CURRENT CAPITAL STRUCTURE AND 2014 FINANCIAL PERFORMANCE

Table 2:
Summary of Change in GMG's Capital Structure During 2013

	Actual December 31, 2013		Actual October 31, 2014		
	Amount	Percent	Amount	Percent	Difference
Common Equity	8,801,798	35.53%	9,138,600	32.36%	336,802
Preferred Shares	-	0.00%	-	0.00%	-
Short-Term Debt	1,480,716	5.98%	676,800	2.40%	(803,916)
Long-Term Debt	14,489,159	58.49%	18,420,727	65.24%	3,931,568
Total Capitalization	24,771,673	100.00%	28,236,127	100.00%	3,464,454

Sources and Notes:
2013 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.
2014 data from Petition, Attachment 3. GMG's short-term debt total has been corrected to exclude accrued expenses and liabilities, as described above in footnote 1.

Table 2 above summarizes the changes in GMG's capital structure during the first ten months of 2014. GMG's net income of $0.3 million during this period caused the observed increase in equity, and the increase in long-term debt is the result of the issuances described above as well as scheduled principal payments on outstanding debt.

The Department notes that Table 2 corrects GMG's actual capital structure on October 31, 2014 to exclude accrued expenses and other liabilities, which are typically excluded from capital structure filings, and have been excluded in GMG's prior capital structure Dockets. However, during a telephone conversation with the Department, a representative of GMG described the nature of the items booked to accrued expenses and other liabilities, and stated that a portion of this these liabilities include what amounts to a short-term loan from GMG's parent company (Greater Minnesota Synergy) to GMG. To maintain consistency with prior capital structure dockets, the Department has not adjusted its short-term debt calculation, but will continue to monitor the balance of this account in future capital structure dockets, and may ultimately propose to include liabilities that may be more appropriately classified as short-term debt in GMG's capital structure calculations.

Table 3 below summarizes selected financial metrics from GMG's actual income statements from recent years and its projected 2015 income statement.

**Table 3:
Summary of GMG's Recent Financial Performance**

		Actual					Projected
		2010	2011	2012	2013	2014	2015
Income Statement Data							
Revenue	[1]	4,428,630	4,709,776	4,238,639	7,652,236	11,956,317	11,727,580
Cost of Sales	[2]	2,476,273	2,428,916	2,040,631	3,912,096	7,162,513	6,198,119
Gross Margin	[3] = [1] - [2]	1,952,357	2,280,860	2,198,008	3,740,140	4,793,804	5,529,461
as % of Revenue	[4] = [3] / [1]	44.1%	48.4%	51.9%	48.9%	40.1%	47.1%
Operating Expenses	[5]	1,272,406	1,523,194	1,793,718	1,958,503	3,213,990	3,359,200
as % of Gross Margin	[6] = [5] / [3]	65.2%	66.8%	81.6%	52.4%	67.0%	60.8%
Pre-Tax Operating Income	[7] = [3] - [5]	679,951	757,666	404,290	1,781,637	1,656,248	2,170,261
as % of Gross Margin	[8] = [7] / [3]	34.8%	33.2%	18.4%	47.6%	34.5%	39.2%
Income Tax Expense/(Benefit)	[9]	(106,400)	57,400	(427,000)	(418,000)	330,234	424,011
Net Utility Operating Income	[10] = [7] - [9]	786,351	700,266	831,290	2,199,637	1,326,014	1,746,250
as % of Gross Margin	[11] = [10] / [3]	40.3%	30.7%	37.8%	58.8%	27.7%	31.6%
Interest Expense	[12]	611,897	582,988	571,130	561,171	712,722	819,600
as % of Gross Margin	[13] = [12] / [3]	31.3%	25.6%	26.0%	15.0%	14.9%	14.8%
Interest Coverage Ratio	[14] = [7] / [12]	1.1	1.3	0.7	3.2	2.3	2.6
Net Income	[15] = [10] - [12]	174,454	117,278	260,160	1,638,466	613,292	787,450
as % of Gross Margin	[16] = [15] / [3]	8.9%	5.1%	11.8%	43.8%	12.8%	14.2%
Rate of Return							
Net Plant	[17]	12,649,775	13,284,938	16,466,586	23,407,931	27,115,983	32,379,685
Deferred Tax Asset	[18]	814,400	806,000	1,248,000	1,664,000	1,664,000	1,239,989
Approximate Rate Base	[19] = [17] + [18]	13,464,175	14,090,938	17,714,586	25,071,931	28,779,983	33,619,674
Approximate Average Rate Base	[20]	13,291,675	13,777,557	15,902,762	21,393,259	26,925,957	31,199,829
Approximate Pre-Tax Rate of Return	[21] = [7] / [20]	5.1%	5.5%	2.5%	8.3%	6.2%	7.0%
Approximate After-Tax Rate of Return	[22] = [10] / [20]	5.9%	5.1%	5.2%	10.3%	4.9%	5.6%
Average Debt	[23]	9,246,609	9,357,755	10,470,003	13,738,467	17,753,265	21,533,941
Average Debt Cost	[24] = [12] / [23]	6.62%	6.23%	5.45%	4.08%	4.01%	3.81%

