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

February 27, 2017

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 2017 Capital Structure and Permission to Issue Securities
Docket No. G022/S-16-931

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 Petition Reply Comments
Docket No. G022/S-16-931

filed this 27th day of February, 2017.

/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
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_16-931_S-16-931
Kristine	Anderson	kanderson@greatermngas.com	Greater Minnesota Gas, Inc.	202 S. Main Street Le Sueur, MN 56058	Electronic Service	Yes	OFF_SL_16-931_S-16-931
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_16-931_S-16-931
Brian	Gardow	bgardow@greatermngas.com	Greater Minnesota Gas, Inc.	PO Box 68 Le Sueur, MN 56058	Electronic Service	No	OFF_SL_16-931_S-16-931
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_16-931_S-16-931
John	Lindell	john.lindell@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_16-931_S-16-931
Greg	Palmer	gpalmer@greatermngas.com	Greater Minnesota Gas, Inc.	PO Box 68 202 South Main Street Le Sueur, MN 56058	Electronic Service	Yes	OFF_SL_16-931_S-16-931
Eric	Swanson	eswanson@winthrop.com	Winthrop Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_16-931_S-16-931
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_16-931_S-16-931

STATE OF MINNESOTA

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Nancy Lange	Chair
Dan Lipschultz	Commissioner
Matt Schuerger	Commissioner
Katie Sieben	Commissioner
John Tuma	Commissioner

MPUC Docket No. G022/S-16-931

In the Matter of Greater Minnesota Gas, Inc.'s Petition For Approval Of 2017 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 2017 capital structure and permission to issue securities on November 15, 2016. The Petition requests that the Commission approve GMG's proposed 2017 capital structure which will enable it to provide natural gas to areas of rural Minnesota that are currently unserved. On February 16, 2017, 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 recognizes the theoretical underpinnings of the Department's suggestions which, at bottom, promote an increased equity ratio and it does not object to the general idea, GMG provides additional information herein regarding the following aspects of the Petition and Comments in order to clarify the record and address the Department's suggestions:

- Discussion regarding GMG's recent financial performance.
- Discussion regarding the appropriate timing and record to consider GMG's future equity ratio.

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 to benchmark equity ratio increases. GMG is grateful for the Department's recognition that changes to its equity ratio should be applied in future years. Allowing GMG to implement the changes beginning in 2018 ensures that GMG can provide better customer service and manage customer expectations in ways that could not be accomplished by forcing a change in the equity ratio for 2017. GMG thanks the Department for its guidance and willingness to allow the Company to plan for the equity ratio requirement change. Approving GMG's 2017 capital structure protects its customers while providing the maximum benefit to new customers during 2017; and, engaging in GMG's capital planning analysis in subsequent years provides a balanced approach to meet mutual GMG, Department, and Commission goals while ensuring that the Commission's decisions are based on a complete record.

1. GMG's Growth has Substantially Benefitted the Company and its Ratepayers Rather than Harming its Financial Performance.

GMG's growth over the last several years has allowed it to absorb the financial consequences of record warmth while making system improvements to improve customer service. While the Department characterizes GMG's financial performance during 2015 and 2016 as being "noticeably worse than in 2013 and 2014" (Comments, p. 7), GMG maintains that its overall financial performance actually shows improvement. Financial performance should not be examined in a vacuum without examining all aspects of it. The winter of 2015-2016 was one of the warmest heating seasons on record. Deterioration of heating degree days naturally hurts financial performance, because GMG's revenues – like those of any gas company – are necessarily tied to customers' usage patterns. GMG's growth in recent years actually allowed it to absorb the consequences of the recent warm weather and still generate earnings, rather than hurting its financial performance. Were it not for GMG's successful growth, GMG would not have been able to operate profitably with abnormally warm temperatures without increasing rates for its customers.

Moreover, GMG has undertaken numerous steps to improve its system, benefit its customers, and benefit multiple communities all without increasing its rates. It has obtained storage to assure system reliability and price stability for its customers; expended capital outlay for system reinforcement and remote monitoring; converted the majority of its system to automated meters with plans to finish the meter automation system wide in the near future; implemented enhanced operator training, completed highway projects, and paid substantially increased property taxes. GMG's growth has allowed it to do so without seeking carrying charges, cost recovery, or rate relief. When GMG's growth and performance are analyzed holistically, rather than by only focusing on margins and expenses, it is evident that GMG's financial health has improved dramatically from what it once was. While GMG agrees that there is continued room for improvement and discusses an alternate method to achieve an increased equity ratio below, GMG maintains that the characterization of GMG's financial performance as deteriorating does not tell the whole story or appropriately illustrate the benefits that GMG's growth has provided to its ratepayers and the citizens of rural Minnesota.

2. Increased Equity Ratio Requirements Should Be Appropriately Timed Based on Then-Current Conditions and Should Not Be Established Without Sufficient Information.

