

Direct Testimony and Schedules  
Seth S. DeMerritt

Before the Minnesota Public Utilities Commission  
State of Minnesota

In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to  
Increase Rates for Natural Gas Service in Minnesota

Docket No. G011/GR-13-617

Exhibit \_\_\_\_\_

**Test Year Revenue Requirements**

September 30, 2013

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1                                   **I.       INTRODUCTION AND QUALIFICATIONS**

2    Q.    PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3    A.    My name is Seth S. DeMerritt. My business address is Integrys Energy Group, Inc.  
4           (“Integrys”), 700 North Adams Street, P.O. Box 19001, Green Bay, Wisconsin 54307-  
5           9001.

6  
7    Q.    BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

8    A.    I am employed by Integrys Business Support (“IBS”), a wholly-owned subsidiary of  
9           Integrys. I am a Rate Case Consultant in the Regulatory Affairs Department. Minnesota  
10          Energy Resources Corporation (“MERC”) is a wholly-owned subsidiary of Integrys.

11  
12   Q.    PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

13   A.    I have a Bachelors Degree from the University of Wisconsin Green Bay, in Accounting,  
14          and a Bachelors Degree from the University of Wisconsin Green Bay, in Business  
15          Administration with an emphasis in Finance. I also have a Masters in Business  
16          Administration from the University of Wisconsin-Oshkosh. I began my career with  
17          Integrys subsidiary Wisconsin Public Service Corporation in May 2002 in the Budget  
18          Department first as a Budget Analyst and then as a Financial Analyst. In March of 2007 I  
19          assumed my current role in Regulatory Affairs.

20  
21   Q.    FOR WHOM ARE YOU PROVIDING TESTIMONY?

22   A.    I am providing testimony on behalf of MERC.

1 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

2 A. My testimony and exhibits support the revenue requirement sought by MERC. I provide  
3 testimony and evidence regarding:

- 4 1. The 2012 historical year, the 2013 unadjusted projected year, and the 2014  
5 proposed test year revenue deficiencies, rate bases and expenses,  
6
- 7 2. Lead/Lag Study,  
8
- 9 3. Conservation,  
10
- 11 4. Interim Rates,  
12
- 13 5. Minnesota Statute § 216B.16, subd. 17, which concerns travel, entertainment  
14 and related employee expenses, and  
15
- 16 6. Miscellaneous sales items.  
17

18 Q. PLEASE DESCRIBE HOW MERC HAS ADDRESSED COMPLIANCE  
19 REQUIREMENTS IN ITS RATE CASE FILING?

20 A. A table has been prepared that lists each filing requirement that applies to MERC in this  
21 rate case, describes the requirement, and refers to where in MERC’s rate case filing the  
22 required information and analysis can be located. The filing requirements are broken  
23 down into those required by Commission rules and statutes, Commission policy  
24 statements, and Commission orders setting out filing requirements for this rate case that  
25 apply to MERC. This document can be found in Volume 1 of the filing, and the  
26 document is titled “Filing Requirement Compliance Table.” At the end of this table,  
27 MERC has also included for reference a list of Order requirements that no longer apply,  
28 with an explanation of how the requirements were addressed.  
29

1 Q. PLEASE SUMMARIZE THE RESULTS OF YOUR REVENUE REQUIREMENTS  
2 ANALYSIS.

3 A. The 2012 historic year concluded with a \$13,889,494 revenue deficiency for MERC's  
4 Minnesota operations, or 6.93% of Minnesota tariff revenues inclusive of the cost of gas.

5  
6 The 2014 proposed test year includes a revenue deficiency of \$14,187,597, or 5.52% of  
7 total revenues for Minnesota. The rate increase for the 2014 proposed test year would  
8 increase margin revenues 16.94% for MERC's Minnesota customers.

9  
10 Please refer to Exhibit \_\_\_\_\_ (SSD-25) for a detailed breakdown of the factors  
11 contributing to the MERC revenue deficiency for the 2014 proposed test year.

12

13 Q. WHAT ARE THE SIGNIFICANT DRIVERS OF THE RATE REQUEST?

14 A. MERC recognized a significant revenue deficiency in the 2012 historical test year of  
15 \$13,889,494 in its Minnesota jurisdiction. In addition to this revenue deficiency MERC  
16 is also experiencing the following increased costs:

- 17 1. An increase in Total Operations and Maintenance ("O&M") of \$3,681,165 as  
18 seen in Exhibit\_\_\_\_(SSD-18),  
19  
20 2. Increased CIP expenditures due to a higher Conservation Cost Recovery Charge  
21 ("CCRC") of \$3,371,601 as seen on Exhibit\_\_\_\_\_(SSD-24), and  
22  
23 3. An increase in Return on Equity from currently authorized 9.70% to 10.75% as  
24 supported by MERC witness Mr. Paul Moul.  
25

1 This revenue deficiency and increased costs are offset by higher forecasted margins in  
2 2014, and lower depreciation expenses due to lower rates being authorized in Docket No.  
3 G-007,011/D-12-533.

4  
5 Q. ARE YOU SPONSORING ANY EXHIBITS IN CONNECTION WITH YOUR  
6 TESTIMONY IN THIS PROCEEDING?

7 A. Yes, I am. I am sponsoring the materials contained in MERC's Volume 3 relating to  
8 required financial information for the 2012 historical year, the 2013 projected year, and  
9 the 2014 proposed test year on which MERC has based its rate increase request. This  
10 information fulfills the filing requirements of Minn. R. 7825.3900 to 7825.4400. The  
11 Filing Requirements Compliance Table lists each requirement of these rules and the  
12 location of the required information in MERC's filing.

13  
14 Q. WERE THESE EXHIBITS PREPARED BY YOU OR UNDER YOUR DIRECTION  
15 AND SUPERVISION?

16 A. Yes, as a general matter they were. The only exception is the information related to cost  
17 of capital, class cost of service and rate design that were prepared and are sponsored by  
18 Ms. Lisa Gast, Ms. Joylyn Hoffman-Malueg, and Mr. Greg Walters, respectively, as  
19 indicated in the filing requirements compliance table.

20  
21 Q. PLEASE PROVIDE A HIGH LEVEL EXPLANATION OF YOUR EXHIBITS.

22 A. Exhibit \_\_\_\_ (SSD-1) shows the Integrys corporate structure, including all major  
23 regulated and major non-regulated entities.  
24

- 1 Exhibit \_\_\_\_ (SSD-2) calculates the Known and Measurable (“K&M”) amount related  
2 to Customer Relation costs.
- 3
- 4 Exhibit \_\_\_\_ (SSD-3) calculates the K&M amount related to MERC’s Internal Vacancy  
5 adjustment.
- 6
- 7 Exhibit \_\_\_\_ (SSD-4) calculates the K&M amount related to Uncollectible Expense.
- 8
- 9 Exhibit \_\_\_\_ (SSD-5) calculates the K&M amount related to Sewer Lateral costs.
- 10
- 11 Exhibit \_\_\_\_ (SSD-6) calculates the K&M amount related to Gate Stations.
- 12
- 13 Exhibit \_\_\_\_ (SSD-7) calculates the K&M amount related to a Mapping Project.
- 14
- 15 Exhibit \_\_\_\_ (SSD-8) calculates the K&M amount related to Additional Hires by  
16 MERC.
- 17
- 18 Exhibit \_\_\_\_ (SSD-9) calculates the K&M amount related to GMS and Integrys  
19 Customer Experience (“ICE”) Services.
- 20
- 21 Exhibit \_\_\_\_ (SSD-10) calculates the K&M amount related to IBS Vacancy adjustment.
- 22
- 23 Exhibit \_\_\_\_ (SSD-11) calculates the K&M amount related to Memberships.
- 24
- 25 Exhibit \_\_\_\_ (SSD-12) calculates the K&M amount related to the General Corporate  
26 Allocator (“GCA”).
- 27
- 28 Exhibit \_\_\_\_ (SSD-13) calculates the K&M amount related to Advertising.
- 29
- 30 Exhibit \_\_\_\_ (SSD-14) calculates the K&M amount related to Long Term Incentive  
31 Plans (“LTIP”), Restricted Stock, and Stock Options.
- 32
- 33 Exhibit \_\_\_\_ (SSD-15) calculates the K&M amount related to the removal of 50% of  
34 Economic Development costs.
- 35
- 36 Exhibit \_\_\_\_ (SSD-16) calculates the K&M amount related to Incentive costs.
- 37
- 38 Exhibit \_\_\_\_ (SSD-17) calculates the K&M amount related to the Vertex Audit costs.
- 39
- 40 Exhibit \_\_\_\_ (SSD-18) calculates total Non-Fuel Operations & Maintenance (“O&M”)   
41 expenses for 2013 and 2014 by applying the 2013 and 2014 inflation rates to 2012 actual   
42 O&M expenses, and including the K&M items.
- 43
- 44 Exhibit \_\_\_\_ (SSD-19) calculates the inflation factors used for Non-Labor O&M   
45 expenses.

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Exhibit \_\_\_\_\_ (SSD-20) calculates the Rate Case Expenses Amortization.

Exhibit \_\_\_\_\_ (SSD-21) is the Lead/Lag Study.

Exhibit \_\_\_\_\_ (SSD-22) identifies the construction forecast by project.

Exhibit \_\_\_\_\_ (SSD-23) calculates the revenue refund from the Vertex Audit.

Exhibit \_\_\_\_\_ (SSD-24) re-calculates the Conservation Cost Recovery Charge (“CCRC”).

Exhibit \_\_\_\_\_ (SSD-25) breaks down the major components of the revenue deficiency.

Exhibit \_\_\_\_\_ (SSD-26) calculates the interim rate revenue deficiency.

Exhibit \_\_\_\_\_ (SSD-27) calculates the revenue requirement impact of the depreciation order in Docket No. G-007,011/D-12-533.

Exhibit \_\_\_\_\_ (SSD-28) Identifies total compensation costs for 2008 – 2012 actual data, as well as the 2011 test year approved in Docket No. G007,011/GR-10-977, and the 2014 proposed test year in this docket.

Exhibit \_\_\_\_\_ (SSD-29) reconciles the summary raw billing data.

Exhibit \_\_\_\_\_ (SSD-30) links the sales data between the revenue deficiency calculation, Class Cost of Service Study (“CCOSS”), and the rate design model.



1                   **II. 2014 PROPOSED TEST YEAR REVENUE REQUIREMENT**

2   Q.   PLEASE DESCRIBE MERC’S APPROACH TO DEVELOPING THE 2014  
3       PROPOSED TEST YEAR CONSTRUCTION FORECAST IN THIS CASE.

4   A.   MERC’s construction forecast included in this general rate case was developed during  
5       July and August of 2012 as part of MERC’s annual budget process. The budget process  
6       begins with the plant, construction work in progress (“CWIP”), and accumulated  
7       depreciation balances as of June 30, 2012 and forecasts capital expenditure activity by  
8       individual project and plant account for the last six months of 2012, all of 2013, and all of  
9       2014. The construction forecast by project can be seen in Exhibit \_\_\_\_\_ (SSD-22). Plant,  
10      Accumulated Depreciation, and Depreciation Expense related to MERC’s Michigan  
11      Taconite Mine customers are identified on Informational Requirement Document 2  
12      Schedule B-2, but are excluded from the rate base amount shown on Informational  
13      Requirement Document 2 Schedule B-1.

14  
15   Q.   WERE ANY ADJUSTMENTS MADE TO MERC’S 2014 PROPOSED TEST YEAR  
16      CONSTRUCTION FORECAST IN THIS CASE?

17   A.   Yes, MERC’s construction forecast was reduced for extension allowances and winter  
18      construction charges that were not in compliance with MERC’s tariffs as described in the  
19      Direct Testimony and Exhibits of Mr. David Kult.

20  
21   Q.   PLEASE DESCRIBE MERC’S APPROACH TO DEVELOPING THE 2014  
22      PROPOSED TEST YEAR WORKING CAPITAL FORECAST IN THIS CASE.

1 A. MERC's Working Capital Accounts were adjusted such that the 2014 proposed working  
2 capital would be synchronized with the working capital calculated in the Lead/Lag Study  
3 as described below. Working Capital is identified on Informational Requirement  
4 Document 2 Schedule B-3 in totality, but amounts allocated to the Michigan Taconite  
5 customers are excluded from the rate base amount shown on Informational Requirement  
6 Document 2 Schedule B-1.

7  
8 Q. PLEASE DESCRIBE MERC'S APPROACH TO DEVELOPING THE 2014  
9 PROPOSED TEST YEAR SALES AND REVENUES FORECAST IN THIS CASE.

10 A. MERC forecasted sales and fixed charge counts in the spring of 2013 using actual data  
11 from January 2007 through January 2013, and revenues for this general rate case were  
12 calculated based on this sales forecast as described in the Direct Testimony and Exhibits  
13 of Mr. Harry W. Johns, and as shown in Exhibit \_\_\_\_\_ (GJW-1) of Mr. Gregory J.  
14 Walters' Direct Testimony.

15  
16 Q. PLEASE DESCRIBE MERC'S APPROACH TO DEVELOPING THE 2014  
17 PROPOSED TEST YEAR COST OF GAS AND GAS STORAGE FORECAST IN THIS  
18 CASE.

19 A. MERC's cost of gas and gas in storage balances were updated using NYMEX data from  
20 May 15, 2013, as described in the Base Cost of Gas filing in Docket No. G011/MR-13-  
21 732.

22

1 Q. WOULD MERC AGREE TO AN UPDATE TO NYMEX PRICES IN THIS CURRENT  
2 RATE CASE?

3 A. Yes, in Docket No.'s G007,011/GR-08-835 and G007,011/GR-10-977 MERC had agreed  
4 to update the NYMEX prices to use more recent data in the calculation of cost of gas for  
5 the final revenue deficiency. MERC would agree to this update again, if the Commission  
6 finds it to be necessary due to significant change in NYMEX pricing, but would prefer to  
7 do this update only once, presumably before surrebuttal testimony is due.

8  
9 Q. PLEASE DESCRIBE MERC'S APPROACH TO DEVELOPING THE 2014  
10 PROPOSED TEST YEAR NON-FUEL OPERATIONS AND MAINTENANCE  
11 FORECAST IN THIS CASE.

12 A. To determine its 2014 non-fuel Operations and Maintenance ("O&M") expense, MERC  
13 used its actual 2012 non-fuel O&M costs, applied inflation factors for 2013 and 2014,  
14 and then applied K&M adjustments as described later in this testimony.

15  
16 Q. PLEASE DESCRIBE MERC'S APPROACH TO DEVELOPING THE 2014  
17 PROPOSED TEST YEAR RATE CASE AMORTIZATION IN THIS CASE.

18 A. In this general rate case MERC forecasted the balance of its 2011 rate case expense to be  
19 fully amortized in December 2013. MERC then projected amortization of the costs of  
20 this current case over a two year period beginning in January 2014.

21  
22 Q. IN MERC'S LAST TWO RATE CASES DOCKET NOS. G007,011/GR-08-835 AND  
23 G007,011/GR-10-977 MERC ASKED FOR AMORTIZATION OF RATE CASE

1 EXPENSES OVER A THREE YEAR PERIOD. WHY THE CHANGE TO A TWO  
2 YEAR AMORTIZATION PERIOD IN THIS DOCKET?

3 A. MERC is currently preparing for a significant transmission line expansion project that  
4 would go into service in the 4<sup>th</sup> quarter of 2015. This project, while not fully developed,  
5 is expected to cost up to and possibly exceeding \$11.5 million. MERC historically has  
6 spent roughly \$17 million annually in construction expenditures, so a project this size is  
7 significant for MERC. Because of this project, and additional potential construction  
8 expenditures MERC is reviewing, MERC anticipates additional rate recovery to be  
9 needed in 2016. In addition, MERC has announced the proposed acquisition of Interstate  
10 Power and Light's (IPL) natural gas distribution assets which is subject to Commission  
11 approval. If approved, it is anticipated that the revenues, costs, rate base as well as rate  
12 consolidation with the IPL customers will also be addressed in the next rate case. MERC  
13 has not included any of the before mentioned items associated with this transaction in this  
14 general rate case. Therefore, MERC is requesting a two year amortization of its current  
15 rate case expenses.

16  
17 Q. PLEASE DESCRIBE MERC'S APPROACH TO DEVELOPING THE 2014  
18 PROPOSED TEST YEAR CIP AMORTIZATION IN THIS CASE.

19 A. The Conservation Improvement Plan ("CIP") amortization was updated to reflect the  
20 2013 CIP budget approved by the Deputy Commissioner of the Minnesota Department of  
21 Commerce in Docket No. G007,011/CIP-12-548, and the 2014 sales forecast.

22

1 Q. PLEASE DESCRIBE MERC'S APPROACH TO DEVELOPING THE 2014  
2 PROPOSED TEST YEAR TAXES OTHER THAN INCOME TAX FORECAST IN  
3 THIS CASE.

4 A. Taxes other than income taxes were forecasted using two different methodologies. First,  
5 payroll taxes were calculated by inflating the 2012 payroll taxes, and applying the  
6 applicable payroll tax rates to the 2014 payroll additions/subtractions. Second, property  
7 taxes and unauthorized insurance taxes were forecasted based on past historical trends.

8  
9 Q. PLEASE DESCRIBE MERC'S APPROACH TO DEVELOPING THE 2014  
10 PROPOSED TEST YEAR INCOME TAX FORECAST IN THIS CASE.

11 A. Income taxes for the 2014 proposed test year were calculated by applying the appropriate  
12 tax rates to net income before taxes, adjusted for M-1 adjustments and deferred taxes.  
13 The calculation of income taxes can be found in Informational Requirement Document 8.

14  
15 Q. WHAT DEPRECIATION RATES DID MERC USE IN THE CALCULATION OF THE  
16 2012, 2013, AND 2014 REVENUE DEFICIENCIES?

17 A. MERC used the depreciation rates authorized on October 11, 2010 in Docket No.  
18 G007,011/D-10-459 in the calculation of the 2012 historical year revenue deficiency.  
19 The 2013 projected year, and the 2014 proposed test year were calculated using the  
20 depreciation rates authorized on July 29, 2013 in Docket No. G007,011/D-12-533. The  
21 2013 projected year also includes an adjustment for the difference between the  
22 depreciation rates in effect during the 2012 historical year and the rates authorized in

1 Docket No. G007,011/D-12-533 since the rates approved in this Docket were authorized  
2 to be in effect as of January 1, 2012.

3  
4 Q. PLEASE DESCRIBE HOW MERC DEVELOPED 2014 PROPOSED TEST YEAR  
5 O&M EXPENSES.

6 A. MERC started with 2012 actual O&M expenses, not including cost of gas, and inflated  
7 Non-Labor expenses 1.708% in 2013 and 1.993% in 2014; and Labor expenses 2.6% in  
8 2013 and 2014.

9  
10 The development of the 1.708% and 1.993% inflation factors is shown on Exhibit \_\_\_\_\_  
11 (SSD-19).

12  
13 The 2.6% used for labor expenses was the approved union contract wage increase for  
14 2013 and 2014, and was used as a proxy for all employees wage increases in 2013 and  
15 2014.

16  
17 MERC then adjusted this 2014 O&M expense value for certain K&M items as described  
18 later in this testimony. Gas Costs were developed as detailed in Docket No. G011/MR-  
19 13-732.

20  
21 Q. PLEASE DESCRIBE HOW MERC DEVELOPED THE INFLATION FACTOR USED  
22 TO ADJUST 2012 NON-LABOR O&M EXPENSES.

1 A. As shown on Exhibit \_\_\_\_\_ (SSD-19), MERC used the simple average of the following  
2 four independent, verifiable sources to predict 2013 and 2014 inflation:

- 3 1. Value Line,
- 4
- 5 2. Global Insight,
- 6
- 7 3. Moore Inflation Predictor,
- 8
- 9 4. Energy Information Administration, and
- 10
- 11 5. International Monetary Fund
- 12

13 The Consumer Price Index – All Urban (“CPI-U”) from each of these sources was used,  
14 which is a measure of the average change over time of the prices paid for a market basket  
15 of goods and services. As such, the CPI-U represents the broadest measure of the  
16 economy and is a reasonable estimate of the general direction of prices.

17  
18 These exact same inflation indices were used for the 2014 test year in Integrys  
19 subsidiaries Michigan Gas Utilities Corporation (“MGUC”) and Upper Peninsula Power  
20 Company (“UPPCO”) rate cases in Michigan Public Service Commission Case Nos. U-  
21 17273 and U-17274 respectively.

22  
23 Q. PLEASE DESCRIBE THE K&M ADJUSTMENTS INCLUDED IN 2014 PROPOSED  
24 TEST YEAR O&M EXPENSES COMPARED TO ACTUAL O&M EXPENSES FROM  
25 THE 2012 HISTORICAL YEAR.

26 A. There are seventeen adjustments. Nine are K&M increases, and eight are K&M  
27 decreases.

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MERC has defined K&M items to be any O&M cost item that was increased (or decreased) at a rate greater than the rates of inflation described previously, not including Gas Costs.

The nine K&M increases are associated with:

1. Increased billings from IBS-Customer Relations, related to increased third party costs from Vertex, and implementation of the ICE.
2. Backfilling of vacant positions that existed at MERC during 2012.
3. Uncollectible Expense.
4. Sewer Lateral project.
5. Gate Station project.
6. Mapping project.
7. Addition of seven employees at MERC.
8. GMS Software & ICE Services, and
9. Backfilling of vacant positions existed at IBS during 2012.

The eight K&M decreases are associated with:

10. Memberships,
11. 2 factor vs. 1 factor General Allocator,
12. Advertising,
13. LTIP, Restricted Stock, and Stock Options,
14. 50% of economic development costs,
15. Incentives,



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- 16. Vertex Audit, and
- 17. Benefits.

Q. PLEASE DESCRIBE THE K&M INCREASE REGARDING BILLINGS FROM IBS-CUSTOMER RELATIONS.

A. The increase in billings from IBS-Customer Relations is made up of two components. The first component is related to MERC’s contract with Vertex. Vertex provides third-party customer service functions for MERC (call center, dispatch, billing, payment processing, etc.). Vertex began to provide these services in July 2006, in conjunction with the acquisition of Aquila’s Minnesota gas utilities by MERC. Contracting with Vertex to provide third-party customer service functions was necessary because under Aquila ownership, the Minnesota gas utilities utilized Aquila’s centralized systems for these functions, and ownership of Aquila’s centralized systems remained with Aquila after MERC acquired Aquila’s Minnesota gas operations. Because Integrys was not able to provide these services to MERC using WPSC’s existing systems in a timely manner, contracting with a third-party, like Vertex, was necessary.

The contract between MERC and Vertex for these services is for a multiple year term, and contains annual cost escalators. MERC estimates that the K&M increase associated with these services will be \$408,455 in 2014. The costs related to Vertex were calculated by the Integrys Vertex contract team based on the fixed payments of the contract, as well as cost allocators and projected customer growth.

1 The second component of the increased costs is related to the ICE project as described in  
2 the direct testimonies of Mr. Michael Gerth and Mr. Brian Kage. The overall K&M  
3 associated with ICE in IBS-Customer Relations is \$322,226 in 2014.

4  
5 The total K&M included in MERC's 2014 test year is \$730,681 as seen in Exhibit \_\_\_\_\_  
6 (SSD-2).

7  
8 Q. PLEASE DESCRIBE THE K&M INCREASE REGARDING THE INTERNAL MERC  
9 VACANCIES.

10 A. The K&M increase regarding the internal MERC vacancies creates a K&M of \$392,647  
11 in the 2013 projected test year and was appropriately inflated to 2014 levels as shown on  
12 Exhibit \_\_\_\_\_ (SSD-3). This adjustment is relates to 6 positions that were either partially  
13 or fully vacated during the 2012 historical test year, and one position that was adjusted  
14 from a part time position to a full time position. MERC needs to fill these positions to  
15 maintain the level of service expected by its customers. MERC intends to have these  
16 positions filled by 2014.