Sources and Notes:
2010-2013 data from GMG's audited financial statements. GMG has marked these statements trade secret, and the Department has not included them as attachments.
2014 data from GMG's February 16, 2015 Compliance Filiing in 2014 Capital Structure Docket (preliminary, unaudited)
2015 projected data from Petition, Attachment No. 6, Part 2
The Department notes that the 2014 and 2015 data presented here was marked trade secret by GMG. However, a representative of GMG confirmed that the Company would not object to its inclusion in the Department's public comments.
Net utility operating income calculated as pre-tax operating income less taxes
Interest coverage ratio calculated as interest expense divided by operating income

As shown in the upper portion of the table, GMG's financial performance in 2014 declined slightly from 2013, however, some regression would be expected after the dramatic improvement observed from 2012 to 2013. Revenue and gross margin increased significantly from 2013 to 2014 as a result of unusually cold weather early in 2014 and increased customer counts. As shown, GMG's operating expenses increased significantly from 2013 to 2014 on an absolute basis and as measured as a percentage of gross margin.[6] As a result, GMG's operating income decreased, on an absolute basis and relative to gross margin, as did the Company's income before tax expense. Additionally, while GMG's interest coverage ratio (operating income divided by interest expense) declined slightly in 2014, it remains well above where it was over the period 2010-2012, which is indicative of GMG's improved ability to meet its debt obligations. Overall, despite the decline in operating income from 2013 to 2014, GMG's longer-term trend is still positive.

The lower portion of Table 3 presents approximate return calculations for GMG. As shown in line [22], GMG's after-tax rate of return in 2014 was lower than in prior years. However, GMG's returns in 2010, 2012, and 2013 were affected by large, positive tax benefits that will not persist in the future, which renders GMG's after-tax returns in those years somewhat misleading. To correct for this issue, the Department also calculated pre-tax rates of return, shown in line [21], which indicate a gradual improvement over the last five years.

The very gradual improvements in GMG's net income as a percentage of gross margin and pre-tax rate of return, combined with the 2014 increase in operating expense, indicate that while GMG is growing, its new customers are only marginally more profitable than its existing customers. Additionally, the Department notes that the winter of 2013/2014 was unusually cold, which may have inflated GMG's performance in those years. The most significant cause of GMG's improved financial performance has been the Company's ability to lower its average cost of debt while maintaining its high debt ratio.

C. REASONABLENESS OF GMG'S PROPOSED CAPITAL STRUCTURE

Table 4 below presents GMG's current and projected capital structures, corrected to exclude accrued expenses and liabilities and include amounts drawn on GMG's line of credit, as described above.