GMG is appreciative of the Department's recognition that GMG's capital structure petition is designed to meet the needs of capital planning for the coming year and its recommendation that a change in GMG's equity ratio requirements be implemented beginning with the 2018 year so that GMG does not have to alter its 2017 plans. The Department recommended that GMG propose a 2018 capital structure plan that would result in a 35% equity ratio by December 31, 2018, assuming normal weather, and that it propose a step-increase in its equity ratio floor to reach 33% beginning October 31, 2018. Essentially, requiring the increase to the equity ratio floor would inappropriately obligate shareholders to inject equity into GMG if the equity ratio floor was not reached as a result of normal business operations.

GMG agrees that, in its 2018 capital structure petition, it will propose a plan that would result in an equity ratio of 35% by December 31, 2018, assuming normal weather, or will explain why that cannot be done. However, GMG submits that requiring it to meet a certain equity ratio floor well into the future when future conditions cannot be predicted is neither appropriate nor good public policy. While GMG is pleased that the Department has offered direction regarding what it would like to see from GMG's future planning, the Commission should make its decisions regarding capital structure petitions as they arise based on each year's complete record because it is a more suitable means to protect both GMG's ratepayers and its shareholders while still accomplishing the goals of the Department and the Commission to improve GMG's equity level and reduce its financial risk.

GMG will plan for a 2018 year-end equity ratio of 35%; but, there are numerous variables that GMG cannot control. Changes in weather patterns, such as continued warm winters, changes in the property tax and income tax landscape, and other variables can significantly impact GMG's annual margins. None of that information is available at this time, nor is it part of the record or germane to the current matter of GMG's 2017 capital structure petition. Additionally, GMG does not believe that it has the legal right to obligate its shareholders to infuse equity into the Company to meet an arbitrarily set future equity ratio floor if those variables result in a situation where GMG falls short of the equity floor requirements. Hence, GMG proposes that, rather than instituting an increased equity floor ratio without sufficient information to do so, the Commission consider GMG's 2017 capital structure petition on its own merits with respect to known factors and the current year. GMG will agree to submit its 2018 capital structure petition in December of 2017 with an eye toward meeting a 35% equity ratio as it engages in its 2018 planning. At that time, GMG, the Department, and the Commission can assess the 2018 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.

Imposing an October 31, 2018 increase in the equity ratio floor at this time, as proposed by the Department, is not appropriate for several reasons. First, the record in this matter contains information to analyze GMG's 2017 plans; and, because the prospective 2018 capital structure petition is not germane to the 2017 question, GMG's 2017 capital structure petition should be the end of the Commission's inquiry in this docket. Second, there is nothing in the record to supply complete information for making a determination about an equity ratio floor that would ostensibly occur approximately twenty months into the future, and the Commission is beholden to make reasoned decisions based on a complete record, so it has no basis to make 2018 decisions on the record before it in this docket. Third, the Department's proposal could require additional equity infusion and GMG cannot legally obligate shareholders to that requirement. Fourth, late October timing for increasing the equity ratio floor, regardless of the year, does not make financial sense. GMG is at its maximum debt level at the end of the construction season and will never have had sufficient opportunity to generate revenue from the year's construction by October 31st of any given year. GMG's new customers each year are virtually all customers converting from other heating sources and, while the construction is completed by the end of each construction season, customers often take additional time before they actually complete their conversions and begin using gas. Additionally, GMG has secured substantial gas storage to assure supply reliability while maintaining price stability (without any carrying charge). By October 31, 2018, GMG will have over $1 million in gas storage inventory and GMG will not begin to reduce the storage levels until well into the heating season. The proposal as offered by the Department is not an appropriate solution given all of those considerations.

GMG believes that its proposal, which accepts the Department's request that it propose an equity ratio of 35% by December 31, 2018 or explain why that is not possible but eliminates the establishment of a future equity ratio floor without a record, ultimately serves the same goals and will allow GMG, the Department, and the Commission to work cooperatively to allow GMG to continue its dedication to delivering gas to unserved areas of rural Minnesota while simultaneously improving its financial health and its bottom line. GMG believes that its plan establishes a reasonable framework under which the Company will improve its equity ratio and decrease its reliance on outside financing. Moreover, the framework allows GMG to plan capital for future years based on actual facts rather than speculation and to communicate clearly with customers rather than develop plans which must be changed due to unforeseen or uncontrollable variables. It would be ill-advised for all involved to assume that reducing capital spending necessarily solves the conundrum of increasing GMG's equity ratio and careful analysis necessarily requires complete information and records.

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 2017 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 2018 capital structure petition requirements, GMG agrees that it will propose a plan that would result in a year-end equity ratio of 35%, assuming normal weather, or explain why that is not possible. Further, GMG respectfully requests that, rather than imposing a future equity ratio floor increase without a record to do so, the Commission consider GMG's future equity ratios upon in each year's respective docket based on the most complete information then available.

Dated: February 27, 2017

Respectfully submitted,

/s/

Kristine A. Anderson
Corporate Attorney
Greater Minnesota Gas, Inc.
202 S. Main Street
Le Sueur, MN 56058
Phone: 888-931-3411