17  
18 Q. PLEASE DESCRIBE THE K&M INCREASE ASSOCIATED WITH  
19 UNCOLLECTIBLE EXPENSE.

20 A. MERC calculated the 2014 test year uncollectible expense using the same methodology  
21 approved in Docket No. G007,011/GR-10-977. A three year average of uncollectible  
22 expense over tariff revenues generated a percentage of tariff revenues of 0.650401%.

23 This percentage was then applied to MERC's 2014 test year forecasted tariff revenues as

1 well as an assumed rate increase of \$14,000,000. The \$14,000,000 rate increase does not  
2 tie to the revenue deficiency amount proposed in this docket, because as discussed in  
3 Docket No. G007,011/GR-10-977 by changing the bad debt expense the revenue  
4 deficiency changes and a circular reference is created. Therefore, a number in close  
5 proximity to the revenue deficiency was used to get a reasonable uncollectible expense  
6 forecast. This adjustment increases 2014 proposed O&M by \$403,323 for a total  
7 uncollectible expense of \$1,765,884, as shown on Exhibit \_\_\_\_\_ (SSD-4).

8  
9 Q. PLEASE DESCRIBE THE K&M INCREASE REGARDING SEWER LATERALS.

10 A. The adjustment for the sewer laterals increases 2014 proposed O&M by \$340,000 as  
11 shown on Exhibit \_\_\_\_\_ (SSD-5). The sewer lateral legacy pilot program is being done  
12 to comply with requests from the Minnesota Office of Pipeline Safety (“MNOPS”). Due  
13 to incidents within the industry as well as within the state, MNOPS has required other  
14 companies to inspect legacy installations. When doing these investigations, some of  
15 those utilities found conflicts between gas lines and sewer laterals. These create a risk to  
16 the public if a sewer cleaning company attempts to clean a sewer line with a cutter.  
17 There is a potential for the gas line to be cut resulting in a gas leak into the sewer system.  
18 Our pilot program is to determine the best practice, time to complete, identify any risk  
19 and cost to achieve a complete assessment. The goal is to validate that MERC does not  
20 have conflicts with sewer line that could present risk to our customers.

21  
22 Q. PLEASE DESCRIBE THE K&M INCREASE REGARDING THE GATE STATION.

1 A. The adjustment for the gate stations increases 2014 proposed O&M by \$330,000 as  
2 shown on Exhibit \_\_\_\_\_ (SSD-6). The gate station project will add remote monitoring  
3 and some test measurement to the distribution delivery points where MERC receives its  
4 natural gas supply from the pipelines. Today MERC does not have remote monitoring  
5 (“visibility”) on the pressure, temperature or volumes on a real time basis. This has  
6 created issues on a number of occasions when the pipeline is completing maintenance on  
7 their facilities. A few examples include the loss of service to the community of Jackson  
8 (1,600 customers) due to the pipeline not turning on the valve into our system after the  
9 work was complete. The city of Cloquet (4,100 customers) had the delivery pressure  
10 drop from 146 LBS to 5 LBS due to the pipeline company not opening a valve on to our  
11 system after work was complete. Deer River experienced an over pressure situation due  
12 to a failed regulator that was not immediately identified due to lack of visibility. By  
13 implementing this technology, we will have better information for our engineers and gas  
14 supply teams to design systems and purchase gas more accurately for our needs. Remote  
15 monitoring will give MERC engineering and gas control more real time visibility to the  
16 performance of our systems.

17  
18 Q. PLEASE DESCRIBE THE K&M INCREASE REGARDING THE MAPPING  
19 PROJECT.

20 A. The adjustment for the mapping project increases 2014 proposed O&M by \$330,000 as  
21 shown on Exhibit \_\_\_\_\_ (SSD-7). We have identified gaps with our mapping accuracy  
22 that field personnel utilize to locate lines, manage outages, determine flow modeling, and  
23 other critical infrastructure tasks. These errors have come from a number of map

1 conversions as companies were acquired, sold, and consolidated. To improve the quality  
2 and utilization of the mapping systems, we plan to validate the accuracy by verifying as  
3 built drawings and actual field data. Today we do not have the ability to verify age of  
4 pipe, materials, fittings, etc. This information is needed to complete required Department  
5 of Transportation reporting which is not available for us today due to the incomplete or  
6 inaccurate information.

7  
8 Q. PLEASE DESCRIBE THE K&M INCREASE REGARDING ADDITIONAL MERC  
9 POSITIONS.

10 A. The adjustment for additional positions increases 2014 proposed O&M by \$294,374 as  
11 shown on Exhibit \_\_\_\_\_ (SSD-8). These additional positions and the related  
12 justifications are as follows:

- 13 1. Engineer – Instrumentation, to support the above mentioned Gate Station  
14 project.
- 15 2. Measurement Technician, to support the above mentioned Gate Station  
16 project.
- 17 3. Service Technician is being added to add shift coverage.
- 18 4. Utility Specialist is being added for additional training purposes.
- 19 6. Manager Fairmont, which is currently being filled via a temporary assignment  
20 which will end at the end of 2013, is anticipated to be filled permanently in  
21 2014.
- 22 7. Meter Reader this is a part time position to fill a previous retirement
- 23 7. Service Tech Class 5 is being added as a region floater to assist with  
24 backlogged work.
- 25 8. Utility Specialist is being added to assist with increase in meters, regulated  
26 orders, and compliance work. MERC is currently handling a record amount
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1 of regulated orders. In 2005 and 2006 there were two employees on regulated  
2 orders, and in today's environment that number is at 4. In addition we  
3 completed more tapping jobs in 2013 than any other year and 2014 looks to be  
4 very similar. It is becoming very difficult to complete required work as  
5 demand grows.  
6

7 Q. PLEASE DESCRIBE THE K&M INCREASE REGARDING DEPRECIATION AND  
8 RETURN CROSS CHARGES FROM IBS.

9 A. The K&M adjustment for depreciation and return cross charges from IBS to two specific  
10 projects at IBS that are then cross charged to the various subsidiaries. These two projects  
11 are GMS Software and ICE. This adjustment increases 2013 projected O&M expense by  
12 \$187,615, and 2014 proposed O&M expense after inflation by \$92,855 as shown on  
13 Exhibit \_\_\_\_ (SSD-9). The total O&M expense charged to MERC for these two  
14 projects in the 2014 proposed test year is \$280,470.  
15

16 Q. CAN YOU PROVIDE ADDITIONAL DETAIL ON THE GMS SOFTWARE  
17 PROJECT?

18 A. The GMS project objective was to consolidate Integrys' five local gas distribution  
19 companies ("LDCs," including MERC) into a single gas management system for energy  
20 trade, capture and risk management ("ETRM"). This will enhance operational efficiency  
21 for the companies' trading, risk management and accounting operations. The primary  
22 benefit of having all Integrys gas utilities on a single ETRM platform is in providing  
23 consistent consolidated accounting and risk management. The consolidation to a single  
24 ETRM platform is expected to enhance MERC and Integrys' ability to internally manage  
25 and externally report its credit, mark-to-market, and value-at-risk exposures as well as

1 evaluate market and credit-related stresses. Integrys utilized industry best practices and  
2 Standard and Poor's "PIM" (Policy, Infrastructure, Methodology) approach for assessing  
3 U.S. Energy Companies' Risk Management practices in assessing alternative ETRM  
4 systems and making and implementing the ultimate new system selection. This software  
5 system went into service July 1, 2013.

6  
7 Q. CAN YOU PROVIDE ADDITIONAL DETAIL ON ICE?

8 A. ICE is more fully described in the direct testimony of Mr. Brian Kage, but the increased  
9 depreciation and return costs associated with ICE are a direct effect of the capital costs  
10 associated with moving the MERC billing and reporting function away from Vertex, and  
11 onto an IBS owned system, Open-C.

12  
13 Q. PLEASE DESCRIBE THE K&M INCREASE REGARDING THE IBS VACANCIES.

14 A. The K&M increase regarding the IBS vacancies creates a K&M of \$240,583 in the 2013  
15 projected test year and was appropriately inflated to 2014 levels as shown on Exhibit  
16 \_\_\_\_\_ (SSD-10). This adjustment is related to 72 positions that were either partially or  
17 fully vacated during the 2012 historical test year, and that IBS is forecasting to have filed  
18 in 2014.

19  
20 This increase was calculated by taking the 2012 base and overtime IBS internal O&M  
21 and dividing it by the 2012 average Full Time Equivalent ("FTE") employees to calculate  
22 an average O&M expense per FTE of \$79,433. The \$79,433 was then multiplied by the

1 72 vacant positions, allocated to MERC at a rate of 4.1%, and inflated to 2013 levels for  
2 the K&M adjustment of \$240,583.

3  
4 Q. PLEASE DESCRIBE THE K&M DECREASE REGARDING ORGANIZATION  
5 MEMBERSHIP DUES.

6 A. MERC has excluded all organization membership dues from the 2014 proposed test year.  
7 This adjustment reduces 2013 projected O&M expense by \$1,546, as shown on Exhibit  
8 \_\_\_\_\_ (SSD-11). By removing this amount in 2013, these costs are also effectively  
9 removed from the 2014 proposed test year.

10  
11 Q. PLEASE DESCRIBE THE K&M DECREASE REGARDING THE GENERAL COST  
12 ALLOCATOR.

13 A. Since MERC's acquisition by Integrys, IBS has employed a two factor formula for the  
14 General Cost Allocator ("GCA"). In past rate cases MERC has requested authority to use  
15 the two factor formula as opposed to the currently authorized one factor formula. This  
16 request has previously been denied. Therefore in this current docket as seen in  
17 Exhibit \_\_\_\_\_ (SSD-12), MERC is decreasing the O&M expense by \$3,371 in the 2013  
18 projected test year to account for the difference between the one factor and two factor  
19 allocation methodologies. By removing this amount in 2013, these costs are also  
20 effectively removed from the 2014 proposed test year.

21  
22 Q. PLEASE DESCRIBE THE K&M DECREASE REGARDING ADVERTISING  
23 EXPENSES.



1 A. MERC has excluded all advertising costs associated with economic development and  
2 goodwill from the 2014 proposed test year. This adjustment reduces 2013 projected  
3 O&M expense by \$5,308, as shown on Exhibit \_\_\_\_\_ (SSD-13). By removing this  
4 amount in 2013, these costs are also effectively removed from the 2014 proposed test  
5 year.

6  
7 Pursuant to the Commission’s Policy Statement on Advertising Expenses dated June 14,  
8 1982, Volume 3, Informational Requirement Document 13 of MERC’s filing contains a  
9 list of the advertisements for which MERC seeks cost recovery in this case, and provides  
10 the information requested by the Policy Statement for each advertisement.

11

12 Q. PLEASE DESCRIBE THE K&M DECREASE REGARDING LONG TERM  
13 INCENTIVE PLAN, RESTRICTED STOCK, AND STOCK OPTIONS.

14 A. In Docket No. G007,011/GR-10-977 costs associated with Long Term Incentive Plan  
15 (“LTIP”), Restricted Stock and Stock Options were disallowed. Therefore as seen in  
16 Exhibit\_\_\_\_\_ (SSD-14) MERC is decreasing O&M expenses by \$402,878 in the 2013  
17 projected test year. By removing this amount in 2013, these costs are also effectively  
18 removed from the 2014 proposed test year.

19

20 Q. PLEASE DESCRIBE THE K&M DECREASE REGARDING ECONOMIC  
21 DEVELOPMENT.

22 A. To be consistent with the costs allowed in Docket No. G007,011/GR-10-977, MERC has  
23 removed 50% of the 2012 Economic Development costs in the 2013 projected test year as

1 seen in Exhibit\_\_\_\_(SSD-15). By removing this amount in 2013, these costs are also  
2 effectively removed from the 2014 proposed test year.

3  
4 Q. PLEASE DESCRIBE THE K&M DECREASE REGARDING INCENTIVES.

5 A. The K&M decrease associated with incentives is calculated on Exhibit\_\_\_\_ (SSD-16).  
6 Page 1 of Exhibit\_\_\_\_ (SSD-16) identifies the removal of the 2012 actual incentive  
7 costs, while page 2 calculates the inclusion of the 2014 proposed test year incentive costs.  
8 The net of these two amounts represents a reduction of \$286,221 in incentive costs.

9  
10 The 2014 incentive costs for non-executive employees was calculated at the target level  
11 expense, and the executive employee incentives were included at 30% to be consistent  
12 with the costs approved in Docket No. G007,011/GR-10-977.

13  
14 Q. PLEASE DESCRIBE THE K&M DECREASE REGARDING THE VERTEX AUDIT.

15 A. In Docket No. G007,011/GR-10-977 MERC was ordered to perform an audit via a third  
16 party of its Vertex billing system, and that it would not collect these costs from rate  
17 payers. In 2012 MERC had invoices from the third party auditor of \$303,521, and  
18 removed these costs plus inflation from the 2013 projected test year as seen in  
19 Exhibit\_\_\_\_ (SSD-17). By removing this amount in 2013, these costs are also  
20 effectively removed from the 2014 proposed test year.

21  
22 Q. PLEASE DESCRIBE THE K&M DECREASE REGARDING CHARITABLE  
23 CONTRIBUTIONS.

1 A. Charitable contributions have also been included in the determination of revenue  
2 requirements. Pursuant to the Commission's Policy Statement on Charitable  
3 Contributions, Volume 3, Informational Requirement Document 15 of MERC's filing  
4 contains an itemized list of the charitable contributions for which MERC seeks cost  
5 recovery in this case, including the amount, recipient, and date of the donation as well as  
6 the type or purpose of the organization and location.

7

8 Q. HAS MERC INCLUDED ANY RESEARCH ACTIVITY EXPENSES IN THE 2014  
9 PROPOSED TEST YEAR?

10 A. No, it has not. There were also no research costs in the 2012 historical year. Because  
11 recovery of these costs is not requested, no further detail regarding these costs is  
12 provided.

13

14 Q. HAS MERC INCLUDED ANY ACQUISITION OR TRANSACTION COSTS  
15 ASSOCIATED WITH THE SALE OF AQUILA'S MINNESOTA ASSETS TO MERC?

16 A. No, it has not. MERC is basing its 2014 O&M forecast based on 2012 actual plus  
17 K&M's. There were not any acquisition or transaction costs associated with the sale of  
18 Aquila's Minnesota assets to MERC in the 2012 historical year, therefore, there are no  
19 costs to inflate into the 2014 proposed test year.

20

21 Q. PLEASE DESCRIBE EXHIBIT \_\_\_\_\_ (SSD-18).

1 A. Exhibit \_\_\_\_\_ (SSD-18), lines 1 – 118 identify the labor portion of 2012 actuals, applies  
2 the 2013 labor inflation rate, adds the 2013 labor K&M items, applies the 2014 labor  
3 inflation rate, and adds the 2014 labor K&M items.

4  
5 Lines 119 – 236 identify the 2012 incentive costs removed from the 2014 proposed test  
6 year, and the 2014 incentive costs added back to the 2014 proposed test year.

7  
8 Lines 237 – 254 identify the non-labor portion of 2012 actuals, applies the 2013 non-  
9 labor inflation rate, adds the 2013 non-labor K&M items, applies the 2014 non-labor  
10 inflation rate, and adds the 2014 non-labor K&M items.

11  
12 Finally, lines 355 – 472 summarize the labor, incentive, and non-labor data to give a  
13 complete picture of MERC's 2012 historical test year O&M, 2013 projected year O&M,  
14 and 2014 proposed test year O&M.

15  
16 Q. PLEASE DESCRIBE THE METHOD USED TO DEVELOP THE 2013 AND THE  
17 2014 NON-LABOR INFLATION FACTORS.

18 A. Exhibit \_\_\_\_\_ (SSD-19) creates an inflation factor for 2013 by creating a simple average  
19 of Consumer Price Index-Urban rates from Value Line, Global Insight, Moore Inflation  
20 Factor, U.S. Energy Information Administration, and the International Monetary Fund.

21

1 Exhibit \_\_\_\_\_ (SSD-19) also creates an inflation factor for 2014 by creating a simple  
2 average of Consumer Price Index-Urban rates from Value Line, Global Insight, and U.S.  
3 Energy Information Administration.

4  
5 Q. WHY DOES THE CALCULATION FOR THE 2014 INFLATION RATE NOT  
6 INCLUDE DATA FROM THE MOORE INFLATION FACTOR OR THE  
7 INTERNATIONAL MONETARY FUND?

8 A. The Moore Inflation Factor and the International Monetary Fund did not have data  
9 available for 2014 to use in the calculation at the time the calculation was done.

10  
11 Q. WHAT IS MERC'S PROPOSAL FOR THE RECOVERY OF RATE CASE  
12 EXPENSES?

13 A. MERC is forecasting total rate case expenses of \$1,715,000 and proposes to amortize  
14 87.7%, or \$1,504,055, over a two-year period. The 87.7% reflects the removal of rate  
15 case expenses for MERC's non-utility business "ServiceChoice". The calculation of this  
16 percentage is discussed in the Direct Testimony of Gregory J. Walters. This amortization  
17 results in test year expenses of \$752,028 as shown on Exhibit \_\_\_\_\_ (SSD-20). The  
18 types of expenses included are costs for MERC's capital expert, legal fees, 3<sup>rd</sup> party  
19 requests such as Vertex and Itron, state agency and Administrative Law Judge fees,  
20 newspaper notices, and travel expenses. MERC believes that a two-year amortization is  
21 appropriate because as discussed above, MERC anticipates filing its next rate case with a  
22 2016 proposed test year.

23

1 Q. IN DOCKET NO. G007,011/GR-10-977 MERC WAS ORDERED TO TRACK RATE  
2 CASE EXPENSE RECOVERIES EXCEEDING THE AUTHORIZED TEST-YEAR  
3 EXPENSE FOR POSSIBLE CREDITING AGAINST THE REVENUE  
4 REQUIREMENT IN THE NEXT RATE CASE. HAVE ANY RECOVERIES  
5 EXCEEDING THE AUTHORIZED TEST-YEAR EXPENSE OCCURRED?

6 A. No, in Docket No. G007,011/GR-10-977 MERC was authorized a three-year  
7 amortization period for the rate case expenses beginning January 1, 2011 and ending  
8 December 31, 2013. MERC's current proposed rate case proposes new rates, either final  
9 or interim, to take effect January 1, 2014, inclusive of MERC's rate case expenses in this  
10 current docket. Therefore, no recoveries for rate case expenses authorized in Docket No.  
11 G007,011/GR-10-977 have or will occur.

12  
13 Q. PLEASE DESCRIBE THE RATE BASE ADJUSTMENT FOR CONSTRUCTION  
14 COSTS IDENTIFIED IN THE DIRECT TESTIMONY OF DAVID G. KULT.

15 A. MERC has removed \$29,170 of plant items from rate base in this rate case proceeding  
16 based on the Direct Testimony of David G. Kult, which presents the results of MERC's  
17 study of compliance with its main and service extensions since the last rate case and  
18 proposes adjustments to rate base that reflect his findings.

19  
20 Q. PLEASE DESCRIBE THE RATE BASE ADJUSTMENT FOR WINTER  
21 CONSTRUCTION CHARGES IDENTIFIED IN THE DIRECT TESTIMONY OF  
22 DAVID G. KULT.

1 A. MERC has removed \$0 for winter charges for work done outside the tariffed Winter  
2 Construction Charges period based on the Direct Testimony of David G. Kult.

3

4 Q. HAS DATA RELATED TO THE SOUTH DAKOTA AND MICHIGAN CUSTOMERS  
5 BEEN INCLUDED IN THIS FILING?

6 A. No. First, the South Dakota Farm tap customers were sold in May 2011, and are no  
7 longer customers of MERC. Therefore, these customers are no longer included in  
8 MERC's corporate structure and not included in this filing.

9

10 Secondly as shown on Rate Base Schedules B2 through B6, and Net Operating Income  
11 Schedules C4 through C-10, corporate MERC data inclusive of Michigan detail are  
12 shown. However, in each of the schedules the Minnesota and Michigan details are  
13 broken out, and only the Minnesota data is flowed through and shown on the summary  
14 Rate Base Schedule B-1 and the summary Operating Income Schedule C-3

15

16 Thirdly, while Michigan customer data is included on Schedules E-1, E-2, and E-3 of Mr.  
17 Harry John's testimony this data is not included in the Minnesota jurisdiction revenue  
18 deficiency, nor is it included in the rate design model of Mr. Greg J. Walters.

19

20 Q. PLEASE EXPLAIN HOW MERC ALLOCATED COSTS BETWEEN THE MERC-  
21 MINNESOTA AND MERC-MICHIGAN SERVICE TERRITORIES.

22 A. MERC has described the methodologies used to allocate costs between MERC-  
23 Minnesota and MERC-Michigan in Informational Requirement Documents 4 (rate base)

1 and 7 (O&M expenses), both contained in Volume 3 of this filing. As described in  
2 Informational Requirement Documents 4 (rate base) and 7 (income statement), the first  
3 step is to functionalize the costs and rate base items as production, transmission,  
4 distribution, or customer. After the functionalization is completed, these costs are then  
5 allocated to MERC-Minnesota and MERC-Michigan using system sales as the allocator  
6 for energy and demand, total sales for transmission, distribution plant is used as the  
7 allocator for distribution costs, and fixed charge count is used as the allocator for the  
8 customer function.

9  
10 Q. IN ACCORDANCE WITH THE REPORTING REQUIREMENTS IN DOCKET NO.  
11 U000/CI-92-96, HOW ARE OTHER POST-RETIREMENT BENEFITS TREATED?

12 A. The Commission approved PNG's handling of FASB 106 costs in *Peoples Natural Gas*  
13 *Company*, Order at 20-22, Docket No. G011/GR-92-132 (Feb. 22, 1993). These costs  
14 were presented and reviewed again in the next PNG and NMU rate cases, and were not  
15 subject to an adjustment in Docket No. G007, 011/GR-08-835 or Docket No.  
16 G007,011/GR-10-977. MERC has treated these costs in the current rate case identical to  
17 how it treated them in Docket No. G007, 011/GR-08-835 and Docket No. G007,011/GR-  
18 10-977.

19  
20 Q. HOW WERE THESE COSTS AFFECTED BY MERC'S ACQUISITION OF  
21 AQUILA'S MINNESOTA GAS OPERATIONS IN 2006?

22 A. Because of the acquisition, MERC had to assign fair market value to assets and liabilities  
23 that were acquired in the transaction, including other post-retirement benefits. The



1 Petition for Approval of the Asset Purchase Agreement between Aquila and MERC in  
2 Docket No. G-007,011/M-05-1676 noted that certain deferred pension costs of Aquila  
3 would be recognized in full as a liability of MERC upon completion of the sale. MERC  
4 stated in the Petition that it would request Commission authority to create a regulatory  
5 asset equal to the amount that would require immediate recognition, and seek to amortize  
6 the asset over a time period that would result in approximately the expense levels Aquila  
7 would have recorded had it continued to own the natural gas assets.

8  
9 Q. DID MERC RECEIVE APPROVAL TO CREATE AND AMORTIZE THE  
10 REGULATORY ASSET?

11 A. Yes, the Commission approved creation of the regulatory asset and authorized MERC to  
12 amortize the asset over a twenty-year period, starting July 1, 2006. *See In the Matter of*  
13 *the Petition of MERC for Authorization to Establish a Regulatory Asset for Pension and*  
14 *Other Postretirement Benefits Acquired from Aquila, Inc.*, Order, Docket No. G-  
15 007,011/M-06-1287 (July 30, 2007). Amortization of these costs are described in the  
16 direct testimony of Ms. Christine Hans, and has been included in the calculation of the  
17 revenue requirement in the current general rate case.