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[6] The Department has included a similar table in its comments in prior GMG capital structure dockets, but notes a minor change in the presentation in this Docket. Specifically, in the table above, the Department presents several income statement items as a percentage of gross margin, whereas in prior dockets, the Department has presented these same income items as a percentage of revenue. The difference between GMG's revenue and gross margin is GMG's cost of sales, which consists primarily of GMG's cost of gas. Because the cost of gas flows through the purchased gas adjustment, and is largely outside of GMG's control, GMG's gross margin is arguably a more relevant point of comparison, as it represents income available to pay for GMG's non-gas operating and financing expenses.

Table 4:
Summary of GMG's Actual and Proposed Capital Structures

	Actual October 31, 2014		Projected December 31, 2015		
	Amount	Percent	Amount	Percent	Difference
Common Equity	9,138,601	32.36%	10,647,652	31.15%	1,509,051
Preferred Shares	-	0.00%	-	0.00%	-
Short-Term Debt					
Line of Credit	-	0.00%	550,000	1.61%	
Current Portion of Long-Term Debt	676,800	2.40%	1,182,000	3.46%	
Total Short-Term Debt	676,800	2.40%	1,732,000	5.07%	1,055,200
Long-Term Debt	18,420,727	65.24%	21,799,227	63.78%	3,378,500
Total Capitalization	28,236,128	100.00%	34,178,879	100.00%	5,942,751
Contingency			1,871,121	5.47%	
Total with Contingency			36,050,000	105.47%	

Source: Petition, Attachment 6, Part 1

As shown in Table 4, GMG's proposed capital structure reflects an increase in total capitalization of $5.9 million, comprised of $1.5 million in equity and $4.4 million in total debt. This need for funds is driven by GMG's continuing, aggressive expansion plan. GMG's planned 2015 capital expenditures, the majority of which will go towards system expansion and customer additions, are down from 2013, but still much higher than in 2012 and before.

Table 5:
GMG's Capital Expenditures

Year	Capital Expenditures
2009	558,983
2010	493,031
2011	969,911
2012	2,535,540
2013	8,304,102
2014	4,205,616
2015	5,300,000

Source:
2009-2013 data from Table 5 of the Department's Jan. 31, 2014 Comments in GMG's 2014 Capital Structure Docket
2014 data from GMG's Feb. 17, 2014 Compliance Filing in the 2014 Capital Structure Docket
2015 data from Petition, Attachment 12

In its response to Department Information Request No. 9, GMG described its long-term capital spending, and stated:

> GMG believes continued expenditures of about $500,000 per year will be required for system improvement, automated meter reading, road projects and actions taken to protect long-term operational integrity. GMG's new business needs are driven by customer requests for service that meet the requirements of GMG's main extension rules. Based upon identified markets, GMG expect [sic] new business capital to equal about $5 million per year for the next three years. The actual amount will be adjusted based on final customer interest and demand. GMG expects that, for this window, internal cash generation will fund about 25% of capital requirements and new debt will be required to finance the balance. GMG expects that principle repayment on current debt combined with retained earnings used to finance new projects will maintain GMG's equity ratio between 31.59% and 40%.[7]

[7] See Department Attachment 2.

Based on this response, the Department understands that GMG does not plan to take actions specifically intended to increase its equity ratio during the next three years. While GMG's ability to lower its average cost of debt has had significant, positive effects on its financial performance, GMG is and will continue to be heavily leveraged for the next few years. If interest rates rise, and GMG is forced to refinance its debt at higher interest rates, the Company will be at risk of seeing its interest coverage ratio fall right back down to the dangerously low levels seen between 2010-2012. If GMG were to allow its equity ratio to rise, even if interest rates increase, GMG's lessened reliance on debt will help protect the Company from finding itself unable to make its debt payments.

It may be the case that aggressive expansion in the short- and medium-term will turn out to be better for GMG's long-term financial health than a more conservative expansion plan that would improve GMG's equity ratio sooner rather than later. But in the short and medium-terms, GMG's aggressive growth plan is certainly riskier.

The Department notes that in Attachment 3 to its Petition, GMG requested approval of a capital structure with a 31.66 percent equity ratio. However, as noted above, GMG's projected equity ratio is derived with a calculation that excludes amounts drawn on the Company's line of credit, which should be included. Table 4 corrects GMG's projected capital structure to include amounts drawn on the Company's line of credit. After making this calculation, and holding all else constant, GMG's proposal appears to reflect a capital structure with an equity ratio of 31.15 percent, below the proposed floor of 31.59 percent.

The Department notes that GMG's current and proposed equity ratios are significantly lower than the average equity ratio of risk-comparable gas utilities. The year-end 2013 average equity ratio of publicly traded gas utilities with bond ratings from BBB- to A- was 48 percent.[8] Thus, as in past capital structure dockets, the Department remains concerned about the financial health of the Company, and does not recommend that the Commission approve GMG's projected capital structure with an even lower equity ratio.

The Department recommends that the Commission approve the alternative capital structure shown in Table 6, in which the Department adjusted GMG's projected short-term debt to achieve an equity ratio of 31.59 percent, the minimum of GMG's proposed equity ratio range, as described below. Given the relatively small difference, it should not be difficult for GMG to achieve this capital structure.

[8] See Department Attachment 3. Complete data for 2013 is not yet available.

Table 6:
Department Alternative Capital Structure

	GMG Proposed Capital Structure December 31, 2015		Department Alternative Capital Structure December 31, 2015		
	Amount	Percent	Amount	Percent	Difference
Common Equity	10,647,652	31.15%	10,647,652	31.59%	-
Preferred Shares	-	0.00%	-	0.00%	-
Short-Term Debt					
Line of Credit	550,000	1.61%	75,000	0.22%	(475,000)
Current Portion of Long-Term Debt	1,182,000	3.46%	1,182,000	3.51%	-
Total Short-Term Debt	1,732,000	5.07%	1,257,000	3.73%	(475,000)
Long-Term Debt	21,799,227	63.78%	21,799,227	64.68%	-
Total Capitalization	34,178,879	100.00%	33,703,879	100.00%	(475,000)
Contingency	1,871,121	5.55%	3,370,388	10.00%	1,499,267
Total with Contingency	36,050,000	106.96%	37,074,267	110.00%	1,024,267

Source: Petition, Attachment 6, Part 1

In the 2013 and 2014 Capital Structure Dockets, the intention behind the Department's recommendations was to allow GMG some flexibility to pursue its expansion projects while maintaining a minimum degree of financial integrity. The Department's intention remains unchanged in this Docket. Thus, the Department recommends that the Commission approve the Department's proposed alternative capital structure, as detailed in Table 6 above. However, the Department recommends that the Commission impose additional restrictions on GMG, described below, in order to ensure that GMG's capital structure does not deteriorate.

D. REASONABLENESS OF THE PROPOSED CONTINGENCY RANGES

1. Equity Ratio

In its Petition, the Company requested permission to retain its current equity ratio contingency range of 31.59 percent to 38.61 percent. The Department recommends that the Commission approve this request.

The Department notes that, as was the case in the 2013 and 2014 Capital Structure Dockets, this equity ratio contingency range is more strict than usual. Typically, the Department recommends that the Commission approve an equity range calculated as a window of plus and minus ten percent around the utility's projected end-of-period equity ratio. Using GMG's projected equity ratio of 31.15 percent, this calculation would produce a floor of 28.04 percent, much lower than the proposed floor of 31.59 percent. Because GMG's equity ratio as of October 31, 2014 was 32.36 percent, the proposed equity ratio contingency range would allow GMG little flexibility to increase its debt load without adding additional equity. Given GMG's current, low equity ratio and the risks inherent in the Company's expansion strategy, the Department concludes that this extra protection is reasonable.