18  
19 Q. PLEASE DESCRIBE ANY PRIOR COMMISSION DISALLOWANCES THAT MERC  
20 IS SEEKING RECOVERY OF.

21 A. In MERC's last rate case, Docket No. G007,011/GR-10-977, costs associated with the  
22 corporate aircraft were disallowed. In this current Docket MERC is seeking recovery of  
23 the corporate aircraft costs which total \$956.

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Q. PLEASE DESCRIBE ANY ADDITIONAL COMMISSION DISALLOWANCES THAT MERC IS NOT SEEKING RECOVERY OF.

A. In addition to the O&M costs discussed above for which MERC is also not seeking recovery of, MERC is not seeking recovery of costs associated with the Supplemental Executive Retirement Plan, except those costs that were approved by the Commission in Docket No. G007,011/M-06-1287. The costs that MERC is not seeking recovery of are excluded from the Exhibits of Ms. Christine Hans.

Also, in MERC's last rate case, Docket No. G007,011/GR-10-977, balances associated with the Gas Affordability Program were removed from rate base, and therefore were removed from rate base in this current rate case.

1 **III. LEAD/LAG STUDY**

2 Q. WHAT IS THE PURPOSE OF A LEAD/LAG STUDY?

3 A. A lead/lag study is performed to determine the cash working capital component of  
4 working capital. The remaining components of working capital are the investments in  
5 materials and supplies, natural gas storage, regulatory assets and liabilities, and  
6 associated deferred taxes which are determined by generally accepted regulatory  
7 methods.

8  
9 A lead/lag study measures the differences in time frames between (1) the time that  
10 service is rendered until the revenues for that service are received (lead) and (2) the time  
11 that labor, materials, or services are used in providing service until expenditures for such  
12 items are made (lag). Each major category of expense and its applicable lag days are  
13 compared to the calculated revenue lead days. The difference between these periods,  
14 expressed in terms of days, times the average daily operating expenses, produces the cash  
15 working capital required, or available, for those operating expenses.

16  
17 Q. WHAT ARE THE COMPONENTS OF A LEAD/LAG STUDY?

18 A. The lead/lag study compiles and analyzes revenues collected and expenses paid to  
19 determine the lead or lag days. This study analyzed the following major classifications:

20 Lead Time for Revenues Collected

- 21 1. The Service to Meter Reading Period  
22 2. The Meter Reading to Billing Period  
23 3. The Billing to Collection Period

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Lag Time for Expenses Paid

- 1. Purchased Gas Expense
- 2. Payroll Expense
- 3. Payroll Tax Expense
- 4. Incentive Plan
- 5. Expenses Paid back to Subsidiaries
- 6. Other Operations and Maintenance Expenses

Q. HOW WERE THE REVENUE LEAD PORTIONS OF THE STUDY DETERMINED?

A. I analyzed the Lead time for revenues collected by analyzing three separate time periods:

- 1. The Service to Meter Reading Period
- 2. The Meter Reading to Billing Period
- 3. The Billing to Collection Period.

Q. HOW DID YOU CALCULATE THE LEAD TIME FOR THE METERING PERIOD?

A. Meters are read and bills are computed on a monthly basis. Therefore, the number of days between initially providing service to a customer during any billing period, and the date of reading the customer’s meter is an average of 30.4 days.

$$365 \text{ days in 2014} / 12 \text{ months} = 30.4 \text{ days.}$$

1 This means that MERC incurs expenses associated with that customer for 30.4 days  
2 before his meter is read. Since a lead/lag study computation is on an average basis, the  
3 average number of days would be approximately one-half of the 30.4 days or 15.2 days  
4 which represents the midpoint of the metering cycle.

5  
6 Q. HOW DID YOU CALCULATE THE LEAD TIME FOR THE BILLING PERIOD?

7 A. For non-transport customers, meters are read day 1 and the data is sent to Green Bay,  
8 Wisconsin. On days 2 and 3 the data is formatted and sent to Dallas, Texas. On day 4  
9 the bill is printed and mailed. For transport customers, bills are sent to customers on Day  
10 6. A weighted average based on revenues of transport versus non-transport was used to  
11 calculate the number of days. The result was 4.1 days. See Exhibit \_\_\_\_\_ (SSD-21),  
12 page 2,.

13  
14 Q. HOW DID YOU CALCULATE THE LEAD TIME FOR THE COLLECTION  
15 PERIOD?

16 A. The lead time for the collection period was calculated by summing the 2012 daily  
17 accounts receivable balances then dividing that amount by the 2012 tariff revenues. The  
18 result was 25.0 days. See Exhibit \_\_\_\_\_ (SSD-21), page 3.

19  
20 Q. WHAT IS THE OVERALL REVENUE LEAD TIME CALCULATED BY YOUR  
21 STUDY?

22 A. The overall Lead sums to a period of 44.3 days as shown on Exhibit \_\_\_\_\_ (SSD-21),  
23 page 1.

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Q. HOW WERE THE EXPENSE LAG PORTIONS OF THE STUDY DETERMINED?

A. I analyzed the Lag time for expenses paid by analyzing six separate expense components: purchased gas, payroll expense, payroll tax expense, incentive plan, expenses paid to affiliates and other operations and maintenance expenses. I describe how I analyzed each of the six components below.

Q. HOW DID YOU DETERMINE THE EXPENSE LAG FOR PURCHASED GAS?

A. In order to calculate the Lag time between the date of receipt to the date of payment, the receipt date must first be determined. Gas is received from the supplier during the entire month; consequently, it is appropriate to use an average number for the receipt date. For this lag study, an average of 15.2 days was used to represent the number of days between gas receipt date and month end, as shown below:

$$365 \text{ days} / 12 \text{ months} = 30.4 \text{ days per month}$$

$$30.4 \text{ days per month} / 2 = \text{average of } 15.2 \text{ days}$$

Payment for purchased gas is due the 25<sup>th</sup> of the following month. Therefore the entire lag time is 40.2 days.

Q. HOW DID YOU DETERMINE THE EXPENSE LAG FOR PAYROLL?

A. Employees are paid bi-weekly (every other Friday), for a total of 26 pay periods in a year. The average lag time is calculated as follows:

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365 days in a year / 26 pay periods = 14.0 days

The average lag time would be one-half of the 14.1 days or 7.0 days plus an additional 6 days are added to represent the time between the end of the payroll period, and when the actual paycheck is issued to the employees for a total of 13.0 days.

Q. HOW DID YOU DETERMINE THE LAG FOR PAYROLL TAX EXPENSE?

A. Payroll taxes are paid the day after the employees are paid. Therefore the lag time on payroll tax expense is 14.0, 13.0 from the Payroll expense plus 1.0.

Q. HOW DID YOU DETERMINE THE LAG FOR INCENTIVE PLAN EXPENSE?

A. The corporate incentive plan is assumed to be accrued evenly throughout the year, and is typically paid out on the first paycheck in March of the following year: 365 days in a year / 2 = 182.5 average days + 66 days until March 7, 2014 when the incentive would actually be paid, for a total of 248.5 days.

Q. HOW DID YOU DETERMINE THE EXPENSE LAG FOR PAYMENTS BACK TO AFFILIATES?

A. In order to calculate the lag time between the date of receipt to the date of payment, the receipt date must first be determined. Services from IBS, such as those identified in Tracy L. Kupsh's testimony, expenses from other affiliates, and interest expense are received during the entire month. Consequently, it is appropriate to use an average

1 number for the receipt date. For this lag study, an average of 15.2 days was used to  
2 represent the number of days between the service date and month end.

$$3 \quad 365 \text{ days} / 12 \text{ months} = 30.4 \text{ days per month}$$

$$4 \quad 30.4 \text{ days per month} / 2 = \text{average of } 15.2 \text{ days}$$

5  
6 Payment back to affiliates for services occurs on the 20<sup>th</sup> of the following month.

7 Therefore the entire lag time is 35.2 days.

8  
9 Q. HOW DID YOU DETERMINE THE EXPENSE LAG FOR OTHER OPERATIONS  
10 AND MAINTENANCE EXPENSES?

11 A. Typical outstanding terms for invoices are net 30 days; therefore 30 days were used for  
12 this portion of the lag study.

13  
14 Q. ARE THE METHODS YOU DESCRIBED ABOVE CONSISTENT WITH THE  
15 COMMISSION'S CASH WORKING CAPITAL POLICY?

16 A. Yes. My study separates expenses into components that have similar characteristics and  
17 payment patterns, as endorsed in the Commission's cash working capital policy.

18  
19 Q. PLEASE DESCRIBE EXHIBIT \_\_\_\_\_ (SSD-21), PAGES 4-5.

20 A. Exhibit \_\_\_\_\_ (SSD-21), page 4 shows the percentage of federal income tax, state  
21 income tax, and property tax available as working capital, and page 5 shows the amounts  
22 of federal income tax, state income tax, and property tax available for use for the



1 proposed test year ending December 31, 2011 for MERC. The income taxes were  
2 calculated assuming a rate increase was granted.

3  
4 Q. WHY ARE THE TAXES IN THE LEAD/LAG STUDY GREATER THAN THE  
5 TAXES ON INFORMATIONAL REQUIREMENT DOCUMENT 8?

6 A. When accumulating data for MERC's proposed test year, I included a proposed rate  
7 increase, which then has taxes calculated, and this tax amount was used in the Lead/Lag  
8 Study. However on Informational Requirement Document 8, taxes were calculated  
9 without any rate increase assumed, and therefore results in a lower tax amount.

10  
11 Q. IS IT APPROPRIATE TO USE THIS HIGHER LEVEL OF TAXES IN THE  
12 LEAD/LAG STUDY?

13 A. Yes. This higher tax level is more representative of what the taxes will be after rate relief  
14 is obtained, and therefore derives a more realistic Working Capital Cash Deficit via the  
15 Lead/Lag Study.

16  
17 Q. PLEASE SUMMARIZE THE RESULTS OF YOUR LEAD/LAG STUDY.

18 A. Exhibit \_\_\_\_\_ (SSD-21), page 1, summarizes the lead time and lag time found for the  
19 revenue and expense parts of my study. Exhibit \_\_\_\_\_ (SSD-21), page 6, shows the  
20 resulting calculation of net cash working capital that is included in MERC's proposed  
21 rate base for the test year.

22

1 Q. WHAT IS INDICATED BY THE NEGATIVE CASH WORKING CAPITAL  
2 AMOUNT?

3 A. Negative cash working capital indicates that revenues are being collected prior to the date  
4 when the associated costs of service are being paid. This means that, on average, cash  
5 working capital is being provided by MERC's customers. When negative cash working  
6 capital exists, it is subtracted from rate base so MERC does not receive a return on the  
7 funds provided.

8  
9 Q. IN YOUR OPINION, DOES THE LEAD/LAG STUDY PROVIDE A REASONABLE  
10 BASIS FOR ESTABLISHING RATES IN THIS CASE?

11 A. While MERC's 2012 actual cash working capital balance was \$288,800 compared to the  
12 working capital balance calculated in the Lead/Lag study of (\$3,916,174), a total  
13 reduction of rate base of \$4,204,974, MERC accepts the Lead/Lag study results for  
14 establishing rates in this case.

15  
16

1 **IV. CONSERVATION**

2 *A. Conservation Improvement Plan*

3 Q. DOES MERC HAVE AN APPROVED CONSERVATION IMPROVEMENT PLAN  
4 ON FILE WITH THE DEPARTMENT OF COMMERCE?

5 A. Yes. Minnesota Statutes section 216B.16, subd. 1, states in relevant part that if a utility  
6 filing a general rate case does not have an approved energy conservation improvement  
7 plan on file with the Department, it shall include in its general rate case notice an energy  
8 conservation plan pursuant to section 216B.241. MERC's 2013-2015 Conservation  
9 Improvement Plan ("CIP") was submitted to the Department of Commerce on June 11,  
10 2012 and approved by the Deputy Commissioner of the Department of Commerce  
11 Division of Energy Resources on January 16, 2013, in Docket No. G007,G011/CIP-12-  
12 548. MERC filed a modification request on February 28, 2013, which was approved by  
13 the Director of OES on April 30, 2013 in Docket No. G007,G011/CIP-12-548.  
14 Additionally, MERC submitted an informal modification request to the Department on  
15 June 28, 2013, which was approved as modified on August 2, 2013. MERC's current  
16 approved 2013-2015 Conservation Improvement Program Triennial plan is on file with  
17 the Department.

18  
19 *B. Conservation Cost Recovery*

20 Q. PLEASE PROVIDE SOME BACKGROUND ON RECOVERY OF CIP COSTS FOR  
21 MERC.

22 A. In MERC's last rate case in Docket No. G007,011/GR-10-977, MERC received  
23 Commission approval to update the Conservation Cost Recovery Charge ("CCRC")

1 factors for MERC to recover its annual CIP program costs. In addition MERC received  
2 Commission approval in Docket No. G007,011/GR-08-835 to implement a Conservation  
3 Cost Recovery Adjustment (“CCRA”) factor in order to recover the amount by which  
4 actual CIP expenditures are different from the amount recovered through the CCRC  
5 factor plus the amount of any Commission-approved CIP financial incentive on an annual  
6 basis. The Commission initially set the CCRA factors for MERC-NMU and MERC-  
7 PNG at \$0.0000 per therm. MERC’s request to update the CCRA factors set in the last  
8 rate case was approved by the Commission in Docket Nos. G011/M-10-407 and  
9 G007/M-10-409 on October 11, 2010. The current CCRA factor is \$0.02715 per therm  
10 for MERC-NMU and \$0.01719 for MERC-PNG. On May 1, 2013 MERC proposed  
11 updated CCRA factors for MERC-PNG of \$0.02124, and MERC-NMU of \$0.00677.  
12 The Commission has yet to order on these proposed CCRA factors.

13  
14 Q. PLEASE DESCRIBE HOW CIP EXPENSES ARE TREATED IN THIS  
15 PROCEEDING.

16 A. First, MERC is proposing to update the CCRC factors included in base rates to recover  
17 the 2013 CIP program expenses of \$8,920,481 as shown on Exhibit \_\_\_\_\_ (SSD-24).  
18 The directive to calculate the CCRC using the 2013 approved CIP program expenses was  
19 part of the June 11, 2012 and April 30, 2013 decisions in MERC’s 2013 – 2015 Triennial  
20 Conservation Improvement Program in Docket No. G007,011/CIP-12-548. In MERC’s  
21 last rate case, the Commission approved a CCRC factor of \$0.01513 per therm for  
22 MERC. Consistent with Commission precedent and as approved in Docket No.  
23 G007,011/GR-10-977, MERC has calculated the CCRC factors on a volumetric basis by

1 taking the CIP test year expenses and dividing by test year sales volumes less the  
2 volumes attributed to those customers who have opted out of the CIP.

3  
4 Q. IS MERC SEEKING RECOVERY OF THE UNAMORTIZED BALANCE IN THE CIP  
5 TRACKER ACCOUNTS?

6 A. No. MERC is not seeking recovery of the unamortized balance in the CIP tracker  
7 accounts. MERC proposes to recover this unamortized balance via the CCRA.

8  
9 Q. IS MERC PROPOSING THAT A CARRYING CHARGE BE APPLIED TO THE CIP  
10 TRACKER BALANCES?

11 A. Yes. In Docket No. G007,011/GR-08-835, the Commission approved a CIP carrying  
12 charge at MERC's overall rate of return approved for the Company in that case. MERC  
13 requests that the Commission similarly approve a carrying charge for MERC's CIP  
14 tracker account balance equal to the overall rate of return approved in the current case.

15  
16 Q. ARE CIP EXPENSES "REVENUE NEUTRAL" WITH REGARD TO DETERMINING  
17 THE FINAL REVENUE REQUIREMENTS IN THIS CASE?

18 A. No. For the calculation of the revenue deficiency for final rates MERC has included the  
19 updated CIP costs, but has not adjusted revenues for the updated CCRC factor.  
20 Therefore, the final revenue deficiency reflects the updated CIP costs.

21  
22 Q. HOW IS THE CIP RECOVERY MECHANISM AFFECTED DURING INTERIM  
23 RATES?

1 A. In MERC's last rate case Docket No. G007,011/GR-10-977 MERC inputted revenues to  
2 offset the increase in CIP expenses due to an increased CCRC for interim rate purposes.  
3 This created a revenue neutral effect in interim rates for purposes of the increased CCRC,  
4 but did create some confusion among parties. Therefore, prior to this current rate case,  
5 MERC contacted Commission Staff to work on how to address the increase in the CCRC  
6 in interim rates. Commission Staff gave the guidance that MERC should include the  
7 increased expense in the interim rate calculation, so that is the approach MERC took in  
8 this current docket.

9

10 Q. HAVE THERE BEEN ANY RECENT CHANGES TO MERC'S CIP EXEMPT  
11 CUSTOMER BASE?

12 A. Yes. Very recently, it was discovered that a significant taconite customer, Northshore  
13 Mining, has, in error, been continuously treated as exempt from the CIP charges dating  
14 back at least to the days of Aquila's gas operations (MERC's predecessor). Upon  
15 discovery of this error Northshore was notified and has applied for a CIP exemption.  
16 MERC has determined that it will absorb this under recovery and not seek the one year  
17 back payment of CIP charges allowed by the billing error rules. Northshore is a Super  
18 Large Volume transportation customer whose gas is directly supplied by Northern  
19 Natural Gas's interstate pipeline. Accordingly, Northshore is a very serious bypass  
20 threat. The test year CIP schedules have been prepared assuming Northshore will be  
21 granted an exemption.

22

1 **V. INTERIM RATES**

2 Q. WHAT AMOUNT OF INTERIM RATE RELIEF IS MERC REQUESTING?

3 A. MERC is requesting interim rate relief of \$12,401,502, or 4.82% of revenues. MERC  
4 asks for an interim rate increase of 14.80% on all fixed charges and distribution charges  
5 (exclusive of the cost of gas) for all customers, except Super Large Volume customers.  
6

7 Q. DOES THE INTERIM RATE PROPOSAL SATISFY THE COMMISSION'S  
8 STATEMENT OF POLICY ON INTERIM RATES?

9 A. The Statement of Policy on Interim Rates dated April 14, 1982 states that "the interim  
10 rate schedule shall be calculated using the proposed test year cost of capital, rate base,  
11 and expenses, except it shall include:

- 12 1. A rate of return on common equity for the utility equal to that authorized by  
13 the Commission in the utility's most recent rate proceeding;  
14  
15 2. Rate base or expense items the same in nature and kind as those allowed by a  
16 currently effective order of the Commission in the utility's most recent rate  
17 proceeding; and  
18  
19 3. No change in existing rate design."  
20

21 Regarding point one, MERC's currently authorized rate of return on common equity is  
22 9.70%, and MERC has used this return on equity to calculate the interim revenue  
23 deficiency.  
24

25 Regarding point two, MERC's only included items that were approved in MERC's last  
26 rate case for rate base and expenses.  
27

- 1                   1. MERC is not seeking recovery of in Final rates in this current rate case costs  
2                   associated with prior commission disallowances. For example, MERC  
3                   excluded Advertising expenses associated with goodwill and economic  
4                   development, 50% of economic development costs, LTIP, Restricted Stock,  
5                   Stock Options, 70% of Executive Incentive, Executive Deferred Comp ESOP,  
6                   Supplement Executive Retirement Plan, except the non-qualified pension plan  
7                   costs authorized by the Commission in Docket No. G007,011/M-06-1287.  
8  
9                   2. MERC also excluded items included in MERC's proposed final rates, but  
10                  disallowed in MERC's last rate cases such as the Corporate Aircraft Expenses  
11                  (\$956).  
12

13                  MERC satisfies point three by proposing a level of rate increase that does not change the  
14                  rate design of customers. MERC asks for an interim rate increase of 14.80% on all fixed  
15                  charges and distribution charges (exclusive of the cost of gas) for all customers, except  
16                  Super Large Volume customers, which are proposed to be charged a lower increase as  
17                  identified in the interim rate Petition. In its Petition for interim rates, MERC explains  
18                  why the Commission should find that exigent circumstances exist that justify its request  
19                  to forego the interim revenues that would result from imposing the higher interim rate  
20                  increase on this class of customers.  
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**VIII. MINNESOTA STATUTE § 216B.16, SUBD. 17**

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Q. HAS MERC MET THE FILING REQUIREMENTS ADOPTED IN MINNESOTA STATUTE § 216B.16, SUBD 17?

A. Yes, Volume 3, Informational Requirement Document 14, includes the information required by Minn. Stat. § 216B.16, subd. 17 related to travel, entertainment, and related expenses. It also separately itemizes expenses for MERC’s board of directors and 10 highest paid employees.

Q. PLEASE DESCRIBE INFORMATIONAL REQUIREMENT DOCUMENT 14?

A. Page 1 of Informational Requirement Document 14 identifies the salaries of MERC’s Board of Directors and the 10 highest paid employees for the most recently completed fiscal year 2012. It also includes those in the proposed test year 2014.

Page 2 summarizes the travel, entertainment, and related expenses charged to MERC by its Board of Directors and 10 highest paid employees, as well as other employees, for the most recently completed fiscal year 2012.

Page 3 provides a summary of travel, entertainment, and related expenses for the 2014 test year for MERC’s Board of Directors, 10 highest paid employees, and other employees.

Pages 4 through 12 of Informational Requirement Document 14 list individually the travel, entertainment, and other related expenses, including the date of the expense, the

1 amount of the expense, the vendor name, and the business purpose of the expense for  
2 MERC's board of directors and 10 highest paid employees. These individuals include all  
3 employees at the level of Vice President or higher for MERC.

4  
5 Pages 13 through 51 of Informational Requirement 14 provides a detailed list of the  
6 travel, entertainment, and other related expenses by date, amount, vendor, and business  
7 purpose for all MERC employees, other than the MERC board of directors and 10 highest  
8 paid employees.

9  
10 Page 52 of Information Requirement 14 lists individually the Membership expenses for  
11 all employees.

12  
13 Q. WHAT DOES THE 4.1% FOUND ON PAGE 1 OF INFORMATIONAL  
14 REQUIREMENT 14 REPRESENT?

15 A. 4.1% represents the percentage of overall IBS costs charged to MERC in 2012.  
16 Therefore, the Board of Director salaries charged to IBS are assumed to be allocated to  
17 MERC at this level.

18  
19 Q. ON PAGE 2 OF INFORMATIONAL REQUIREMENT 14 WHAT DOES THE LINE  
20 ITEM CORPORATE AIRCRAFT REPRESENT UNDER THE BOARD OF  
21 DIRECTORS?

22 A. This line item represents times when costs related to the corporate aircraft were allocated  
23 to MERC for flights in which one or more board members were on the flight.

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Q. ON PAGES 4 THROUGH 51 WHY IS THE VENDOR NOT SPECIFICALLY LISTED ON CERTAIN ITEMS?

A. When an employee enters meal expense into corporate labor or submits an expense report, the vendor associated with those costs is not captured in the system, and therefore is not readily accessible. As authorized by Minn. Stat. § 216B.16, subd. 17(b), MERC has submitted this data using the standard accounting reports already utilized by the utility. Additionally, mileage reimbursements are not submitted to a vendor per se, but instead are paid to the employee for the use of his/her own vehicle for company business.

Q. IS IT CORRECT THAT MERC DID NOT HAVE ANY COSTS RELATED TO GIFTS AND LOBBYING?

A. That is correct, MERC did not have any expenses related to gifts. MERC incurs labor costs for employees who engage in lobbying activity, but it did not have any external expenses related to lobbying activities.