Additionally, the Department notes that the Commission often allows utilities to violate approved ranges for a period of 60 days without Commission notification. In GMG's 2013 and 2014 Capital Structure Dockets, however, the Commission did not grant that extra flexibility to GMG with respect to its equity ratio, and required GMG to maintain an equity ratio of at least 31.59 percent 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.

In the 2013 and 2014 Capital Structure Dockets, the Commission required GMG to make monthly compliance filings demonstrating that GMG's equity ratio remained at or above 31.59 percent. Given that GMG's current equity ratio is near the proposed floor, the Department recommends that the Commission impose this same requirement on the Company again in this Docket, and also require the Company to include amounts drawn on its line of credit in its short-term debt total.

2. Short-term Debt

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. Given GMG's current equity ratio of 32.36 percent, GMG would have little flexibility to issue short-term debt and as a result, short-term financing needs would have to be met with equity.[9]

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

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 the 2013 and 2014 Capital Structure Docket, the Department recommended that the Commission use the Company's equity ratio floor to set the long-term debt limit, and recommends that the Commission do the same in this Docket. In other words, if GMG were

[9] The Department notes that the Company's February 16, 2015 Compliance Filing in the 2014 Capital Structure Docket indicates that the Company's equity ratio rose slightly in November and December, 2014, which means that GMG would have some ability to issue short-term debt without falling below the proposed minimum equity ratio.

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).

4. Total Capitalization

In its Petition, GMG requested Commission approval of a total capitalization of $33.6 million, with a contingency of $1.9 million, for a maximum capitalization of $35.5 million. The Department notes that the contingency amount of $1.9 million is equal to 5.6 percent of GMG's proposed capitalization, or approximately half of the 10 percent capitalization contingency approved by the Commission in GMG two most recent 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 $33.7 million (as reflected in the Department's proposed alternative capital structure in Table 6) with a 10 percent contingency ($3.4 million) for a total of $37.1 million. The Department reiterates, however, that if GMG uses this total capitalization contingency, it must maintain an equity ratio of at least 31.59 percent.

V. CONCLUSION AND RECOMMENDATIONS

The Department recognizes GMG's continued financial improvement in 2014, but the Company remains in a precarious financial position. The Department supports GMG's intentions to add profitable, high-volume customers to its system, but as long as the Company continues with its aggressive expansion plan financed in large part with new debt, the Department recommends close scrutiny of GMG's capital structure via monthly compliance filings.

A. REQUEST FOR GMG

The Department requests that GMG confirm in reply comments that it will henceforth comply with the entirety of the Commission's Order Augmenting Information Required in Connection with Securities Issuance and Capital Structure Filings (May 12, 2009) in Docket No. E,G-999/CI-08-1416, *In the Matter of a Commission Inquiry into the Review and Approval of Securities Issuances and Capital Structures*, and report the information detailed above to the Commission within 20 days of each non-recurring issuance of securities, including conventional bank financing.

B. RECOMMENDATIONS TO THE COMMISSION

The Department recommends that the Commission:

- approve the Department's alternative proposed 2014 capital structure, as shown in Table 6;
- require GMG to file a new securities issuance and capital structure petition by January 1, 2016;

- approve an equity ratio contingency range of 31.59 percent to 38.61 percent;
- require that GMG maintain an equity ratio contingency range of at least 31.59 percent at all times;
- 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, demonstrating that its equity ratio is at least 31.59 percent, and require the Company to include amounts drawn on its line of credit in its short-term debt total;
- 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);
- approve a total capitalization contingency of $3.4 million above the estimated 2015 year-end total capitalization of $33.7 million, for a total capitalization of $37.1 million; and
- direct GMG to provide the following information within 20 days of each non-recurring issuance of securities, including conventional bank financing:
  (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.

/lt

State of Minnesota
DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

Utility Information Request

Docket Number: G022/S-14-1051 Date of Request: January 22, 2015

Requested From: Kristine A. Anderson
Greater Minnesota Gas, Inc.

Response Due: February 3, 2015

Analyst Requesting Information: Craig Addonizio

Type of Inquiry:

[X] Financial	[ ] Rate of Return	[ ] Rate Design
[ ] Engineering	[ ] Forecasting	[ ] Conservation
[ ] Cost of Service	[ ] CIP	[ ] Other:

If you feel your responses are trade secret or privileged, please indicate this on your response.

Request No.	
8	The Commission's April 25, 2014 Order in Docket No. G022/S-13-1169 required GMG to provide certain information within 20 days of non-recurring issuance of securities. Did GMG meet this requirement? For example, Attachment 12 indicates that GMG issued a significant amount of debt in July 2014. Please identify the filing in which GMG provided the information required by the Commission's Order.

GMG'S RESPONSE:

The Commission's Order required that GMG make a filing following the issuance of securities. No new securities were issued during the year. The debt acquired in 2014 was from conventional bank financing. In conjunction with the same, the previously existing stock pledge agreement was amended and restated. Similarly, the previously existing security agreement was reaffirmed. The Lender has collateral security in certain personal property of GMG.

Response by: Kristine Anderson

List sources of information:

Title: Corporate Attorney

Department:

Telephone: 507-665-8657

State of Minnesota
DEPARTMENT OF COMMERCE
DIVISION OF ENERGY RESOURCES

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If you feel your responses are trade secret or privileged, please indicate this on your response.

Request No.	
9	Please generally describe GMG's long-term plans for capital expenditures, system expansion, and debt issuance. Does GMG anticipate either a decrease in capital expenditures in future years, or a decrease in the degree to which capital expenditures in future years will be financed with new debt (either of which will allow its equity ratio to increase)?

GMG RESPONSE:

GMG believes continued expenditures of about $500,000 per year will be required for system improvement, automated meter reading, road projects and actions taken to protect long-term operational integrity. GMG's new business needs are driven by customer requests for service that meet the requirements of GMG's main extension rules. Based upon identified markets, GMG expect new business capital to equal about $5 million per year for the next three years. The actual amount will be adjusted based on final customer interest and demand. GMG expects that, for this window, internal cash generation will fund about 25% of capital requirements and new debt will be required to finance the balance. GMG expects that principle repayment on current debt combined with retained earnings used to finance new projects will maintain GMG's equity ratio between 31.59% and 40%.

Response by: Kristine Anderson

List sources of information:

Title: Corporate Attorney

Department:

Telephone: 507-665-8657

2013 Capital Structures for Gas Utilities
With Bond Ratings from BBB- TO A-

Gas Utility	SIC Code	Stock Ticker Symbol	Most Recent BETA	Standard Deviation	S&P Debt Rating	2013 Equity Ratio	2013 Debt Ratio
AGL RESOURCES INC	4924	GAS	0.461	0.038	BBB+	48.34	49.20
ATMOS ENERGY CORP	4924	ATO	0.547	0.045	A-	51.24	48.76
ENBRIDGE INC	4924	ENB	0.494	0.044	A-	22.64	57.79
LACLEDE GROUP INC	4924	LG	0.400	0.034	A-	53.41	46.59
NATIONAL FUEL GAS CO	4924	NFG	1.478	0.078	BBB	57.10	42.90
SOUTH JERSEY INDUSTRIES INC	4924	SJI	0.727	0.049	BBB+	54.12	45.84
Average						47.81	48.51
Standard Deviation						12.67	5.08

Source: Compustat Database, accessed January 31,2015

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
Comments

Docket No. **G022/S-14-1051**

Dated this 6th day of March 2015

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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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
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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_14-1051_S-14-1051