Q. DOES MERC REQUEST THAT ANY OF THIS DATA BE CLASSIFIED AS NONPUBLIC DATA?

A. Yes. Minnesota Statute § 216b.16, subd 17 allows for the salary of one or more of the ten highest paid officers and employees, other than the five highest paid, to be treated as private data on individuals. MERC requests that the salaries of the 6 – 10 highest paid employees be kept nonpublic for competitive reasons related to the compensation of MERC’s employees. Publicly disclosing this information could give competitors an

1 advantage in terms of hiring and retaining key employees. Additionally, MERC believes  
2 it would be inappropriate to ignore each of the listed employees' rights to keep this  
3 information private. Individuals' rights to maintain the confidentiality of this kind of  
4 private information has increased in recent years, and therefore MERC believes this  
5 information should be protected to the greatest extent possible. Giving this information  
6 nonpublic status would not deprive the parties to this rate case information as this  
7 information will be available to the Commission and state agencies participating in the  
8 proceeding, and any other party could enter into a protective agreement to obtain the data  
9 if necessary. Giving this information nonpublic status would only keep the information  
10 private from non-parties. Requiring MERC to file this information as public data would  
11 make it publicly available on the internet, making it accessible to all persons, including  
12 those with absolutely no interest in these proceedings or MERC's rates.

13

**IX. DECOUPLING**

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Q. DOES MERC PROPOSE ANY UPDATES TO ITS PILOT DECOUPLING MECHANISM?

A. MERC does not request any changes to the methodology of how the decoupling mechanism works. However, MERC does request the sales and fixed charge counts used in the decoupling calculation tie to what is ultimately approved in this rate case.

1 **IX. MISCELLANEOUS SALES**

2 Q. ARE THERE ANY SALES ISSUES THAT ARE NOT ADDRESSED IN THE DIRECT  
3 TESTIMONY OF MR. HARRY JOHN THAT YOU WILL DISCUSS?

4 A. Yes. I would like to address the following items that were raised in MERC’s last rate  
5 case Docket No. G007,011/GR-10-977 that have not been addressed in the Direct  
6 Testimony of Mr. Harry John.

- 7
- 8 1. I will provide a summary spreadsheet linking all raw data to the most detailed  
9 information available,
  - 10 2. I will provide a summary spreadsheet linking the sales forecast, to the sales used  
11 in the CCOSS and rate design,
  - 12 3. Any changes to the billing system,
  - 13 4. Corrections for billing errors, and MERC’s billing error policy,
  - 14 5. Summary of the audit of MERC’s billing cycle data and compilation process, and  
15 6. Negative sales values in the Annual Jurisdictional Reports.
- 16  
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22 Q. CAN YOU PLEASE EXPLAIN THE SUMMARY SPREADSHEET THAT LINKS  
23 RAW DATA TO THE MOST DETAILED INFORMATION AVAILABLE?

24 A. Yes. Per a point of recommendation from DOC witness Mr. Adam Heinen in Docket No.  
25 G007,011/GR-10-977, as well as a recommendation from the third party audit of Vertex,  
26 as discussed later, it was suggested MERC reconcile the raw billing data to the reports  
27 MERC uses to generate the sales forecast. Exhibit\_\_\_\_(SSD-29) performs this  
28 summary by first comparing what was filed in the Annual Jurisdictional Reports, listed  
29 under column heading AJR’s, to what was included in the Repository plus unbilled data.

1 The Repository reporting system only includes billed data, and therefore the unbilled data  
2 needs to be added to the results from the Repository to tie to the AJR's. A second  
3 comparison of the Repository billed data is then compared to a detailed billing download  
4 that is generated by a query each month by Vertex. Note that this detailed billing  
5 download began with January 2012 data and no comparison with this data source exists  
6 for the years 2007 – 2011. Please see the testimony of Mr. Harry John for an explanation  
7 of the Repository.  
8

9 Q. CAN YOU SUMMARIZE THE RESULTS OF THIS SUMMARY COMPARISON OF  
10 RAW BILLING DATA?

11 A. Yes. As can be seen in Exhibit\_\_\_\_\_(SSD-29) for the years 2007 through 2011  
12 differences between the AJR's and the Repository do exist. These differences are in line  
13 with the variances that the third part audit discovered and contribute to the \$9,710 annual  
14 revenue adjustment MERC was ordered to make in Docket No. G007,011/GR-10-977 for  
15 its next future rate case. In 2012 and 2013 there is a significantly less amount of variance  
16 between the AJR's and the Repository plus unbilled data, as well as the Repository and  
17 the Detail Billing Download. This difference has to do with one master deduct meter that  
18 exists on MERC's system where the total therms for a customer flow through a primary  
19 meter and a portion of the therms flow through a secondary meter. The therms that flow  
20 through the secondary meter should be reversed from the usage on the primary meter as  
21 to not double count them, but this does not occur in the Repository reports, and therefore  
22 are double counted in the historic sales data in the Repository.  
23

1 Q. CAN YOU SUMMARIZE THE RESULTS OF THIS SUMMARY SPREADSHEET  
2 COMPARING THE SALES FORECAST TO THE CCOSS AND THE RATE DESIGN?

3 A. Yes. Exhibit\_\_\_\_\_ (SSD-30) compares the MERC Minnesota Sales, Fixed Charge  
4 Counts, Daily Firm Capacity, and Revenues between what was generated by the sales  
5 forecast to what was used in the CCOSS and the Rate Design model. In all instances the  
6 values tie, except in the case of Daily Firm Capacity, where MERC witness Ms. Joylynn  
7 Hoffman Malueg uses the Daily Firm Capacity on a daily basis. Otherwise stated the  
8 4,996,280 shown in the forecast and rate design models are multiplied by 30, assuming  
9 30 days in a month. Also, it should be noted that the values on Exhibit\_\_\_\_\_ (SSD-30)  
10 only identify the units associated with MERC's Minnesota customers, and that the sales  
11 forecast was done at a Corporate MERC level. Therefore, the sales and fixed charge  
12 counts associated with the Michigan Taconite mines are identified in the Exhibits of Mr.  
13 Harry John, but as discussed earlier these values do NOT flow through to the revenue  
14 deficiency calculation.

15  
16 Q. CAN YOU PLEASE EXPLAIN ANY CHANGES TO THE BILLING SYSTEM?

17 A. Yes. MERC has worked with Vertex on several reporting changes as discussed in the  
18 direct testimony of Mr. Harry John and myself, but no significant changes to the billing  
19 system itself has occurred. It should be noted however that Integrys is in the process of  
20 implementing a corporate wide billing system as discussed in the Direct Testimony of  
21 Mr. Brian Kage.

22



1 Q. PLEASE FULLY EXPLAIN HOW MERC CORRECTS AND ACCOUNTS FOR  
2 BILLING ERRORS IN ITS RAW BILLING CYCLE DATA.

3 A. Meter readings are received from the meter reading system (Itron) and loaded into the  
4 Customer Information System (CIS). Parameters have been set up by meter for a  
5 high/low check. If the usage is flagged as high or low, then appropriate action is taken.

- 6 1. Reread is needed based on account's usage history patterns
- 7 a. Upon receiving the 2nd read to validate the usage as high or low,  
8 the meter is allowed to bill with the original read or is replaced  
9 with the validated read and the usage is adjusted.
- 10
- 11 2. Wrapped read (current read is less than the previous read)
- 12 a. Analysis of previous reads determines if the account needs to be  
13 adjusted
- 14
- 15 b. Reread service order is sent for validation
- 16
- 17 c. Meter set was just completed on the meter and no action is  
18 necessary
- 19
- 20 3. Wrapped dates (current read date is less than the previous read date)
- 21 a. Current reading is the same as the previous reading then the dates  
22 are set to match and will bill zero.
- 23
- 24 b. Readings and dates are both wrapped the dates and readings are  
25 set to the previous date and reads and allowed to bill zero.
- 26
- 27

28

29 Q. PLEASE PROVIDE A WRITTEN EXPLANATION DESCRIBING MERC'S BILLING  
30 ERROR POLICY AND IDENTIFY WHEN MERC CONDUCTED AN INTERNAL  
31 AUDIT TO ENSURE THAT ITS BILLING SYSTEM CORRECTLY ACCOUNTS FOR  
32 BILLING ERRORS.

1 A. As part of MERC's commitment to billing accuracy, the following control functions  
2 exist:

- 3 1. As part of the daily billing process, a sample of bills is reviewed daily by the  
4 onsite billing team.
- 5  
6 2. The Utility Compliance and Controls team has documented controls for the Rate  
7 Change process and performs an independent assessment to ensure procedures for  
8 implementing new rates are applied accurately.
- 9  
10 3. Two Sarbanes-Oxley controls related to billing accuracy are tested by Internal and  
11 External Audit on an annual basis. These controls include review of changes in a  
12 customer's multiplier and usage factors to ensure it is within a predetermined  
13 threshold, and a bill review of up to 3 bills from each rate billed when new rates  
14 go in as part of a rate case.
- 15  
16 4. An annual SAS 70 Audit occurs for MERC's 3rd Party Vendor, Vertex. This  
17 review, completed by an independent Financial Audit firm, includes controls  
18 related to billing.
- 19

20 Q. CAN YOU PLEASE PROVIDE A SUMMARY OF THE AUDIT OF MERC'S BILL  
21 CYCLE DATA AND ITS COMPILATION PROCESS?

22 A. Yes. As ordered in Docket No. G007,011/GR-10-977 MERC contracted a third party to  
23 perform an audit of its billing system. This audit identified four areas of improvement  
24 within the Integrys/Vertex bill process. The four areas were as follows:

- 25 1. Improve controls surrounding the monthly change to PGA rates,
- 26  
27 2. Send rates directly to Vertex billing team, bypassing Vertex IT,
- 28  
29 3. Reconcile summary reports to billing detail downloads, and
- 30  
31 4. Formalize review of underlying data in Commission filings.
- 32

33 Q. HAS MERC ADDRESSED THESE FOUR RECOMMENDATIONS?

1 A. Yes. MERC has addressed each one of these recommendations. First to improve the  
2 controls surrounding the monthly change to PGA rates, MERC trained a back-up  
3 individual and the monthly process which was previously been done by a single  
4 individual now has two individuals reviewing the process. Second, in the past MERC  
5 had sent any changes in rates to the Vertex IT support which was responsible for  
6 inputting the new rates into the system, and also notifying the Vertex Billing team there  
7 was a rate change. Now when new rates are implemented Integrys directly contacts both  
8 Vertex IT and Vertex Billing. Third, MERC has performed a reconciliation of the billing  
9 detail downloads as described earlier in my testimony regarding Exhibit\_\_\_\_\_ (SSD-29).  
10 Finally, MERC has a formal review process of its Sales Forecast which is done by a Gas  
11 Planning Committee made up of senior leaders within MERC and Integrys, and a formal  
12 schedule related to the finalization of data and data review related to the data submitted in  
13 this General Rate Case.

14  
15 Q. CAN YOU PLEASE EXPLAIN THE NEGATIVE SALES THAT OCCUR IN THE  
16 2012 ANNUAL JURISDICTIONAL REPORTS?

17 A. Yes. At the Commission hearing on May 9, 2013 to discuss the third party audit of  
18 MERC's billing system, the Office of the Attorney General raised concerns about  
19 negative sales being shown in certain classes of customers on MERC's 2012 AJR's. The  
20 concern focused on one very obvious question, how can MERC have negative sales in a  
21 given month. This is a valid question, but there is a reasonable answer. The data shown  
22 in the AJR's contains both billed and unbilled data, also known as net calendar month  
23 sales. The billing data each month should never have any negative sales, exclusive of

1 any significant billing corrections, but MERC's unbilled process does lend itself to the  
2 potential of having negative net calendar month sales.

3  
4 At a high level, MERC's unbilled process performs a calculation of the daily gas usage  
5 for each grouping of customers by rate code, based on the actual billing data from the  
6 most recent billing cycle prior to the end of the month. The daily usage amounts are then  
7 applied to the number of days from the billing cycle date to the end of the month to  
8 calculate unbilled sales. The current month unbilled sales calculation is posted to  
9 MERC's general ledger. MERC also reverses the previous month's unbilled sales entry,  
10 as those sales are no longer estimates and captured in MERC's actual billing data. The  
11 calendar month sales recorded for a month represent the current month's billed sales, plus  
12 the current month unbilled sales, less the prior month's unbilled sales. Negative net  
13 calendar month sales can occur when we come out of the cold winter months into the  
14 warmer spring and summer months. The reversal of the previous month's unbilled sales,  
15 which was calculated on higher use per customer because of the colder temperatures, can  
16 be greater than the sum of the current month billed sales plus the current month unbilled  
17 sales. The result can be negative sales on a net calendar month basis that is shown on the  
18 AJR's.

19  
20 In summary MERC does not have negative billed sales, nor is it purchasing gas from its  
21 customers. Instead the negative net calendar month sales that are shown on the AJR's is  
22 a function of MERC's unbilled process.

1 **X. CONCLUSION**

2 Q. IN YOUR OPINION, DOES TESTIMONY AND EXHIBITS FOR THE TEST YEARS  
3 PROVIDE A REASONABLE BASIS FOR ESTABLISHING RATES IN THIS CASE?

4 A. Yes, it does. The testimony and exhibits referenced in this testimony provide a  
5 reasonable basis for establishing MERC's revenue requirement for test year 2014 in this  
6 case.

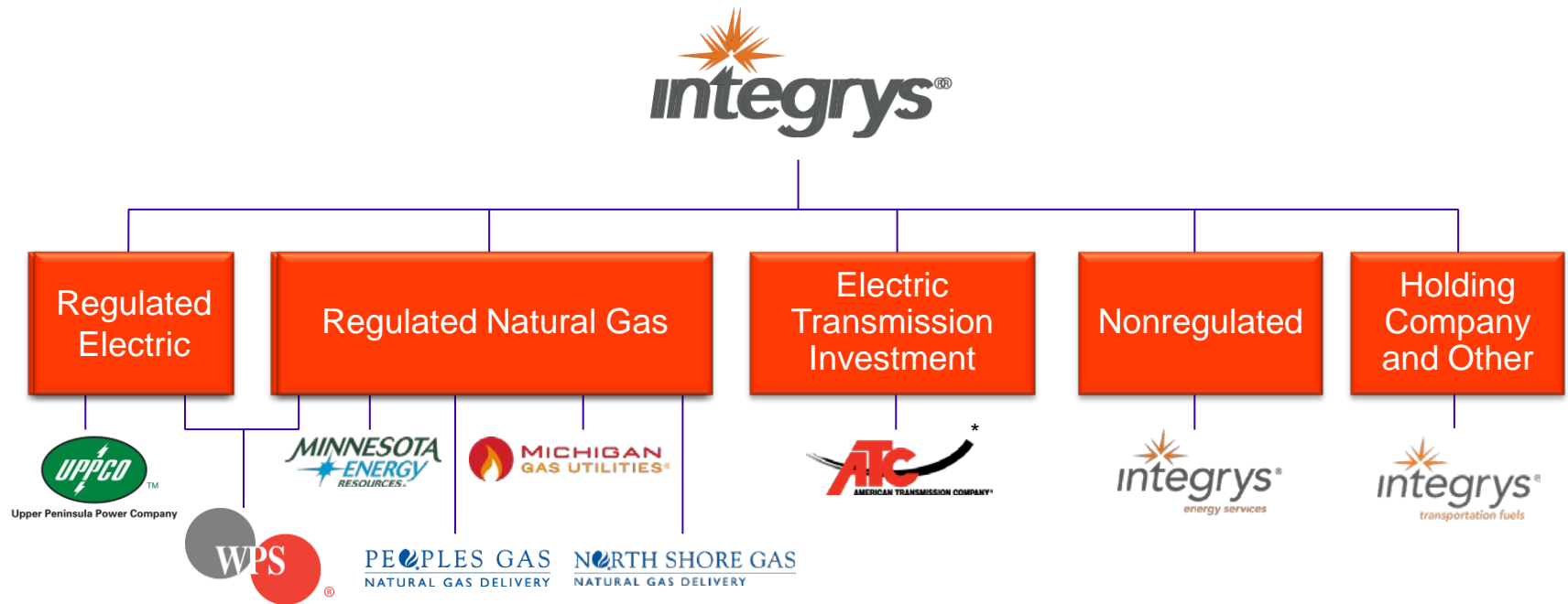
7  
8 Q. IN YOUR OPINION, ARE THE TESTIMONY AND EXHIBITS FILED IN THIS RATE  
9 CASE COMPLETE AND IN COMPLIANCE WITH APPLICABLE STATE LAW,  
10 RULES AND COMMISSION ORDERS?

11 A. Yes. MERC used its recent rate case experience to build a strong case for the increase in  
12 rates it requires to maintain a reasonable rate of return.

13  
14 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY ON TEST YEAR REVENUE  
15 REQUIREMENT ISSUES AT THIS TIME?

16 A. Yes, it does.





Integrys Energy Group owned approximately 34% of American Transmission Company, LLC at December 31, 2011.





**Minnesota Energy Resources Corporation  
IBS - Customer Relations  
Known and Measurable Adjustment  
Account 903**

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<u>Line</u>		<u>Labor</u>	<u>Non-Labor</u>
1	2012 Costs	\$ 412,154	\$ 5,254,962
2	2013 Inflation Rate	2.600%	1.708%
3	2013 Costs Inflated	Line 1 * Line 2 \$ 422,870	\$ 5,344,717
4	2013 Known and Measurable	\$ -	\$ -
5	2013 Costs	Line 3 + Line 4 \$ 422,870	\$ 5,344,717
6	2014 Inflation Rate	2.600%	1.993%
7	2014 Costs Inflated	Line 5 * Line 6 \$ 433,865	\$ 5,451,237
8	2014 Known and Measurable	\$ (129,511)	\$ 860,192
9	2014 Costs	Line 7 + Line 8 \$ 304,354	\$ 6,311,429
10	Total Known and Measurable	<u>\$ (129,511)</u>	<u>\$ 860,192</u>



**Minnesota Energy Resources Corporation**  
**MERC - Vacancies**  
**Known and Measurable Adjustment**  
**Account 880**

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2012 Costs		\$ 63,432	\$ -
2	2013 Inflation Rate		2.600%	1.708%
3	2013 Costs Inflated	Line 1 * Line 2	\$ 65,081	\$ -
4	2013 Known and Measurable		\$ 392,647	\$ -
5	2013 Costs	Line 3 + Line 4	\$ 457,728	\$ -
6	2014 Inflation Rate		2.600%	1.993%
7	2014 Costs Inflated	Line 5 * Line 6	\$ 469,629	\$ -
8	2014 Known and Measurable		\$ -	\$ -
9	2014 Costs	Line 7 + Line 8	\$ 469,629	\$ -
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ 392,647</u>	<u>\$ -</u>



**Minnesota Energy Resources Corporation  
2014 Uncollectible Expense**

<b>Line No.</b>		<b>2010 Actual</b>	<b>2011 Actual</b>	<b>2012 Actual</b>	<b>2010-2012 Average</b>
1	Uncollectible Expense	\$ 1,109,186	\$ 1,984,374	\$ 1,313,501	\$ 1,469,020
2	Tariffed Revenues	<u>\$ 221,585,924</u>	<u>\$ 255,269,107</u>	<u>\$ 200,736,162</u>	<u>\$ 225,863,731</u>
3	% of Tariffed Revenues	0.500567%	0.777365%	0.654342%	0.650401%
4					
5	Test Year Tariff Revenues				\$ 257,506,848
6	Proposed Increase				<u>\$ 14,000,000</u>
7	Total Revenues				\$ 271,506,848
8					
9	Test Year Uncollectible Expense (Line 3 * Line 7)				\$ 1,765,884
10					
11	2012 Inflated to 2014				1,362,561
12					
13	Known and Measurable				\$ 403,323



**Minnesota Energy Resources Corporation  
Sewer Laterals  
Known and Measurable Adjustment  
Account 874**

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<u>Line</u>		<u>Labor</u>	<u>Non-Labor</u>
1	2012 Costs		\$ -
2	2013 Inflation Rate	2.600%	1.708%
3	2013 Costs Inflated	Line 1 * Line 2	\$ -
4	2013 Known and Measurable		\$ -
5	2013 Costs	Line 3 + Line 4	\$ -
6	2014 Inflation Rate	2.600%	1.993%
7	2014 Costs Inflated	Line 5 * Line 6	\$ -
8	2014 Known and Measurable	\$ -	\$ 340,000
9	2014 Costs	Line 7 + Line 8	\$ 340,000
10	Total Known and Measurable	<u>\$ -</u>	<u>\$ 340,000</u>





**Minnesota Energy Resources Corporation  
Gate Station  
Known and Measurable Adjustment  
Account 875**

<u>Line</u>		<u>Labor</u>	<u>Non-Labor</u>
1	2012 Costs		\$ -
2	2013 Inflation Rate	2.600%	1.708%
3	2013 Costs Inflated	Line 1 * Line 2	\$ -
4	2013 Known and Measurable		\$ -
5	2013 Costs	Line 3 + Line 4	\$ -
6	2014 Inflation Rate	2.600%	1.993%
7	2014 Costs Inflated	Line 5 * Line 6	\$ -
8	2014 Known and Measurable		\$ 330,000
9	2014 Costs	Line 7 + Line 8	\$ 330,000
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ 330,000</u>



**Minnesota Energy Resources Corporation  
Mapping Project  
Known and Measurable Adjustment  
Account 880**

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<u>Line</u>		<u>Labor</u>	<u>Non-Labor</u>
1	2012 Costs		\$ -
2	2013 Inflation Rate	2.600%	1.708%
3	2013 Costs Inflated	Line 1 * Line 2	\$ -
4	2013 Known and Measurable		\$ -
5	2013 Costs	Line 3 + Line 4	\$ -
6	2014 Inflation Rate	2.600%	1.993%
7	2014 Costs Inflated	Line 5 * Line 6	\$ -
8	2014 Known and Measurable	\$ -	\$ 330,000
9	2014 Costs	Line 7 + Line 8	\$ 330,000
10	Total Known and Measurable	<u>\$ -</u>	<u>\$ 330,000</u>



**Minnesota Energy Resources Corporation  
MERC Additional Hires  
Known and Measurable Adjustment  
Multiple Accounts**

<u>Line</u>		<u>Labor</u>	<u>Non-Labor</u>
1	2012 Costs	\$ -	\$ -
2	2013 Inflation Rate	2.600%	1.708%
3	2013 Costs Inflated	Line 1 * Line 2 \$ -	\$ -
4	2013 Known and Measurable		\$ -
5	2013 Costs	Line 3 + Line 4 \$ -	\$ -
6	2014 Inflation Rate	2.600%	1.993%
7	2014 Costs Inflated	Line 5 * Line 6 \$ -	\$ -
8	2014 Known and Measurable	\$ 294,374	\$ -
9	2014 Costs	Line 7 + Line 8 \$ 294,374	\$ -
10	Total Known and Measurable	<u>\$ 294,374</u>	<u>\$ -</u>



**Minnesota Energy Resources Corporation**  
**IBS - Depreciation & ROA**  
**Known and Measurable Adjustment**  
**Account 930**

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2012 Costs		\$ -	\$ -
2	2013 Inflation Rate		2.600%	1.708%
3	2013 Costs Inflated	Line 1 * Line 2	\$ -	\$ -
4	2013 Known and Measurable		\$ -	\$ 187,615
5	2013 Costs	Line 3 + Line 4	\$ -	\$ 187,615
6	2014 Inflation Rate		2.600%	1.993%
7	2014 Costs Inflated	Line 5 * Line 6	\$ -	\$ 191,355
8	2014 Known and Measurable		\$ -	\$ 92,855
9	2014 Costs	Line 7 + Line 8	\$ -	\$ 284,210
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ -</u>	<u>\$ 280,470</u>





**Minnesota Energy Resources Corporation**  
**IBS - Vacancies**  
**Known and Measurable Adjustment**  
**Account 920**

<u>Line</u>		<u>Labor</u>	<u>Non-Labor</u>
1	2012 Costs	\$ -	\$ -
2	2013 Inflation Rate	2.600%	1.708%
3	2013 Costs Inflated	Line 1 * Line 2 \$ -	\$ -
4	2013 Known and Measurable	\$ 240,583	\$ -
5	2013 Costs	Line 3 + Line 4 \$ 240,583	\$ -
6	2014 Inflation Rate	2.600%	1.993%
7	2014 Costs Inflated	Line 5 * Line 6 \$ 246,839	\$ -
8	2014 Known and Measurable	\$ -	\$ -
9	2014 Costs	Line 7 + Line 8 \$ 246,839	\$ -
10	Total Known and Measurable	Line 4 + Line 8 <u>\$ 240,583</u>	<u>\$ -</u>
11	2012 Base and Overtime IBS Internal O&M	\$100,085,836	
12	2012 Average FTE's	<u>1,260</u>	
13	Average Base and Overtime O&M	Line 11 / Line 12 <u>\$79,433</u>	
14	Budgeted Average FTE's	1,332	
15	2012 Vacancies	Line 14 - Line 12 72	
16	2012 Vacancy O&M	Line 13 x Line 15 \$5,719,191	
17	2012 Percentage Allocated to	4.1%	
18	2012 Vacancy O&M Allocated to MERC	Line 15 x Line 17 \$234,487	
19	Line 14 inflated	Line 18 inflated by Line 2 \$240,583	



**Minnesota Energy Resources Corporation  
Memberships  
Known and Measurable Adjustment  
Account 921**

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<u>Line</u>		<u>Labor</u>	<u>Non-Labor</u>
1	2012 Costs	\$ -	\$ 1,520
2	2013 Inflation Rate	2.600%	1.708%
3	2013 Costs Inflated	Line 1 * Line 2 \$ -	\$ 1,546
4	2013 Known and Measurable	\$ -	\$ (1,546)
5	2013 Costs	Line 3 + Line 4 \$ -	\$ (0)
6	2014 Inflation Rate	2.600%	1.993%
7	2014 Costs Inflated	Line 5 * Line 6 \$ -	\$ (0)
8	2014 Known and Measurable	\$ -	
9	2014 Costs	Line 7 + Line 8 \$ -	\$ (0)
10	Total Known and Measurable	<u>\$ -</u>	<u>\$ (1,546)</u>



**Minnesota Energy Resources Corporation  
General Corporate Allocator  
Known and Measurable Adjustment  
Account 921**

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<u>Line</u>		<u>Labor</u>	<u>Non-Labor</u>
1	2012 Costs	\$ -	\$ 3,314
2	2013 Inflation Rate	2.600%	1.708%
3	2013 Costs Inflated	Line 1 * Line 2 \$ -	\$ 3,371
4	2013 Known and Measurable	\$ -	\$ (3,371)
5	2013 Costs	Line 3 + Line 4 \$ -	\$ (0)
6	2014 Inflation Rate	2.600%	1.993%
7	2014 Costs Inflated	Line 5 * Line 6 \$ -	\$ (0)
8	2014 Known and Measurable	\$ -	\$ -
9	2014 Costs	Line 7 + Line 8 \$ -	\$ (0)
10	Total Known and Measurable	<u>\$ -</u>	<u>\$ (3,371)</u>



**Minnesota Energy Resources Corporation  
Advertising  
Known and Measurable Adjustment  
Account 909**

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<u>Line</u>		<u>Labor</u>	<u>Non-Labor</u>
1	2012 Costs	\$ -	\$ 276,935
2	2013 Inflation Rate	2.600%	1.708%
3	2013 Costs Inflated	Line 1 * Line 2 \$ -	\$ 281,665
4	2013 Known and Measurable	\$ -	\$ (5,308)
5	2013 Costs	Line 3 + Line 4 \$ -	\$ 276,357
6	2014 Inflation Rate	2.600%	1.993%
7	2014 Costs Inflated	Line 5 * Line 6 \$ -	\$ 281,865
8	2014 Known and Measurable	\$ -	
9	2014 Costs	Line 7 + Line 8 \$ -	\$ 281,865
10	Total Known and Measurable	<u>\$ -</u>	<u>\$ (5,308)</u>





**Minnesota Energy Resources Corporation  
Long Term Incentive Plan/Restricted Stock/Stock Options  
Known and Measurable Adjustment  
Account 920**

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<u>Line</u>		<u>Labor</u>	<u>Non-Labor</u>
1	2012 Costs	\$ 392,669	\$ -
2	2013 Inflation Rate	2.600%	1.708%
3	2013 Costs Inflated	Line 1 * Line 2 \$ 402,878	\$ -
4	2013 Known and Measurable	\$ (402,878)	\$ -
5	2013 Costs	Line 3 + Line 4 \$ 0	\$ -
6	2014 Inflation Rate	2.600%	1.993%
7	2014 Costs Inflated	Line 5 * Line 6 \$ 0	\$ -
8	2014 Known and Measurable	\$ -	\$ -
9	2014 Costs	Line 7 + Line 8 \$ 0	\$ -
10	Total Known and Measurable	<u>\$ (402,878)</u>	<u>\$ -</u>



**Minnesota Energy Resources Corporation  
Economic Development  
Known and Measurable Adjustment  
Labor Account 920, Non-Labor Account 921**

---

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2012 Costs		\$ 164,936	\$ 123,876
2	2013 Inflation Rate		2.600%	1.708%
3	2013 Costs Inflated	Line 1 * Line 2	\$ 169,224	\$ 125,992
4	2013 Known and Measurable		\$ (82,468)	\$ (61,938)
5	2013 Costs	Line 3 + Line 4	\$ 86,756	\$ 64,054
6	2014 Inflation Rate		2.600%	1.993%
7	2014 Costs Inflated	Line 5 * Line 6	\$ 89,012	\$ 65,330
8	2014 Known and Measurable		\$ -	
9	2014 Costs	Line 7 + Line 8	\$ 89,012	\$ 65,330
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ (82,468)</u>	<u>\$ (61,938)</u>



**Minnesota Energy Resources Corporation  
Economic Development  
Known and Measurable Adjustment  
Labor Account 920, Non-Labor Account 921**

---

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2012 Costs		\$ 164,936	\$ 123,876
2	2013 Inflation Rate		2.600%	1.708%
3	2013 Costs Inflated	Line 1 * Line 2	\$ 169,224	\$ 125,992
4	2013 Known and Measurable		\$ (82,468)	\$ (61,938)
5	2013 Costs	Line 3 + Line 4	\$ 86,756	\$ 64,054
6	2014 Inflation Rate		2.600%	1.993%
7	2014 Costs Inflated	Line 5 * Line 6	\$ 89,012	\$ 65,330
8	2014 Known and Measurable		\$ -	
9	2014 Costs	Line 7 + Line 8	\$ 89,012	\$ 65,330
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ (82,468)</u>	<u>\$ (61,938)</u>



**Minnesota Energy Resources Corporation  
Vertex Audit  
Known and Measurable Adjustment  
Account 923**

<u>Line</u>		<u>Labor</u>	<u>Non-Labor</u>
1	2012 Costs	\$ -	\$ 303,521
2	2013 Inflation Rate	2.600%	1.708%
3	2013 Costs Inflated	Line 1 * Line 2 \$ -	\$ 308,705
4	2013 Known and Measurable	\$ -	\$ (308,705)
5	2013 Costs	Line 3 + Line 4 \$ -	\$ 0
6	2014 Inflation Rate	2.600%	1.993%
7	2014 Costs Inflated	Line 5 * Line 6 \$ -	\$ 0
8	2014 Known and Measurable	\$ -	\$ -
9	2014 Costs	Line 7 + Line 8 \$ -	\$ 0
10	Total Known and Measurable	<u>\$ -</u>	<u>\$ (308,705)</u>





MERC\_Labor

Line No.	K&M Description	2012 Actual	2013 Inflation Rate	2013 Inflated	2013 K&M	2013 Inflated + K&M	2014 Inflation Rate	2014 Inflated	2014 K&M	2014 Inflated + K&M
1	754000 Field Compressor Station		1.0260	-		-	1.0260	-		-
2	756000 Field Reg & Meas Station		1.0260	-		-	1.0260	-		-
3	<b>Natural Gas Production</b>									
5	804111 Gas Purch-Wages & Salaries	434,448	1.0260	445,744		445,744	1.0260	457,333		457,333
6	804120 Gas Purch Supplies & Expenses		1.0260	-		-	1.0260	-		-
7	804130 Misc Purchased Gas Expense	12,150	1.0260	12,466		12,466	1.0260	12,790		12,790
8	813000 Other Gas Supply Expenses	145,940	1.0260	149,735		149,735	1.0260	153,628		153,628
9	<b>Gas Purchases</b>	<b>592,539</b>		<b>607,945</b>		<b>607,945</b>		<b>623,751</b>		<b>623,751</b>
11	824000 Gas Stor-Other Exp		1.0260	-		-	1.0260	-		-
12	825000 Storage Wells Royalties		1.0260	-		-	1.0260	-		-
13	850000 Gas Transm-Oper Sup & Eng	10,073	1.0260	10,334		10,334	1.0260	10,603		10,603
14	852000 Gas Transm-Communic Sys Exp		1.0260	-		-	1.0260	-		-
15	856000 Gas Transm-Mains Exp	6,511	1.0260	6,680		6,680	1.0260	6,854		6,854
16	857000 Gas Transm-Meas&Reg Station	10,471	1.0260	10,743		10,743	1.0260	11,023		11,023
17	863000 Gas Transm-Maint of Mains	450	1.0260	462		462	1.0260	474		474
18	865000 Gas Transm-Maint Meas&RegEquip		1.0260	-		-	1.0260	-		-
19	870000 Dist-Oper Sup & Eng	249,857	1.0260	256,353		256,353	1.0260	263,018		263,018
20	871000 Dist Distr Load Dispatching	40,005	1.0260	41,045		41,045	1.0260	42,112		42,112
21	874000 Dist-Mains and Services Expense	1,080,596	1.0260	1,108,691		1,108,691	1.0260	1,137,517		1,137,517
22	875000 Measuring & Regulating Stations	148,430	1.0260	152,289		152,289	1.0260	156,248	77,250	233,498
23	877000 Meas&RegSta Eq-City GI ChkSta		1.0260	-		-	1.0260	-		-
24	878000 Meter & House Reg Misc Charges	1,267,801	1.0260	1,300,764		1,300,764	1.0260	1,334,584		1,334,584
25	879000 Customer Installations Expense	398,925	1.0260	409,297		409,297	1.0260	419,939		419,939
26	880000 Dist-Other Expenses	4,785,174	1.0260	4,909,589	392,647	5,302,236	1.0260	5,440,094	192,865	5,632,959
27	881000 Rents		1.0260	-		-	1.0260	-		-
28	885000 Dist-Maint Sup & Eng	109	1.0260	112		112	1.0260	115		115
29	887000 Dist-Maint of Mains	366,380	1.0260	375,906		375,906	1.0260	385,680		385,680
30	889000 Dist-Maint of Meas & Reg Station	183,112	1.0260	187,873		187,873	1.0260	192,758		192,758
31	891000 Maint of Meas & Reg Gate Sta Equ	130,711	1.0260	134,109		134,109	1.0260	137,596		137,596
32	892000 Maintenance of Services	595,191	1.0260	610,666		610,666	1.0260	626,544		626,544
33	893000 Dist-Maint of Mtrs & House Reg	948,974	1.0260	973,648		973,648	1.0260	998,963		998,963
34	894000 Maintenance of Other Equipment	144,398	1.0260	148,153		148,153	1.0260	152,005		152,005
35	<b>Distribution, Transmission, and Storage Expense</b>	<b>10,367,168</b>		<b>10,636,714</b>	<b>392,647</b>	<b>11,029,361</b>		<b>11,316,125</b>	<b>270,115</b>	<b>11,586,240</b>
37	901000 Customer Accounts Supervision	496,522	1.0260	509,431		509,431	1.0260	522,677		522,677
38	902000 Cust Acct-Meter Reading Expenses	1,749,178	1.0260	1,794,657		1,794,657	1.0260	1,841,318	24,259	1,865,577
39	903000 Cust Acct-Cust Records & Collections	421,887	1.0260	432,856		432,856	1.0260	444,110	(129,511)	314,599
40	904000 Cust Acct-Uncollectible Accounts		1.0260	-		-	1.0260	-		-
41	904010 Cust Acct - Disputed Bills		1.0260	-		-	1.0260	-		-
42	905000 Cust Acct-Misc Cust Accounts Exp	25,894	1.0260	26,567		26,567	1.0260	27,258		27,258
43	907000 Cust Serv-Supervision	723	1.0260	742		742	1.0260	761		761
44	908000 Cust Serv-Cust Assistance Exp	479,579	1.0260	492,048		492,048	1.0260	504,841		504,841
45	909000 Cust Serv-Info/Instr Advertising	14,753	1.0260	15,136		15,136	1.0260	15,530		15,530
46	910000 Cust Serv-Misc Cust Serv & Inf		1.0260	-		-	1.0260	-		-
47	912000 Sales-Demonstr & Selling Expense		1.0260	-		-	1.0260	-		-
48	<b>Customer Accounts</b>	<b>3,188,536</b>		<b>3,271,438</b>	<b>-</b>	<b>3,271,438</b>		<b>3,356,495</b>	<b>(105,252)</b>	<b>3,251,243</b>
49										
50	920000 A&G Admin & General Salaries		1.0260	4,749,791	(244,763)	4,505,028	1.0260	4,622,159		4,622,159
51	920010 A&G Salaries-TEG Merger Costs	4,629,426	1.0260	-		-	1.0260	-		-
52	920015 A&G Salaries-Long Term Disab		1.0260	-		-	1.0260	-		-
53	920020 Restructuring Exp - Cororate		1.0260	-		-	1.0260	-		-
54	921000 A&G-Office Supplies and Expenses	3,112	1.0260	3,193		3,193	1.0260	3,276		3,276
55	921010 A&G Off Supp&Exp-TEG Merger Costs		1.0260	-		-	1.0260	-		-
56	923000 A&G-Outside Services Employed		1.0260	-		-	1.0260	-		-
57	<b>A&amp;G-Labor, Non-Labor, and Contractor</b>	<b>4,632,538</b>		<b>4,752,984</b>	<b>(244,763)</b>	<b>4,508,221</b>		<b>4,625,435</b>	<b>-</b>	<b>4,625,435</b>

Minnesota Energy Resources Corporation  
Docket No. G011/GR-13-617  
Exhibit \_\_\_\_\_ (SSD-18)  
Page 2 of 8

58									
59	924000 A&G Property Insurance	1.0260	-	-	-	1.0260	-	-	-
60	924100 Securities & Other Crime Insurance	1.0260	-	-	-	1.0260	-	-	-
61	924120 Property Insurance	1.0260	-	-	-	1.0260	-	-	-
62	925000 A&G-Injuries and Damages	38	1.0260	39	39	1.0260	40	40	40
63	925015 Insur Prem - Dishonesty	-	1.0260	-	-	1.0260	-	-	-
64	925100 Excess Liability	-	1.0260	-	-	1.0260	-	-	-
65	925110 Director & Officer Insurance	-	1.0260	-	-	1.0260	-	-	-
66	925130 Company Auto Liab Insurance	-	1.0260	-	-	1.0260	-	-	-
67	925160 Workers Comp Insurance	-	1.0260	-	-	1.0260	-	-	-
68	925165 Workers Comp Reserve	6,115	1.0260	6,274	6,274	1.0260	6,437	6,437	6,437
69	925170 Excess Workers Comp Insurance	-	1.0260	-	-	1.0260	-	-	-
70	<b>Insurance</b>	<b>6,153</b>	<b>6,313</b>	<b>-</b>	<b>6,313</b>	<b>6,477</b>	<b>-</b>	<b>6,477</b>	<b>-</b>
71									
72	926000 A&G-Employee Pensions and Bene	(2,200)	1.0260	(2,257)	(2,257)	1.0260	(2,316)	(2,316)	(2,316)
73	926007 Company Cash Match 401k	137,329	1.0260	140,900	140,900	1.0260	144,563	144,563	144,563
74	926015 A&G PensExp-TEG Merger Costs	-	1.0260	-	-	1.0260	-	-	-
75	926020 Time Away From Work	2,120,489	1.0260	2,175,622	2,175,622	1.0260	2,232,188	2,232,188	2,232,188
76	926025 Time Away From Work - Clearing	(2,162,504)	1.0260	(2,218,729)	(2,218,729)	1.0260	(2,276,416)	(2,276,416)	(2,276,416)
77	926026 IBS Billed NPT Residual	(9,590)	1.0260	(10,250)	(10,250)	1.0260	(10,516)	(10,516)	(10,516)
78	926050 Human Resources Dept Gen	67,377	1.0260	69,129	69,129	1.0260	70,926	70,926	70,926
79	926060 Pension Expense	1,686,285	1.0260	1,730,128	(682,313)	1,047,815	1,075,059	(435,757)	639,302
80	926070 Christmas Gift Ck Exp-Retirees &LTD	4,030	1.0260	4,135	4,135	1.0260	4,242	4,242	4,242
81	926080 Dental Benefits-Active Empl	146,102	1.0260	149,901	3,506	153,407	157,395	11,095	168,490
82	926090 Medical Benefits-Active Empl	1,662,319	1.0260	1,705,539	81,454	1,786,993	1,833,455	195,283	2,028,738
83	926100 Benefits Exp-AWASSA Lodge	-	1.0260	-	-	1.0260	-	-	-
84	926120 Joint Plant A&G & NonUtil Ldg	(893,179)	1.0260	(916,402)	(916,402)	1.0260	(940,228)	(940,228)	(940,228)
85	926130 SIB/LTD Prem Exp	-	1.0260	-	-	1.0260	-	-	-
86	926135 Fully-Insured LTD Prem Exp	29,502	1.0260	30,269	30,269	1.0260	31,056	31,056	31,056
87	926140 ESOP	602,506	1.0260	618,171	618,171	1.0260	634,244	634,244	634,244
88	926170 Cap Pensions and Benefits	(363,565)	1.0260	(373,018)	(373,018)	1.0260	(382,716)	(382,716)	(382,716)
89	926180 Post Retirement Medical	499,261	1.0260	512,242	44,395	556,637	571,109	(153,070)	418,039
90	926190 Coal Sharing	27,214	1.0260	27,922	27,922	1.0260	28,648	28,648	28,648
91	926191 IBS Billed Incentive Residual	(31,573)	1.0260	(32,394)	(32,394)	1.0260	(33,236)	(33,236)	(33,236)
92	926200 Empl Ben-Tuition Reimbursement	10,298	1.0260	10,566	10,566	1.0260	10,840	10,840	10,840
93	926210 Pension Restoration	1,922	1.0260	1,972	(1,972)	(0)	(0)	(0)	(0)
94	926220 Supple Emp Ret Plan-SERP	16,737	1.0260	17,172	(9,298)	7,874	8,079	(205)	7,874
95	926250 Company Prov Life Insurance	35,127	1.0260	36,040	36,040	1.0260	36,977	36,977	36,977
96	926260 Exec Def Comp-ESOP Match	-	1.0260	-	-	1.0260	-	-	-
97	926255 Defined Contribution Plan Exp	94,863	1.0260	97,329	740,952	838,281	860,077	11,419	871,496
98	926300 IBS Billed Benefit - Payroll Tax	1,201,164	1.0260	1,232,394	(209,315)	1,023,079	1,049,679	34,136	1,083,815
99	926305 Post Retirement Life	(8,375)	1.0260	(8,593)	2,097	(6,496)	(6,665)	(1,018)	(7,683)
100	926315 LT Disability Benefit	-	1.0260	-	-	1.0260	-	-	-
101	926325 ST Disabil FASB 112	-	1.0260	-	-	1.0260	-	-	-
102	926330 Benefits-Wellness	14,115	1.0260	14,482	14,482	1.0260	14,859	14,859	14,859
103	926510 Profit Sharing Expense	132,088	1.0260	135,522	(135,522)	0	0	0	0
104	<b>Benefits</b>	<b>5,017,342</b>	<b>5,147,793</b>	<b>(166,016)</b>	<b>4,981,777</b>	<b>5,111,303</b>	<b>(338,117)</b>	<b>4,773,186</b>	<b>-</b>
105									
106	92800F A&G-Related to FERC	-	1.0260	-	-	1.0260	-	-	-
107	928000 A&G-Regulatory Commission Exp	-	1.0260	-	-	1.0260	-	-	-
108	930100 A&G-General Advertising Exp	-	1.0260	-	-	1.0260	-	-	-
109	930200 A&G-Assoc & Club Dues & Exp	6,617	1.0260	6,789	6,789	1.0260	6,965	6,965	6,965
110	930204 Misc General Expense	87	1.0260	90	90	1.0260	92	92	92
111	930209 Payroll Taxes Credited	-	1.0260	-	-	1.0260	-	-	-
112	930220 A&G-IBS Billed CC and Deprec	-	1.0260	-	-	1.0260	-	-	-
113	931000 A&G-Rents	-	1.0260	-	-	1.0260	-	-	-
114	931010 A&G - IBS Billed Facilities Overhead	-	1.0260	-	-	1.0260	-	-	-
115	935000 A&G-Maint of General Plant	-	1.0260	-	-	1.0260	-	-	-
116	<b>A&amp;G Rents, Facilities, Carrying Costs, and Depreciation</b>	<b>6,704</b>	<b>6,879</b>	<b>-</b>	<b>6,879</b>	<b>7,057</b>	<b>-</b>	<b>7,057</b>	<b>-</b>
117									
118	<b>Non-Fuel O&amp;M</b>	<b>23,810,979</b>	<b>24,430,065</b>	<b>(18,132)</b>	<b>24,411,933</b>	<b>25,046,643</b>	<b>(173,254)</b>	<b>24,873,389</b>	<b>-</b>

Line No.		2012 Incentives Inflated	2014 Incentives	2014 less 2012 Incentives
119	754000 Field Compressor Station			-
120	756000 Field Reg & Meas Station			-
121	<b>Natural Gas Production</b>	<u>-</u>	<u>-</u>	<u>-</u>
122				
123	804111 Gas Purch-Wages & Salaries	52,746	43,143	(9,603)
124	804120 Gas Purch Supplies & Expenses			-
125	804130 Misc Purchased Gas Expense	125		(125)
126	813000 Other Gas Supply Expenses	13,957		(13,957)
127	<b>Gas Purchases</b>	<u>66,828</u>	<u>43,143</u>	<u>(23,685)</u>
128				
129	824000 Gas Stor-Other Exp			-
130	825000 Storage Wells Royalties			-
131	850000 Gas Transm-Oper Sup & Eng	3	4	1
132	852000 Gas Transm-Communic Sys Exp			-
133	856000 Gas Transm-Mains Exp	901	511	(390)
134	857000 Gas Transm-Meas&Reg Station			-
135	863000 Gas Transm-Maint of Mains	19	23	4
136	865000 Gas Transm-Maint Meas&RegEquip			-
137	870000 Dist-Oper Sup & Eng	29,981	6,872	(23,109)
138	871000 Dist Distr Load Dispatching	878	539	(339)
139	874000 Dist-Mains and Services Expense	43,907	33,569	(10,338)
140	875000 Measuring & Regulating Stations	8,322	10,721	2,399
141	877000 Meas&RegSta Eq-City Gt ChkSta			-
142	878000 Meter & House Reg Misc Charges	64,626	48,553	(16,073)
143	879000 Customer Installations Expense	20,124	12,855	(7,269)
144	880000 Dist-Other Expenses	395,240	340,424	(54,816)
145	881000 Rents			-
146	885000 Dist-Maint Sup & Eng	4	5	1
147	887000 Dist-Maint of Mains	22,069	15,874	(6,195)
148	889000 Dist-Maint of Meas & Reg Station	10,004	7,568	(2,436)
149	891000 Maint of Meas & Reg Gate Sta Equ	5,997	3,973	(2,024)
150	892000 Maintenance of Services	37,982	25,114	(12,868)
151	893000 Dist-Maint of Mtrs & House Reg	44,306	33,045	(11,261)
152	894000 Maintenance of Other Equipment	3,770	2,605	(1,165)
153	<b>Distribution, Transmission, and Storage Expense</b>	<u>688,133</u>	<u>542,256</u>	<u>(145,877)</u>
154				
155	901000 Customer Accounts Supervision	65,833	8	(65,825)
156	902000 Cust Acct-Meter Reading Expenses	87,592	55,421	(32,171)
157	903000 Cust Acct-Cust Records & Collections	21,820	12,100	(9,720)
158	904000 Cust Acct-Uncollectible Accounts			-
159	904010 Cust Acct - Disputed Bills			-
160	905000 Cust Acct-Misc Cust Accounts Exp	967	64	(903)
161	907000 Cust Serv-Supervision	85		(85)
162	908000 Cust Serv-Cust Assistance Exp	58,667	42,711	(15,956)
163	909000 Cust Serv-Info/Instr Advertising	2,349	1,588	(761)
164	910000 Cust Serv-Misc Cust Serv & Inf			-
165	912000 Sales-Demonstr & Selling Expense			-
166	<b>Customer Accounts</b>	<u>237,313</u>	<u>111,892</u>	<u>(125,421)</u>
167				
168	920000 A&G Admin & General Salaries	524,783	561,880	37,097
169	920010 A&G Salaries-TEG Merger Costs			-
170	920015 A&G Salaries-Long Term Disab			-
171	920020 Restructuring Exp - Cororate			-
172	921000 A&G-Office Supplies and Expenses	2		(2)
173	921010 A&G Off Supp&Exp-TEG Merger Costs			-
174	923000 A&G-Outside Services Employed			-
175	<b>A&amp;G-Labor, Non-Labor, and Contractor</b>	<u>524,785</u>	<u>561,880</u>	<u>37,095</u>

176				
177	924000 A&G Property Insurance			-
178	924100 Securities & Other Crime Insurance			-
179	924120 Property Insurance			-
180	925000 A&G-Injuries and Damages			-
181	925015 Insur Prem - Dishonesty			-
182	925100 Excess Liability			-
183	925110 Director & Officer Insurance			-
184	925130 Company Auto Liab Insurance			-
185	925160 Workers Comp Insurance			-
186	925165 Workers Comp Reserve		316	316
187	925170 Excess Workers Comp Insurance			-
188	<b>Insurance</b>	<u>-</u>	<u>316</u>	<u>316</u>
189				
190	926000 A&G-Employee Pensions and Bene			-
191	926007 Company Cash Match 401k			-
192	926015 A&G PensExp-TEG Merger Costs			-
193	926020 Time Away From Work			-
194	926025 Time Away From Work - Clearing			-
195	926026 IBS Billed NPT Residual			-
196	926050 Human Resources Dept Gen			-
197	926060 Pension Expense			-
198	926070 Christmas Gift Ck Exp-Retirees &LTD			-
199	926080 Dental Benefits-Active Empl			-
200	926090 Medical Benefits-Active Empl			-
201	926100 Benefits Exp-AWASSA Lodge			-
202	926120 Joint Plant A&G & NonUtil Ldg			-
203	926130 SIB/LTD Prem Exp			-
204	926135 Fully-Insured LTD Prem Exp			-
205	926140 ESOP			-
206	926170 Cap Pensions and Benefits			-
207	926180 Post Retirement Medical			-
208	926190 Goal Sharing	28,648		(28,648)
209	926191 IBS Billed Incentive Residual			-
210	926200 Empl Ben-Tuition Reimbursement			-
211	926210 Pension Restoration			-
212	926220 Supple Emp Ret Plan-SERP			-
213	926250 Company Prov Life Insurance			-
214	926260 Exec Def Comp-ESOP Match			-
215	926255 Defined Contribution Plan Exp			-
216	926300 IBS Billed Benefit - Payroll Tax			-
217	926305 Post Retirement Life			-
218	926315 LT Disability Benefit			-
219	926325 ST Disabil FASB 112			-
220	926330 Benefits-Wellness			-
221	926510 Profit Sharing Expense			-
222	<b>Benefits</b>	<u>28,648</u>	<u>-</u>	<u>(28,648)</u>
223				
224	92800F A&G-Related to FERC			-
225	928000 A&G-Regulatory Commission Exp			-
226	930100 A&G-General Advertising Exp			-
227	930200 A&G-Assoc & Club Dues & Exp			-
228	930204 Misc General Expense			-
229	930209 Payroll Taxes Credited			-
230	930220 A&G-IBS Billed CC and Deprec			-
231	931000 A&G-Rents			-
232	931010 A&G - IBS Billed Facilities Overhead			-
233	935000 A&G-Maint of General Plant			-
234	<b>A&amp;G Rents, Facilities, Carrying Costs, and Depreciation</b>	<u>-</u>	<u>-</u>	<u>-</u>
235				
236	<b>Non-Fuel O&amp;M</b>	<u>1,545,707</u>	<u>1,259,487</u>	<u>(286,220)</u>

MERC\_Non-Labor

Line No.	K&M Description	2012 Actual	2013 Inflation Rate	2013 Inflated	2013 K&M	2013 Inflated + K&M	2014 Inflation Rate	2014 Inflated	2014 K&M	2014 Inflated + K&M
237	754000 Field Compressor Station	5,427	1.01708	5,520		5,520	1.01993	5,630		5,630
238	756000 Field Reg & Meas Station	4,926	1.01708	4,908		4,908	1.01993	5,006		5,006
239	<b>Natural Gas Production</b>	<b>10,253</b>		<b>10,428</b>	<b>-</b>	<b>10,428</b>		<b>10,636</b>	<b>-</b>	<b>10,636</b>
240										
241	804111 Gas Purch-Wages & Salaries	3	1.01708	3		3	1.01993	3		3
242	804120 Gas Purch Supplies & Expenses	24,164	1.01708	24,576		24,576	1.01993	25,066		25,066
243	804130 Misc Purchased Gas Expense	38,914	1.01708	39,579		39,579	1.01993	40,368		40,368
244	813000 Other Gas Supply Expenses	37,462	1.01708	38,102		38,102	1.01993	38,862		38,862
245	<b>Gas Purchases</b>	<b>100,543</b>		<b>102,260</b>	<b>-</b>	<b>102,260</b>		<b>104,298</b>	<b>-</b>	<b>104,298</b>
246										
247	824000 Gas Stor-Other Exp	-	1.01708	-		-	1.01993	-		-
248	825000 Storage Wells Royalties	-	1.01708	-		-	1.01993	-		-
249	850000 Gas Transm-Oper Sup & Eng	2,260	1.01708	2,299		2,299	1.01993	2,345		2,345
250	852000 Gas Transm-Communic Sys Exp	8,495	1.01708	8,640		8,640	1.01993	8,813		8,813
251	856000 Gas Transm-Mains Exp	43,341	1.01708	44,081		44,081	1.01993	44,960		44,960
252	857000 Gas Transm-Meas&Reg Station	2,977	1.01708	3,028		3,028	1.01993	3,088		3,088
253	863000 Gas Transm-Maint of Mains	16,363	1.01708	16,643		16,643	1.01993	16,974		16,974
254	865000 Gas Transm-Maint Meas&RegEquip	-	1.01708	-		-	1.01993	-		-
255	870000 Dist-Oper Sup & Eng	1,195	1.01708	1,216		1,216	1.01993	1,240		1,240
256	871000 Dist Distr Load Dispatching	10,063	1.01708	10,235		10,235	1.01993	10,439		10,439
257	874000 Dist-Mains and Services Expense	939,764	1.01708	955,815		955,815	1.01993	974,865	340,000	1,314,865
258	875000 Measuring & Regulating Stations	29,662	1.01708	30,169		30,169	1.01993	30,770	330,000	360,770
259	877000 Meas&RegSta Eq-City GI ChkSta	287	1.01708	292		292	1.01993	298		298
260	878000 Meter & House Reg Misc Charges	286,085	1.01708	290,972		290,972	1.01993	296,771		296,771
261	879000 Customer Installations Expense	68,797	1.01708	69,972		69,972	1.01993	71,366		71,366
262	880000 Dist-Other Expenses	2,150,364	1.01708	2,187,092		2,187,092	1.01993	2,230,681	330,000	2,560,681
263	881000 Rents	8,301	1.01708	8,442		8,442	1.01993	8,611		8,611
264	885000 Dist-Maint Sup & Eng	8,938	1.01708	9,091		9,091	1.01993	9,272		9,272
265	887000 Dist-Maint of Mains	592,163	1.01708	602,277		602,277	1.01993	614,280		614,280
266	889000 Dist-Maint of Meas & Reg Station	125,669	1.01708	127,815		127,815	1.01993	130,363		130,363
267	891000 Maint of Meas & Reg Gate Sta Equ	66,459	1.01708	67,594		67,594	1.01993	68,942		68,942
268	892000 Maintenance of Services	447,606	1.01708	455,251		455,251	1.01993	464,324		464,324
269	893000 Dist-Maint of Mtrs & House Reg	509,661	1.01708	518,366		518,366	1.01993	528,697		528,697
270	894000 Maintenance of Other Equipment	47,102	1.01708	47,907		47,907	1.01993	48,862		48,862
271	<b>Distribution, Transmission, and Storage Expense</b>	<b>5,365,553</b>		<b>5,457,197</b>	<b>-</b>	<b>5,457,197</b>		<b>5,565,959</b>	<b>1,000,000</b>	<b>6,565,959</b>
272										
273	901000 Customer Accounts Supervision	8,620	1.01708	8,767		8,767	1.01993	8,942		8,942
274	902000 Cust Acct-Meter Reading Expenses	787,989	1.01708	801,448		801,448	1.01993	817,421		817,421
275	903000 Cust Acct-Cust Records & Collections	5,482,300	1.01708	5,575,937		5,575,937	1.01993	5,687,066	860,192	6,547,258
276	904000 Cust Acct-Uncollectible Accounts	1,293,772	1.01708	1,315,870		1,315,870	1.01993	1,342,095	403,323	1,745,418
277	904010 Cust Acct - Disputed Bills	19,729	1.01708	20,066		20,066	1.01993	20,466		20,466
278	905000 Cust Acct-Misc Cust Accounts Exp	39,425	1.01708	40,098		40,098	1.01993	40,897		40,897
279	907000 Cust Serv-Supervision	(0)	1.01708	(0)		(0)	1.01993	(0)		(0)
280	908000 Cust Serv-Cust Assistance Exp	124,441	1.01708	126,567		126,567	1.01993	129,089		129,089
281	909000 Cust Serv-Info/Instr Advertising	278,719	1.01708	283,479	(5,308)	278,171	1.01993	283,715		283,715
282	910000 Cust Serv-Misc Cust Serv & Inf	10,400	1.01708	10,577		10,577	1.01993	10,788		10,788
283	912000 Sales-Demonstr & Selling Expense	-	1.01708	-		-	1.01993	-		-
284	<b>Customer Accounts</b>	<b>8,045,394</b>		<b>8,182,809</b>	<b>(5,308)</b>	<b>8,177,501</b>		<b>8,340,479</b>	<b>1,263,515</b>	<b>9,603,994</b>
285										
286	920000 A&G Admin & General Salaries	38,929	1.01708	39,594		39,594	1.01993	40,383		40,383
287	920010 A&G Salaries-TEG Merger Costs	-	1.01708	-		-	1.01993	-		-
288	920015 A&G Salaries-Long Term Disab	1,176	1.01708	1,196		1,196	1.01993	1,220		1,220
289	920020 Restructuring Exp - Cororate	-	1.01708	-		-	1.01993	-		-
290	921000 A&G-Office Supplies and Expenses	1,955,044	1.01708	1,988,436	(66,855)	1,921,581	1.01993	1,959,878		1,959,878
291	921010 A&G Off Supp&Exp-TEG Merger Costs	-	1.01708	-		-	1.01993	-		-
292	923000 A&G-Outside Services Employed	943,845	1.01708	959,966	(308,705)	651,261	1.01993	664,241		664,241
293	<b>A&amp;G-Labor, Non-Labor, and Contractor</b>	<b>2,938,994</b>		<b>2,989,192</b>	<b>(375,560)</b>	<b>2,613,632</b>		<b>2,665,722</b>	<b>-</b>	<b>2,665,722</b>

294								
295	924000 A&G Property Insurance	-	1.01708	-	-	1.01993	-	-
296	924100 Securities & Other Crime Insurance	1,831	1.01708	1,862	1,862	1.01993	1,899	1,899
297	924120 Property Insurance	5,005	1.01708	5,090	5,090	1.01993	5,191	5,191
298	925000 A&G-Injuries and Damages	414,214	1.01708	421,289	421,289	1.01993	429,685	429,685
299	925015 Insur Prem - Dishonesty	-	1.01708	-	-	1.01993	-	-
300	925100 Excess Liability	317,922	1.01708	323,352	323,352	1.01993	329,796	329,796
301	925110 Director & Officer Insurance	48,606	1.01708	49,436	49,436	1.01993	50,421	50,421
302	925130 Company Auto Liab Insurance	727	1.01708	739	739	1.01993	754	754
303	925160 Workers Comp Insurance	-	1.01708	-	-	1.01993	-	-
304	925165 Workers Comp Reserve	3,889	1.01708	3,955	3,955	1.01993	4,034	4,034
305	925170 Excess Workers Comp Insurance	39,170	1.01708	39,839	39,839	1.01993	40,633	40,633
306	<b>Insurance</b>	<b>831,363</b>		<b>845,563</b>	<b>-</b>		<b>862,415</b>	<b>-</b>
307								
308	926000 A&G-Employee Pensions and Bene	-	1.01708	-	-	1.01993	-	-
309	926007 Company Cash Match 401k	-	1.01708	-	-	1.01993	-	-
310	926015 A&G PensExp-TEG Merger Costs	-	1.01708	-	-	1.01993	-	-
311	926020 Time Away From Work	-	1.01708	-	-	1.01993	-	-
312	926025 Time Away From Work - Clearing	-	1.01708	-	-	1.01993	-	-
313	926026 IBS Billed NPT Residual	-	1.01708	-	-	1.01993	-	-
314	926050 Human Resources Dept Gen	-	1.01708	-	-	1.01993	-	-
315	926060 Pension Expense	-	1.01708	-	-	1.01993	-	-
316	926070 Christmas Gift Ck Exp-Retirees &LTD	-	1.01708	-	-	1.01993	-	-
317	926080 Dental Benefits-Active Empl	-	1.01708	-	-	1.01993	-	-
318	926090 Medical Benefits-Active Empl	-	1.01708	-	-	1.01993	-	-
319	926100 Benefits Exp-AWASSA Lodge	-	1.01708	-	-	1.01993	-	-
320	926120 Joint Plant A&G & NonUtil Ldg	-	1.01708	-	-	1.01993	-	-
321	926130 SIB/LTD Prem Exp	-	1.01708	-	-	1.01993	-	-
322	926135 Fully-Insured LTD Prem Exp	-	1.01708	-	-	1.01993	-	-
323	926140 ESOP	-	1.01708	-	-	1.01993	-	-
324	926170 Cap Pensions and Benefits	-	1.01708	-	-	1.01993	-	-
325	926180 Post Retirement Medical	-	1.01708	-	-	1.01993	-	-
326	926190 Coal Sharing	-	1.01708	-	-	1.01993	-	-
327	926191 IBS Billed Incentive Residual	-	1.01708	-	-	1.01993	-	-
328	926200 Empl Ben-Tuition Reimbursement	-	1.01708	-	-	1.01993	-	-
329	926210 Pension Restoration	-	1.01708	-	-	1.01993	-	-
330	926220 Supple Emp Ret Plan-SERP	-	1.01708	-	-	1.01993	-	-
331	926250 Company Prov Life Insurance	-	1.01708	-	-	1.01993	-	-
332	926260 Exec Def Comp-ESOP Match	-	1.01708	-	-	1.01993	-	-
333	926255 Defined Contribution Plan Exp	-	1.01708	-	-	1.01993	-	-
334	926300 IBS Billed Benefit - Payroll Tax	-	1.01708	-	-	1.01993	-	-
335	926305 Post Retirement Life	-	1.01708	-	-	1.01993	-	-
336	926315 LT Disability Benefit	-	1.01708	-	-	1.01993	-	-
337	926325 ST Disabil FASB 112	-	1.01708	-	-	1.01993	-	-
338	926330 Benefits-Wellness	-	1.01708	-	-	1.01993	-	-
339	926510 Profit Sharing Expense	-	1.01708	-	-	1.01993	-	-
340	<b>Benefits</b>	<b>-</b>		<b>-</b>	<b>-</b>		<b>-</b>	<b>-</b>
341								
342	92800F A&G-Related to FERC	-	1.01708	-	-	1.01993	-	-
343	928000 A&G-Regulatory Commission Exp	541,890	1.01708	551,145	551,145	1.01993	562,130	562,130
344	930100 A&G-General Advertising Exp	1,816	1.01708	1,847	1,847	1.01993	1,884	1,884
345	930200 A&G-Assoc & Club Dues & Exp	-	1.01708	-	-	1.01993	-	-
346	930204 Misc General Expense	647,797	1.01708	658,862	658,862	1.01993	671,993	671,993
347	930209 Payroll Taxes Credited	-	1.01708	-	-	1.01993	-	-
348	930220 A&G-IBS Billed CC and Deprec	896,520	1.01708	911,833	187,615	1,099,448	1,121,360	92,855
349	931000 A&G-Rents	47,565	1.01708	48,377	-	48,377	49,342	49,342
350	931010 A&G - IBS Billed Facilities Overhead	537,559	1.01708	546,741	-	546,741	557,637	557,637
351	935000 A&G-Maint of General Plant	-	1.01708	-	-	1.01993	-	-
352	<b>A&amp;G Rents, Facilities, Carrying Costs, and Depreciation</b>	<b>2,673,147</b>		<b>2,718,805</b>	<b>187,615</b>		<b>2,964,345</b>	<b>92,855</b>
353								
354	<b>Non-Fuel O&amp;M</b>	<b>19,965,247</b>		<b>20,306,254</b>	<b>(193,253)</b>		<b>20,513,853</b>	<b>2,356,370</b>
								<b>22,870,223</b>

MERC\_Summary

Line No.	2012 Actual	2013 Inflated	2013 K&M	2013 Inflated + K&M	2014 Inflated	2014 K&M	2014 Incentive Adjustment	2014 Inflated + K&M
355	754000 Field Compressor Station	5,427	5,520	-	5,520	5,630	-	5,630
356	756000 Field Reg & Meas Station	4,826	4,908	-	4,908	5,006	-	5,006
357	<b>Natural Gas Production</b>	<b>10,253</b>	<b>10,428</b>	-	<b>10,428</b>	<b>10,636</b>	-	<b>10,636</b>
358								
359	804111 Gas Purch-Wages & Salaries	434,451	445,747	-	445,747	457,336	(9,603)	447,733
360	804120 Gas Purch Supplies & Expenses	24,164	24,576	-	24,576	25,066	-	25,066
361	804130 Misc Purchased Gas Expense	51,064	52,045	-	52,045	53,158	(125)	53,033
362	813000 Other Gas Supply Expenses	183,403	187,837	-	187,837	192,490	(13,957)	178,533
363	<b>Gas Purchases</b>	<b>693,082</b>	<b>710,205</b>	-	<b>710,205</b>	<b>728,050</b>	<b>(23,685)</b>	<b>704,365</b>
364								
365	824000 Gas Stor-Other Exp	-	-	-	-	-	-	-
366	825000 Storage Wells Royalties	-	-	-	-	-	-	-
367	850000 Gas Transm-Oper Sup & Eng	12,333	12,633	-	12,633	12,948	1	12,949
368	852000 Gas Transm-Communic Sys Exp	8,495	8,640	-	8,640	8,813	-	8,813
369	856000 Gas Transm-Mains Exp	49,852	50,761	-	50,761	51,813	(390)	51,423
370	857000 Gas Transm-Meas&Reg Station	13,448	13,771	-	13,771	14,111	-	14,111
371	863000 Gas Transm-Maint of Mains	16,813	17,104	-	17,104	17,448	4	17,452
372	865000 Gas Transm-Maint Meas&RegEquip	-	-	-	-	-	-	-
373	870000 Dist-Oper Sup & Eng	251,052	257,568	-	257,568	264,258	(23,109)	241,149
374	871000 Dist Distr Load Dispatching	50,068	51,280	-	51,280	52,551	(339)	52,212
375	874000 Dist-Mains and Services Expense	2,020,360	2,064,507	-	2,064,507	2,112,382	340,000	2,442,044
376	875000 Measuring & Regulating Stations	178,092	182,458	-	182,458	187,019	407,250	596,668
377	877000 Meas&RegSta Eq-City Gt ChkSta	287	292	-	292	298	-	298
378	878000 Meter & House Reg Misc Charges	1,553,887	1,591,736	-	1,591,736	1,631,355	(16,073)	1,615,282
379	879000 Customer Installations Expense	467,722	479,269	-	479,269	491,305	(7,269)	484,036
380	880000 Dist-Other Expenses	6,935,538	7,096,681	392,647	7,489,328	7,670,775	522,865	8,138,824
381	881000 Rents	8,301	8,442	-	8,442	8,611	-	8,611
382	885000 Dist-Maint Sup & Eng	9,047	9,202	-	9,202	9,386	1	9,387
383	887000 Dist-Maint of Mains	958,543	978,183	-	978,183	999,960	(6,195)	993,765
384	889000 Dist-Maint of Meas & Reg Station	308,781	315,688	-	315,688	323,120	(2,436)	320,684
385	891000 Maint of Meas & Reg Gate Sta Equ	197,170	201,704	-	201,704	206,538	(2,024)	204,514
386	892000 Maintenance of Services	1,042,798	1,065,918	-	1,065,918	1,090,868	(12,868)	1,078,000
387	893000 Dist-Maint of Mtrs & House Reg	1,458,636	1,492,014	-	1,492,014	1,527,660	(11,261)	1,516,399
388	894000 Maintenance of Other Equipment	191,500	196,059	-	196,059	200,866	(1,165)	199,701
389	<b>Distribution, Transmission, and Storage Expense</b>	<b>15,732,721</b>	<b>16,093,911</b>	<b>392,647</b>	<b>16,486,558</b>	<b>16,882,083</b>	<b>1,270,115</b>	<b>18,006,321</b>
390								
391	901000 Customer Accounts Supervision	505,142	518,199	-	518,199	531,619	(65,825)	465,794
392	902000 Cust Acct-Meter Reading Expenses	2,537,168	2,596,105	-	2,596,105	2,658,739	24,259	2,650,828
393	903000 Cust Acct-Cust Records & Collections	5,904,186	6,008,793	-	6,008,793	6,131,176	730,681	6,852,137
394	904000 Cust Acct-Uncollectible Accounts	1,293,772	1,315,870	-	1,315,870	1,342,095	403,323	1,745,418
395	904010 Cust Acct - Disputed Bills	19,729	20,066	-	20,066	20,466	-	20,466
396	905000 Cust Acct-Misc Cust Accounts Exp	65,318	66,665	-	66,665	68,155	(903)	67,252
397	907000 Cust Serv-Supervision	723	742	-	742	761	(85)	676
398	908000 Cust Serv-Cust Assistance Exp	604,020	618,615	-	618,615	633,930	(15,956)	617,974
399	909000 Cust Serv-Info/Instr Advertising	293,472	298,616	(5,308)	293,308	299,245	(761)	298,484
400	910000 Cust Serv-Misc Cust Serv & Inf	10,400	10,577	-	10,577	10,788	-	10,788
401	912000 Sales-Demonstr & Selling Expense	-	-	-	-	-	-	-
402	<b>Customer Accounts</b>	<b>11,233,929</b>	<b>11,454,247</b>	<b>(5,308)</b>	<b>11,448,939</b>	<b>11,696,974</b>	<b>1,158,263</b>	<b>(125,421)</b>
403								
404	920000 A&G Admin & General Salaries	4,668,355	4,789,385	(244,763)	4,544,622	4,662,542	37,097	4,699,639.09
405	920010 A&G Salaries-TEG Merger Costs	-	-	-	-	-	-	-
406	920015 A&G Salaries-Long Term Disab	1,176	1,196	-	1,196	1,220	-	1,220
407	920020 Restructuring Exp - Cororate	-	-	-	-	-	-	-
408	921000 A&G-Office Supplies and Expenses	1,958,156	1,991,629	(66,855)	1,924,774	1,963,154	(2)	1,963,152
409	921010 A&G Off Supp&Exp-TEG Merger Costs	-	-	-	-	-	-	-
410	923000 A&G-Outside Services Employed	943,845	959,966	(308,705)	651,261	664,241	-	664,241
411	<b>A&amp;G-Labor, Non-Labor, and Contractor</b>	<b>7,571,532</b>	<b>7,742,176</b>	<b>(620,323)</b>	<b>7,121,853</b>	<b>7,291,157</b>	<b>37,095</b>	<b>7,328,252</b>

Line No.	2012 Actual	2013 Inflated	2013 K&M	2013 Inflated + K&M	2014 Inflated	2014 K&M	2014 Incentive Adjustment	2014 Inflated + K&M
412								
413	924000 A&G Property Insurance	-	-	-	-	-	-	-
414	924100 Securities & Other Crime Insurance	1,831	1,862	-	1,862	1,899	-	1,899
415	924120 Property Insurance	5,005	5,090	-	5,090	5,191	-	5,191
416	925000 A&G-Injuries and Damages	414,252	421,328	-	421,328	429,725	-	429,725
417	925015 Insur Prem - Dishonesty	-	-	-	-	-	-	-
418	925100 Excess Liability	317,922	323,352	-	323,352	329,796	-	329,796
419	925110 Director & Officer Insurance	48,606	49,436	-	49,436	50,421	-	50,421
420	925130 Company Auto Liab Insurance	727	739	-	739	754	-	754
421	925160 Workers Comp Insurance	-	-	-	-	-	-	-
422	925165 Workers Comp Reserve	10,004	10,229	-	10,229	10,471	316	10,787
423	925170 Excess Workers Comp Insurance	39,170	39,839	-	39,839	40,633	-	40,633
424	<b>Insurance</b>	<b>837,516</b>	<b>851,876</b>	<b>-</b>	<b>851,876</b>	<b>868,892</b>	<b>316</b>	<b>869,208</b>
425								
426	926000 A&G-Employee Pensions and Bene	(2,200)	(2,257)	-	(2,257)	(2,316)	-	(2,316)
427	926007 Company Cash Match 401k	137,329	140,900	-	140,900	144,563	-	144,563
428	926015 A&G PensExp-TEG Merger Costs	-	-	-	-	-	-	-
429	926020 Time Away From Work	2,120,489	2,175,622	-	2,175,622	2,232,188	-	2,232,188
430	926025 Time Away From Work - Clearing	(2,162,504)	(2,218,729)	-	(2,218,729)	(2,276,416)	-	(2,276,416)
431	926026 IBS Billed NPT Residual	(9,990)	(10,250)	-	(10,250)	(10,516)	-	(10,516)
432	926050 Human Resources Dept Gen	67,377	69,129	-	69,129	70,926	-	70,926
433	926060 Pension Expense	1,686,285	1,730,128	(682,313)	1,047,815	1,075,059	(435,757)	639,302
434	926070 Christmas Gift Ck Exp-Retirees &LTD	4,030	4,135	-	4,135	4,242	-	4,242
435	926080 Dental Benefits-Active Empl	146,102	149,901	3,506	153,407	157,395	11,095	168,490
436	926090 Medical Benefits-Active Empl	1,662,319	1,705,539	81,454	1,786,993	1,833,455	195,283	2,028,738
437	926100 Benefits Exp-AWASSA Lodge	-	-	-	-	-	-	-
438	926120 Joint Plant A&G & NonUtil Ldg	(893,179)	(916,402)	-	(916,402)	(940,228)	-	(940,228)
439	926130 SIB/LTD Prem Exp	-	-	-	-	-	-	-
440	926135 Fully-Insured LTD Prem Exp	29,502	30,269	-	30,269	31,056	-	31,056
441	926140 ESOP	602,506	618,171	-	618,171	634,244	-	634,244
442	926170 Cap Pensions and Benefits	(363,565)	(373,018)	-	(373,018)	(382,716)	-	(382,716)
443	926180 Post Retirement Medical	499,261	512,242	44,395	556,637	571,109	(153,070)	418,039
444	926190 Goal Sharing	27,214	27,922	-	27,922	28,648	(28,648)	(0)
445	926191 IBS Billed Incentive Residual	(31,573)	(32,394)	-	(32,394)	(33,236)	-	(33,236)
446	926200 Empl Ben-Tuition Reimbursement	10,298	10,566	-	10,566	10,840	-	10,840
447	926210 Pension Restoration	1,922	1,972	(1,972)	(0)	(0)	-	(0)
448	926220 Supple Emp Ret Plan-SERP	16,737	17,172	(9,298)	7,874	8,079	(205)	7,874
449	926250 Company Prov Life Insurance	35,127	36,040	-	36,040	36,977	-	36,977
450	926260 Exec Def Comp-ESOP Match	-	-	-	-	-	-	-
451	926255 Defined Contribution Plan Exp	94,863	97,329	740,952	838,281	860,077	11,419	871,496
452	926300 IBS Billed Benefit - Payroll Tax	1,201,164	1,232,394	(209,315)	1,023,079	1,049,679	34,136	1,083,815
453	926305 Post Retirement Life	(8,375)	(8,593)	2,097	(6,496)	(6,665)	(1,018)	(7,683)
454	926315 LT Disability Benefit	-	-	-	-	-	-	-
455	926325 ST Disabil FASB 112	-	-	-	-	-	-	-
456	926330 Benefits-Wellness	14,115	14,482	-	14,482	14,859	-	14,859
457	926510 Profit Sharing Expense	132,088	135,522	(135,522)	0	0	-	0
458	<b>Benefits</b>	<b>5,017,342</b>	<b>5,147,793</b>	<b>(166,016)</b>	<b>4,981,777</b>	<b>5,111,303</b>	<b>(338,117)</b>	<b>4,744,538</b>
459								
460	92800F A&G-Related to FERC	-	-	-	-	-	-	-
461	928000 A&G-Regulatory Commission Exp	541,890	551,145	-	551,145	562,130	-	562,130
462	930100 A&G-General Advertising Exp	1,816	1,847	-	1,847	1,884	-	1,884
463	930200 A&G-Assoc & Club Dues & Exp	6,617	6,789	-	6,789	6,965	-	6,965
464	930204 Misc General Expense	647,885	658,951	-	658,951	672,085	-	672,085
465	930209 Payroll Taxes Credited	-	-	-	-	-	-	-
466	930220 A&G-IBS Billed CC and Deprec	896,520	911,833	187,615	1,099,448	1,121,360	92,855	1,214,215
467	931000 A&G-Rents	47,565	48,377	-	48,377	49,342	-	49,342
468	931010 A&G - IBS Billed Facilities Overhead	537,559	546,741	-	546,741	557,637	-	557,637
469	935000 A&G-Maint of General Plant	-	-	-	-	-	-	-
470	<b>A&amp;G Rents, Facilities, Carrying Costs, and Depreciation</b>	<b>2,679,852</b>	<b>2,725,683</b>	<b>187,615</b>	<b>2,913,298</b>	<b>2,971,402</b>	<b>92,855</b>	<b>3,064,257</b>
471								
472	<b>Non-Fuel O&amp;M</b>	<b>43,776,226</b>	<b>44,736,318</b>	<b>(211,385)</b>	<b>44,524,933</b>	<b>45,560,496</b>	<b>2,183,116</b>	<b>47,457,392</b>



**Minnesota Energy Resources Corporation  
Estimate of Inflation for 2013 and 2014**

<u>Line</u>	<u>Source</u>	<u>Date</u>	<u>2013</u>	<u>2014</u>
1	Value Line	February 22, 2013	1.300%	1.900%
2	Global Insight	February, 2013	1.400%	1.700%
3	Moore Inflation Predictor	December 15, 2012	1.700%	N/A
4	EIA	February, 2013	2.340%	2.380%
5	International Monetary Fund	October, 2012	1.800%	N/A
<b>6</b>	<b>UPPCO Estimate (Simple Average)</b>		<b>1.708%</b>	<b>1.993%</b>
<b>7</b>	<b>Cumulative Impact from 2012 to 2014</b>			<b>3.74%</b>



**Minnesota Energy Resources Corporation  
2014 Rate Case Expense Amortization**

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<b><u>Line No.</u></b>	<b><u>Description</u></b>	<b><u>Amount</u></b>
1	Cost of Capital Expert	35,000
2	Legal Expenses	750,000
3	State Agency/ALJ Fees	700,000
4	3rd Party Requests (Vertex, Itron, etc...)	65,000
5	Newspapers	140,000
6	Travel Expenses	25,000
7	Total	<u>1,715,000</u>
8	Allocation to Utility Business (87.7%)	1,504,055
9	Amortization over 2 years	752,028



**Minnesota Energy Resources Corporation**  
**Lead/Lag Study Summary**

<b><u>Lead Time for Revenues Collected</u></b>	<b><u>Days</u></b>
Service to Meter Reading lead time	15.2
Meter Reading to Billing lead time	4.1
Billing to Collection lead time	25.0
<b>Total Lead Time</b>	<b>44.3</b>
<b><u>Lag Time for Expenses Paid</u></b>	<b><u>Days</u></b>
Purchased Gas Expense	40.2
Payroll Expense	13.0
Payroll Tax Expense	14.0
Incentive Plan Expense	248.5
Expenses Paid back to Affiliates including Interest Payments	35.2
Other Operations & Maintenance Expense	30.0

**Minnesota Energy Resources Corporation**  
**Calculation of Meter Reading to Billing Lead Time**

	<b>Revenues</b>	<b>Percentage of Total</b>	<b>Processing Days</b>	<b>Weighted Average</b>
<b>Transport</b>	8,052,378	4.01%	6.0	0.2
<b>Non-Transport</b>	192,683,784	95.99%	4.0	3.8
<b>Total</b>	<u>200,736,162</u>	<u>100.00%</u>		<u>4.1</u>

**Minnesota Energy Resources Corporation**  
**Calculation of Billing to Collection Lead Time**

	<b>Amount</b>
<b>2012 Sum of Daily Accounts Recievable</b>	5,012,365,628
<b>2012 Tariff Revenues</b>	<u>200,736,162</u>
<b>Accounts Receivable / Revenues</b>	25.0

**Minnesota Energy Resources Corporation  
Calculation of Taxes Available as Working Capital**

**Percentage of State Income Tax Available as Working Capital**

<u>Line</u>	<u>Month</u> (a)	----- Current Year's Tax -----		
		<u>Cumulative Collections</u> (b)	<u>Cumulative Payments</u> (c)	<u>Net Accrual Available</u> (d=(b-c))
1	January	16.69%		16.69%
2	February	31.94%		31.94%
3	March	44.36%	25.00%	19.36%
4	April	52.65%	25.00%	27.65%
5	May	57.96%	25.00%	32.96%
6	June	61.11%	50.00%	11.11%
7	July	63.86%	50.00%	13.86%
8	August	66.65%	50.00%	16.65%
9	September	70.39%	75.00%	-4.61%
10	October	76.67%	75.00%	1.67%
11	November	86.28%	75.00%	11.28%
12	December	100.00%	100.00%	0.00%
13	12 Month Average			14.88%
14	Less: Revenue Lead Days			12.13%
15	Net			<u>2.75%</u>

**Percentage of Federal Income Tax Available as Working Capital**

<u>Line</u>	<u>Month</u> (a)	----- Current Year's Tax -----		
		<u>Cumulative Collections</u> (b)	<u>Cumulative Payments</u> (c)	<u>Net Accrual Available</u> (d=(b-c))
1	January	16.69%		16.69%
2	February	31.94%		31.94%
3	March	44.36%		44.36%
4	April	52.65%	25.00%	27.65%
5	May	57.96%	25.00%	32.96%
6	June	61.11%	50.00%	11.11%
7	July	63.86%	50.00%	13.86%
8	August	66.65%	50.00%	16.65%
9	September	70.39%	75.00%	-4.61%
10	October	76.67%	75.00%	1.67%
11	November	86.28%	75.00%	11.28%
12	December	100.00%	100.00%	0.00%
13	12 Month Average			16.96%
14	Less: Revenue Lead Days			12.13%
15	Net			<u>4.84%</u>



**Minnesota Energy Resources Corporation  
Calculation of Taxes Available as Working Capital**

<u>Line</u>	<u>Description</u>	<u>Base Amount</u> (a)	<u>Percentage</u> (b)	<u>Amount Available For Use</u> (c=(a)*(b))
1	Property Tax	7,314,733	100.00%	7,314,733
2	State Income Tax -- Current	1,186,701	2.75%	32,678
3	Federal Income Tax -- Current	6,663,789	4.84%	322,331

\*Tax Amounts are after assumed Rate Increase

**Minnesota Energy Resources Corporation**  
**Calculation of Net Cash Working Capital**  
**2014 Proposed Test Year**

<u>Line</u>	<u>Description</u>	<u>Operating Annual (a)</u>	<u>Expenses Per Day (b)</u>	<u># of Lead Days (c)</u>	<u># of Lag Days (d)</u>	<u># of Lead Days in Excess of the # of Lag Days (e)</u>	<u>Extension [Col. (b)*(e)] (f)</u>
1	Purchased Gas Expense	\$ 173,412,058	\$ 475,102	44.3	40.2	4.1	\$ 1,928,190
2	Internal Payroll including Overtime but Excluding Incentive plan	\$ 13,056,431	\$ 35,771	44.3	13.0	31.2	\$ 1,117,461
3	Payroll Taxes	\$ 1,589,788	\$ 4,356	44.3	14.0	30.2	\$ 131,710
4	MERC Internal Incentive Plan	\$ 688,744	\$ 1,887	44.3	248.5	(204.2)	\$ (385,398)
5	O&M Expenses Paid to Affiliates not including Interest Expense	\$ 24,902,143	\$ 68,225	44.3	35.2	9.1	\$ 617,447
6	Other Operations & Maintenance Expense	\$ 8,810,073	\$ 24,137	44.3	30.0	14.3	\$ 344,160
7	Total Cash Working Capital deficit (available)						<u>\$ 3,753,569</u>
8	Property Tax						\$ 7,314,733
9	State Income Tax						\$ 32,678
10	Federal Income Tax						\$ 322,331
11	Total Taxes						<u>\$ 7,669,743</u>
12	Net Cash Working Capital deficit (available) (Line 7 Minus Line 11)						<u><u>\$ (3,916,174)</u></u>

	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	2012
F013000000 Distribution Mains < \$25,000	122,544	122,544	108,928	81,696	81,696	27,232	544,640
F015000000 Large Meter Sets	-	-	-	-	-	-	-
F016000000 Gas Mains for Road Moves	352,620	235,080	78,360	78,360	39,180	-	783,600
F017000000 Distribution Mains > \$25,000	543,898	543,898	435,118	326,339	217,559	108,780	2,175,592
F017000069 Thief River Falls Distribution	-	-	-	-	-	-	-
F017009022 PNG NEW GROWTH AREAS	138,213	138,213	82,928	82,928	55,285	55,285	552,852
F017009029 ROCHESTER EAST SIDE ASSESSMENT	-	-	-	-	-	-	-
F018000000 Gas Dist Gate/Reg Stations	65,142	81,427	81,427	32,571	32,571	32,571	325,709
F021008022 ITSTELECOM-PARENT TELEPHONE SY	-	-	-	-	-	-	-
F021008033 PARENT REPLACE NETWORK/ EQUIPM	14,000	-	2,500	-	-	-	16,500
F021009036 AMR FOR CENTRAL MN	-	-	-	-	-	-	-
F022000012 Windows 7 PC/Laptop/Toughbook-MERC	400,000	40,000	130,000	130,000	130,000	50,000	880,000
F022008015 PC/LAPTOP/MONITOR/PRINTER REPL	22,850	-	-	-	-	-	22,850
F022008019 GOBOOK/TOUGH BOOK REPLACEMENTS	-	-	-	-	-	-	-
F023009022 PURCHASE GENERAL PLANT CAPITAL	-	3,431	3,431	17,153	8,576	1,715	34,306
F024000050 Conference Room Build/Refresh MERC	-	-	-	-	-	-	-
F040000016 MERC Digitize Service Pipe records	30,000	40,000	40,000	48,000	40,000	40,000	238,000
F053000000 SERVICE BLANKET	264,277	264,277	352,369	352,369	264,277	264,277	1,761,846
F053000500 Gas Service Blanket Existing PNG	183,050	457,625	366,100	366,100	366,100	91,525	1,830,500
F141000067 Thief River Falls Transmission	-	-	-	-	-	-	-
F160009018 VEHICLE REPLACEMENTS	-	39,654	39,654	-	-	-	79,308
F250000000 Gas Meters	386,982	386,982	290,236	290,236	290,236	290,236	1,934,908
F91000032 2012-HCA77 Corp Security Projects	-	10,000	20,000	5,000	-	-	35,000
F910007027 BUILDING IMPROVEMENTS	129,233	129,233	129,233	129,233	129,233	129,233	775,398
<b>Total</b>	<b>2,652,809</b>	<b>2,492,364</b>	<b>2,160,284</b>	<b>1,939,985</b>	<b>1,654,713</b>	<b>1,090,854</b>	<b>11,991,009</b>

	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	2013
F013000000 Distribution Mains < \$25,000	9,000	9,000	24,000	48,000	78,000	78,000	90,000	90,000	84,000	66,000	12,000	12,000	600,000
F015000000 Large Meter Sets	7,000	2,000	4,000	15,000	10,000	10,000	10,000	10,000	5,000	5,000	10,000	12,000	100,000
F016000000 Gas Mains for Road Moves	37,500	37,500	25,000	50,000	375,000	375,000	500,000	500,000	250,000	125,000	125,000	100,000	2,500,000
F017000000 Distribution Mains > \$25,000	32,950	65,900	65,900	131,800	164,750	395,400	593,100	659,000	659,000	395,400	65,900	65,900	3,295,000
F017000069 Thief River Falls Distribution	-	-	-	-	62,508	62,523	62,539	62,555	63	31	-	-	250,219
F017009022 PNG NEW GROWTH AREAS	10,100	20,200	20,200	40,400	50,500	151,500	202,000	222,200	151,500	101,000	20,200	20,200	1,010,000
F017009029 ROCHESTER EAST SIDE ASSESSMENT	-	-	-	-	-	50,000	50,000	50,000	-	-	-	-	150,000
F018000000 Gas Dist Gate/Reg Stations	4,000	4,000	4,000	4,000	40,000	72,000	72,000	60,000	60,000	20,000	20,000	40,000	400,000
F021008022 ITSTELECOM-PARENT TELEPHONE SY	-	-	-	7,500	-	-	-	-	7,500	-	-	-	15,000
F021008033 PARENT REPLACE NETWORK/ EQUIPM	-	6,000	-	-	1,000	-	-	-	-	-	-	-	7,000
F021009036 AMR FOR CENTRAL MN	-	-	-	-	-	-	-	-	-	-	-	-	-
F022000012 Windows 7 PC/Laptop/Toughbook-MERC	25,000	25,000	25,000	25,000	25,000	25,000	25,000	-	-	-	-	-	150,000
F022008015 PC/LAPTOP/MONITOR/PRINTER REPL	5,040	5,040	5,040	5,040	5,040	5,040	5,040	5,040	5,040	5,040	-	-	50,400
F022008019 GOBOOK/TOUGH BOOK REPLACEMENTS	-	-	10,000	-	-	-	-	-	-	-	-	-	10,000
F023009022 PURCHASE GENERAL PLANT CAPITAL	1,400	28,000	28,000	28,000	28,000	11,200	-	-	-	-	14,000	1,400	140,000
F024000050 Conference Room Build/Refresh MERC	-	-	-	-	31,000	31,000	-	-	-	-	-	-	62,000
F040000016 MERC Digitize Service Pipe records	42,079	45,089	41,100	14,507	55	-	-	-	-	-	-	-	142,830
F053000000 SERVICE BLANKET	14,140	14,140	14,140	56,560	141,400	141,400	212,100	141,400	141,400	141,400	212,100	183,820	1,414,000
F053000500 Gas Service Blanket Existing PNG	32,850	35,700	35,700	131,400	314,250	334,200	501,300	357,000	357,000	334,200	455,700	395,700	3,285,000
F141000067 Thief River Falls Transmission	-	-	-	-	12,502	12,505	12,508	12,511	13	6	-	-	50,045
F160009018 VEHICLE REPLACEMENTS	-	-	80,000	80,000	320,000	240,000	80,000	-	-	-	-	-	800,000
F250000000 Gas Meters	155,540	44,440	88,880	333,300	222,200	222,200	222,200	222,200	111,100	111,100	222,200	266,640	2,222,000
F91000032 2012-HCA77 Corp Security Projects	-	-	-	-	50,000	-	-	-	-	-	-	-	50,000
F910007027 BUILDING IMPROVEMENTS	5,000	5,000	5,000	5,000	5,000	5,000	5,000	65,000	100,000	100,000	100,000	100,000	500,000
<b>Total</b>	<b>381,599</b>	<b>347,009</b>	<b>475,960</b>	<b>975,507</b>	<b>1,936,205</b>	<b>2,221,968</b>	<b>2,617,787</b>	<b>2,456,906</b>	<b>1,931,616</b>	<b>1,404,177</b>	<b>1,257,100</b>	<b>1,197,660</b>	<b>17,203,494</b>

	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	2014
F013000000 Distribution Mains < \$25,000	9,000	9,000	24,000	48,000	78,000	78,000	90,000	90,000	84,000	66,000	12,000	12,000	600,000
F015000000 Large Meter Sets	7,000	2,000	4,000	15,000	10,000	10,000	10,000	10,000	5,000	5,000	10,000	12,000	100,000
F016000000 Gas Mains for Road Moves	37,500	37,500	25,000	50,000	375,000	375,000	500,000	500,000	250,000	125,000	125,000	100,000	2,500,000
F017000000 Distribution Mains > \$25,000	13,500	27,000	27,000	54,000	67,500	162,000	243,000	270,000	270,000	162,000	27,000	27,000	1,350,000
F017000069 Thief River Falls Distribution	-	-	-	-	-	-	-	-	-	-	-	-	-
F017009022 PNG NEW GROWTH AREAS	10,201	20,402	20,402	40,804	51,005	153,015	204,020	224,422	153,015	102,010	20,402	20,402	1,020,100
F017009029 ROCHESTER EAST SIDE ASSESSMENT	-	-	-	150,000	150,000	150,000	150,000	150,000	-	-	-	-	750,000
F018000000 Gas Dist Gate/Reg Stations	4,000	4,000	4,000	4,000	40,000	72,000	72,000	60,000	60,000	20,000	20,000	40,000	400,000
F021008022 ITSTELECOM-PARENT TELEPHONE SY	-	-	-	5,000	-	-	-	-	5,000	-	-	-	10,000
F021008033 PARENT REPLACE NETWORK/ EQUIPM	1,000	-	-	2,000	-	-	-	-	-	5,000	-	-	8,000
F021009036 AMR FOR CENTRAL MN	-	-	-	-	-	-	-	-	-	-	-	-	-
F022000012 Windows 7 PC/Laptop/Toughbook-MERC	-	-	-	-	-	-	-	-	-	-	-	-	-
F022008015 PC/LAPTOP/MONITOR/PRINTER REPL	3,040	3,040	3,040	3,040	3,040	3,040	3,040	3,040	3,040	3,040	-	-	30,400
F022008019 GOBOOK/TOUGH BOOK REPLACEMENTS	-	-	10,000	-	-	-	-	-	-	-	-	-	10,000
F023009022 PURCHASE GENERAL PLANT CAPITAL	1,400	28,000	28,000	28,000	28,000	11,200	-	-	-	-	14,000	1,400	140,000
F024000050 Conference Room Build/Refresh MERC	-	-	-	-	-	-	-	-	-	-	-	-	-
F040000016 MERC Digitize Service Pipe records	-	-	-	-	-	-	-	-	-	-	-	-	-
F053000000 SERVICE BLANKET	14,281	14,281	14,281	57,126	142,814	142,814	214,221	142,814	142,814	142,814	214,221	185,658	1,428,139
F053000500 Gas Service Blanket Existing PNG	43,500	57,000	57,000	174,000	367,500	462,000	693,000	570,000	570,000	462,000	477,000	417,000	4,350,000
F141000067 Thief River Falls Transmission	-	-	-	-	-	-	-	-	-	-	-	-	-
F160009018 VEHICLE REPLACEMENTS	-	-	80,000	80,000	320,000	240,000	80,000	-	-	-	-	-	800,000
F250000000 Gas Meters	140,000	40,000	80,000	300,000	200,000	200,000	200,000	200,000	100,000	100,000	200,000	240,000	2,000,000
F91000032 2012-HCA77 Corp Security Projects	-	-	-	-	85,000	-	-	-	-	-	-	-	85,000
F910007027 BUILDING IMPROVEMENTS	15,000	15,000	15,000	15,000	15,000	15,000	15,000	195,000	300,000	300,000	300,000	300,000	1,500,000
<b>Total</b>	<b>299,422</b>	<b>257,223</b>	<b>391,723</b>	<b>1,025,970</b>	<b>1,932,859</b>	<b>2,074,069</b>	<b>2,474,281</b>	<b>2,415,276</b>	<b>1,942,869</b>	<b>1,492,864</b>	<b>1,419,623</b>	<b>1,355,460</b>	<b>17,081,639</b>



**Minnesota Energy Resources Corporation  
Calculation of Refund due to Vertex Audit**

<b>Line No.</b>	<b>Description</b>	<b>2014</b>
1	Vertex Audit	\$ 9,710
2	Rate of Return approved in G007,011/GR-10-977	7.8275%
3	Carrying Cost	760
4	Total amount refunded to CustoeMrs	<u>10,470</u>



**Minnesota Energy Resources Corporation  
Calculation of Proposed CCRC Factor for 2014 Test Year**

Line No.	Description	Source	2014
1	CIP Expense	G007,G011/CIP-12-548 2013 Approved	\$ 8,920,481
2	Sales (Minnesota only)	Harry John Direct Testimony & Exhibits	662,833,577
3	Opt-out customers	Harry John Direct Testimony & Exhibits	296,086,744
4	CCRC applicable Sales	Line 2 - Line 3	366,746,833
5	Requested CCRC Factor (\$/therm)	Line 1 / Line 4	\$ 0.02432
6	Currently Approved CCRC Factor (\$/therm)	G007,011/GR-10-977	\$ 0.01513
7	Change In CCRC Factor (\$/therm)	Line 5 - Line 6	\$ 0.00919
8	Increase in Costs due to Factor	Line 4 * Line 7	\$ 3,371,601





**2014 Revenue Deficiency Breakdown (Minnesota - Jurisdiction)**

<b>Line No.</b>	<b>Description</b>	<b>Amount</b>
1	<b>2012 Revenue Deficiency</b>	<b>13,889,494</b>
2		
3	2014 Margin Increase	(6,547,939)
4		
5	Miscellaneous Revenues	(139,538)
6		
7	<b>Non-Fuel O&amp;M</b>	
8	Inflation	1,994,433
9	IBS-Customer Relations	730,674
10	MERC Vacancies	392,576
11	Bad Debt Expense	403,319
12	Sewer Laterals	340,000
13	Gate Station	327,645
14	Mapping Project	329,941
15	MERC Additional Hires	294,321
16	GMS Software & ICE Services	280,331
17	IBS Vacancies	240,584
18	Memberships	(1,545)
19	2 Factor vs. 1 Factor GCA	(3,369)
20	Advertising	(5,308)
21	LTIP/Restricted Stock/Stock Options	(402,679)
22	Economic Development	(144,335)
23	Incentives	(286,045)
24	Vertex Audit	(308,552)
25	Benefits	(503,883)
26	<b>Total Non-Fuel O&amp;M Adjustments</b>	<b><u>3,678,108</u></b>
27		
28	Depreciation Expense	(1,058,021)
29	CIP Amortization	764,853
30	Rate Case Expense (Amortization)	381,349
31	Property Taxes	709,704
32		
33	<b>Rate Base</b>	
34	Distribution Net Plant	1,119,336
35	Benefits Funding	735,862
36	Gas in Storage	405,743
37	Provision for Rate Refunds	206,795
38	Customer Net Plant	5,574
39	Energy Net Plant	3,578
40	Transmission Net Plant	(114,112)
41	Deferred Taxes Other than Plant and Material & Supplies	(247,021)
42	Working Capital	(553,702)
43	Other	(19,198)
44	<b>Total Rate Base Adjustments</b>	<b><u>1,542,854</u></b>
45		
46	Rate of Return (ROE at 10.75%)	854,620
47	Miscellaneous	112,113
48		
49	<b>2014 Revenue Deficiency</b>	<b><u>14,187,597</u></b>
50		
51	<b>2014 Minnesota Retail Revenues</b>	<b>257,186,462</b>
52		
53	<b>Rate Increase Percentage</b>	<b>5.52%</b>



**2014 Interim Revenue Deficiency**

	<u>Description</u>	<u>Reference</u>	<u>MERC-Minnesota</u>
1			
2	Rate Base	Exhibit____(SSD-19) Page 4	\$ 198,314,568
3			
4	Adjusted Net Operating Income	Exhibit____(SSD-19) Page 2	\$ 7,557,893
5			
6	Overall Rate of Return	Line 4 ÷ Line 2	3.8111%
7			
8	Rate of Return	Exhibit____(SSD-19) Page 3	7.4809%
9			
10	Income Requirements	Line 2 x Line 8	\$ 14,835,769
11			
12	Income Deficiency (Sufficiency)	Line 10 - Line 4	\$ 7,277,876
13			
14	Revenue Conversion Factor	IR-1 Schedule A-2	<u>1.704</u>
15			
16	Revenue Deficiency (Sufficiency)	Line 12 x Line 14	<u>\$ 12,401,502</u>
17			
18	Rate Increase/(Decrease) %		4.82%
19	Margin Increase/(Decrease)%		14.80%

**2014 Interim Interest Adjustment**

	<u>Description</u>	<u>Reference</u>	<u>MERC-Minnesota</u>
1			
2	Rate Base	Exhibit____(SSD-19) Page 4	\$ 198,314,568
3	Debt Portion of Capital Structure	Exhibit____(SSD-19) Page 3	49.6895%
4	Portion of Rate Base Funded by Debt	Line 2 * Line 3	\$ 98,541,470
5			
6	Cost of Debt	Exhibit____(SSD-19) Page 3	5.2341%
7	Interest Allowed	Line 4 * Line 6	\$ 5,157,779
8			
9	Interest Included in Income Tax Accruals	General Ledger	\$ 5,326,082
10			
11	Additional Interest Allowed	Line 7 - Line 9	\$ (168,303)
12			
13	Tax Effect of Interest Allowed	Line 11 * Effective Tax Rate	\$ (98,779)
14			
15	Recorded Net Operating Income	Exhibit____(SSD-19) Page 5	\$ 7,656,672
16			
17	Adjusted Net Operating Income	Line 13 + Line 15	\$ 7,557,893

<u>2011 Interim Capital Structure</u>							<u>Weighted Cost</u>	<u>Weighted Cost</u>
<u>Description</u>	<u>Reference</u>	<u>Amount</u>	<u>Percent Capital</u>	<u>Cost Rate %</u>	<u>Capital</u>	<u>Debt</u>		
Long-Term Debt	Exhibit____(LJG-X) Schedule D-2	\$ 91,583,333	44.64%	5.5606%	2.4822%	4.9954%		
Short-Term Debt	Exhibit____(LJG-X) Schedule D-3	\$ 10,362,707	5.05%	2.3487%	0.1186%	0.2387%		
Adjusted Common Equity	Exhibit____(LJG-X) Schedule D-4	\$ 103,220,220	50.31%	9.7000%	4.8801%			
Total Capital		<u>\$ 205,166,260</u>	<u>100.00%</u>		<u>7.4809%</u>	<u>5.2341%</u>		

\*Return on Equity was adjusted from Exhibit\_\_\_\_(LJG-X) Schedule D-4 to match what was authorized in G007,011/GR-08-835

Line No.	Description	Reference	Proposed 01/01/14 - 12/31/14	Adjustments	Interim 01/01/14 - 12/31/14
1	Gross Plant	IR-2 Schedule B-2	381,516,461	-	381,516,461
2	Accumulated Depreciation	IR-2 Schedule B-2	(169,897,723)	-	(169,897,723)
3	Deferred Tax	IR-2 Schedule B-2	(36,631,519)	-	(36,631,519)
4	CWIP	IR-2 Schedule B-2	-	-	-
5	Customer Advances	IR-2 Schedule B-2	-	-	-
6	<b>Net Utility Plant</b>		<u>174,987,219</u>	<u>-</u>	<u>174,987,219</u>
7	Working Capital	IR-2 Schedule B-3	(8,608,270)	-	(8,608,270)
8	Materials and Supplies	IR-2 Schedule B-4	279,570	-	279,570
9	Gas Storage	IR-2 Schedule B-5	12,013,242	-	12,013,242
10	Regulatory Assets & Liabilities	IR-2 Schedule B-6	19,642,806	-	19,642,806
11	<b>Sub-Total</b>		<u>23,327,349</u>	<u>-</u>	<u>23,327,349</u>
12	<b>Minnesota Rate Base</b>		<u>198,314,568</u>	<u>-</u>	<u>198,314,568</u>

Line No.	Description	Reference	Proposed 01/01/14 - 12/31/14	Corporate Aircraft	Income Taxes	Interim 01/01/14 - 12/31/14
1	Total Natural Gas Revenue	Mr. Harry Johns Exhibits	257,186,462			257,186,462
2	Late Payment Revenue	IR-5 Page 2	525,000			525,000
3	Other Revenue	IR-5 Page 2	234,470			234,470
4	<b>Total Operating Revenue</b>		<b>257,945,932</b>	<b>-</b>	<b>-</b>	<b>257,945,932</b>
5	Cost of Gas	IR-5 Page 3	173,412,058			173,412,058
6	Production	IR-5 Pages 4 - 12	10,636			10,636
7	Gas Supply	IR-5 Pages 4 - 12	704,365			704,365
8	Transmission	IR-5 Pages 4 - 12	94,181			94,181
9	Distribution	IR-5 Pages 4 - 12	17,894,619			17,894,619
10	Customer Accounts	IR-5 Pages 4 - 12	11,801,783			11,801,783
11	Customer Services	IR-5 Pages 4 - 12	927,914			927,914
12	Sales	IR-5 Pages 4 - 12	-			-
13	Administrative & General	IR-5 Pages 4 - 12	15,998,503	(956)		15,997,548
14	Depreciation	IR-5 Page 13	9,347,278			9,347,278
15	Amortization	IR-5 Page 14	9,656,957			9,656,957
16	Taxes Other Than Income Taxes	IR-5 Page 15	8,896,360			8,896,360
17	Other Interest Expense		935			935
18	Income Taxes	Exhibit _____ (SSD-19) Page 6	1,544,232		395	1,544,627
19	<b>Total Operating Expenses</b>		<b>250,289,821</b>	<b>(956)</b>	<b>395</b>	<b>250,289,260</b>
20	<b>Total MERC Operating Income</b>		<b>7,656,111</b>	<b>956</b>	<b>(395)</b>	<b>7,656,672</b>

Line	Line Description	Allocator Description	Reference	2014-Interim
1				<b>MERC-Minnesota</b>
2	Interest Expense		Exhibit_____(LJG-X) Schedule D-2 & D-3	5,326,082
3	Rate Base Allocation			
4				
5				
6	<b>Federal Tax Calculation</b>			<b>MERC-Minnesota</b>
7	Book Income Before Taxes		IR-XXX + Adjustments from Exhibit_____(SSD-19) Page 5	9,203,169
8	Interest Expense		Line 2	5,326,082
9	Income Reconciliation (M1's)		Line 65	<u>(21,394,908)</u>
10			Line 7 - Line 8 - Line 9	(17,517,822)
11				
12	Tax Rate		Input from Tax Department	35.0000%
13				
14	Taxes Calculated		Line 10 * Line 12	(6,131,238)
15	Tax Credit	System Sales	Input from Tax Department	<u>3</u>
16	Tax Liability		Line 14 + Line 15	(6,131,235)
17				
18	Deferred Taxes		Line 90	7,970,762
19				
20	Adjusted Tax Liability		Line 16 + Line 18	<u>1,839,527</u>
21				
22				
23	<b>Minnesota State Tax Calculation</b>			<b>MERC-Minnesota</b>
24	Book Income Before Taxes		IR-XXX + Adjustments from Exhibit_____(SSD-19) Page 5	9,203,169
25	Interest Expense		Line 2	5,326,082
26	Income Reconciliation (M1's)		Line 73	<u>(19,532,468)</u>
27			Line 24 - Line 25 - Line 26	(15,655,381)
28				
29	Tax Rate		Input from Tax Department	9.7061%
30				
31	Taxes Calculated		Line 27 * Line 29	(1,519,534)
32	Tax Credit		Input from Tax Department	
33	Tax Liability		Line 31 + Line 32	<u>(1,519,534)</u>
34				
35	Deferred Taxes		Line 99	1,223,250
36				
37	Adjusted Tax Liability		Line 33 + Line 35	<u>(296,284)</u>
38				
39				
40	<b>Michigan State Tax Calculation</b>			<b>MERC-Minnesota</b>
41	Book Income Before Taxes		IR-XXX + Adjustments from Exhibit_____(SSD-19) Page 5	9,203,169
42	Interest Expense		Line 2	5,326,082
43	Income Reconciliation (M1's)		Line 81	<u>(13,583,855)</u>
44			Line 41 - Line 42 - Line 43	(9,706,768)
45				
46	Tax Rate		Input from Tax Department	0.0121%
47				
48	Taxes Calculated		Line 44 * Line 46	(1,173)
49	Tax Credit	System Sales	Input from Tax Department	<u>(8)</u>
50	Tax Liability		Line 48 + Line 49	(1,181)
51				
52	Deferred Taxes		Line 108	2,565
53				
54	Adjusted Tax Liability		Line 50 + Line 52	<u>1,384</u>
55				
56				
57				
58	<b>Federal Income Tax M1's</b>			<b>MERC-Minnesota</b>
59	Transmission	System Sales	Input from Tax Department	(91,335)
60	Distribution Plant	Distribution Plant	Input from Tax Department	(5,938,671)
61	Customer	Customers	Input from Tax Department	-
62	General and Common BCR	Salaries and Wages	Input from Tax Department	(16,885,610)
63	State Tax Liability		Line 31 + Line 48	1,520,707
64				
65	Net Income Adds/Deducts		Sum of Lines 59 through 63	<u>(21,394,908)</u>
66				
67				
68	<b>Minnesota Income Tax M1's</b>			<b>MERC-Minnesota</b>
69	Transmission	System Sales	Input from Tax Department	(381,480)
70	Distribution Plant	Distribution Plant	Input from Tax Department	(14,053,747)
71	Customer	Customers	Input from Tax Department	-
72	General and Common BCR	Salaries and Wages	Input from Tax Department	<u>(5,097,240)</u>
73	Net Income Adds/Deducts		Sum of Lines 69 through 72	<u>(19,532,468)</u>
74				
75				
76	<b>Michigan Income Tax M1's</b>			<b>MERC-Minnesota</b>
77	Transmission	System Sales	Input from Tax Department	(119,982)
78	Distribution Plant	Distribution Plant	Input from Tax Department	(8,482,513)
79	Customer	Customers	Input from Tax Department	-
80	General and Common BCR	Salaries and Wages	Input from Tax Department	<u>(4,981,360)</u>
81	Net Income Adds/Deducts		Sum of Lines 77 through 80	<u>(13,583,855)</u>
82				
83				
84	<b>Federal Deferred Tax Expense</b>			<b>MERC-Minnesota</b>
85	Rate Base	Rate Base	Input from Tax Department	-
86	Transmission	System Sales	Input from Tax Department	31,967
87	Distribution Plant	Distribution Plant	Input from Tax Department	2,078,535
88	Customer	Customers	Input from Tax Department	-
89	General and Common	Salaries and Wages	Input from Tax Department	<u>5,860,260</u>
90			Sum of Lines 85 through 89	<u>7,970,762</u>
91				
92				
93	<b>Minnesota State Deferred Tax Expense</b>			<b>MERC-Minnesota</b>
94	Rate Base	Rate Base	Input from Tax Department	-
95	Transmission	System Sales	Input from Tax Department	24,068
96	Distribution Plant	Distribution Plant	Input from Tax Department	886,625
97	Customer	Customers	Input from Tax Department	-
98	General and Common	Salaries and Wages	Input from Tax Department	<u>312,557</u>
99			Sum of Lines 94 through 98	<u>1,223,250</u>
100				
101				
102	<b>Federal Deferred Tax Expense</b>			<b>MERC-Minnesota</b>
103	Rate Base	Rate Base	Input from Tax Department	-
104	Transmission	System Sales	Input from Tax Department	9
105	Distribution Plant	Distribution Plant	Input from Tax Department	692
106	Customer	Customers	Input from Tax Department	-
107	General and Common	Salaries and Wages	Input from Tax Department	<u>1,864</u>
108			Sum of Lines 103 through 107	<u>2,565</u>



	<b>Depreciation Expense</b>	<b>Accumulated Depreciation</b>		
Jan-12	(189,347)	189,347		
Feb-12	(189,347)	378,695		
Mar-12	(189,347)	568,042	Total Test Year Depreciation Expense Savings	(2,272,168)
Apr-12	(189,347)	757,389		
May-12	(189,347)	946,737	Increase in Test Year Rate Base (13-Month Average)	5,680,420
Jun-12	(189,347)	1,136,084	Rate of Return	8.0092%
Jul-12	(189,347)	1,325,431	Gross Revenue Conversion Factor	1.704
Aug-12	(189,347)	1,514,779		<u>775,245</u>
Sep-12	(189,347)	1,704,126		
Oct-12	(189,347)	1,893,473	Decrease in 2014 Revenue Requirement	(1,496,923)
Nov-12	(189,347)	2,082,821		
Dec-12	(189,347)	2,272,168		
Jan-13	(189,347)	2,461,515		
Feb-13	(189,347)	2,650,863		
Mar-13	(189,347)	2,840,210		
Apr-13	(189,347)	3,029,557		
May-13	(189,347)	3,218,905		
Jun-13	(189,347)	3,408,252		
Jul-13	(189,347)	3,597,599		
Aug-13	(189,347)	3,786,947		
Sep-13	(189,347)	3,976,294		
Oct-13	(189,347)	4,165,641		
Nov-13	(189,347)	4,354,989		
Dec-13	(189,347)	4,544,336		
Jan-14	(189,347)	4,733,683		
Feb-14	(189,347)	4,923,031		
Mar-14	(189,347)	5,112,378		
Apr-14	(189,347)	5,301,725		
May-14	(189,347)	5,491,073		
Jun-14	(189,347)	5,680,420		
Jul-14	(189,347)	5,869,767		
Aug-14	(189,347)	6,059,115		
Sep-14	(189,347)	6,248,462		
Oct-14	(189,347)	6,437,809		
Nov-14	(189,347)	6,627,157		
Dec-14	(189,347)	6,816,504		



**Total O&M Compensation**

	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2014</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Test Year</b>	<b>Test Year</b>
<b>Cash Compensation</b>							
Base Salary (O&M)	15,663,571	16,148,138	15,382,849	16,598,603	16,952,400	16,278,645	18,554,496
Non-Executive Annual Incentive	785,983	1,792,299	1,079,025	1,211,788	1,406,510	1,111,396	1,203,774
Executive Annual Incentive	25,963	83,368	44,076	44,131	9,714	45,398	55,713
<b>Non Cash Compensation</b>							
Health Insurance	1,681,610	1,999,501	2,313,014	1,934,701	2,064,429	2,567,956	2,519,981
Dental Benefits	156,637	185,506	168,232	176,944	181,397	181,596	209,235
Pension Plans	1,014,222	1,362,853	1,870,210	2,218,358	2,093,826	2,240,900	592,596
401(k)	247,612	288,859	290,169	310,803	394,060	184,065	1,364,641
ESOP	794,496	769,513	794,390	819,527	826,388	850,912	869,919
Life Insurance	44,348	47,209	41,391	41,976	46,697	44,190	49,156
<b>Total Compensation</b>	<b>20,414,442</b>	<b>22,677,246</b>	<b>21,983,356</b>	<b>23,356,831</b>	<b>23,975,421</b>	<b>23,505,058</b>	<b>25,419,511</b>
Percentage Increase/(Decrease) Year over Year		11.1%	-3.1%	6.2%	2.6%		
Average Annual Increase compared to 2014 Forecast	3.7%	2.3%	3.7%	2.9%	3.0%	2.6%	

\*LTIP, Restricted Stock, Stock Options, SERP not related to Amortization, Executive Deferred Comp ESOP, and Income portion of Executive Incentives were excluded because MERC is not asking recovering of these expenses.



	<b>AJR's</b>	<b>Repository Billed Data</b>	<b>Unbilled Data</b>	<b>Calendar Data</b>	<b>AJR's less Calendar Data</b>	<b>Detail Billing Download</b>	<b>Detail Billing less Repository</b>
<b>2007</b>	70,735,411	70,199,052	493,764	70,692,816	42,596		
<b>2008</b>	71,841,272	72,234,534	(398,120)	71,836,414	4,858		
<b>2009</b>	59,933,274	60,364,550	(432,938)	59,931,612	1,662		
<b>2010</b>	71,933,536	71,257,615	723,122	71,980,737	(47,201)		
<b>2011</b>	74,693,559	75,188,726	(474,149)	74,714,577	(21,018)		
<b>2012</b>	76,971,106	75,494,178	1,476,744	76,970,922	184	75,494,366	187
<b>2013</b>	53,526,310	57,405,106	(3,878,904)	53,526,202	108	57,405,252	146

\*Detail Billing Download query was created in 2012, and no data via this method was performed prior to that.

\*\*2013 data only includes data through August 2013.

\*\*\*All units are in Dekatherms.



**Minnesota Jurisdiction Only**

	<b>Forecast</b>		<b>Rate</b>
	<b>Models</b>	<b>CCOSS</b>	<b>Design</b>
<b>Sales</b>	662,833,577	662,833,577	662,833,577
<b>Fixed Charge Counts</b>	2,576,271	2,576,271	2,576,271
<b>Daily Firm Capacity</b>	4,996,280	149,888,400	4,996,280
<b>Revenues on Current Tariffs</b>	\$ 257,186,462	\$ 257,186,462	\$ 257,186,462

\*The Daily Firm Capacity in the CCOSS shows the DFC amount of 4,996,280 x 30 days for the total of 149,888,400 units.

\*\*The Forecast Models are done inclusive of the Michigan Taconite Mines, but the associated values with those customers are excluded from the revenue deficiency.