



MICHAEL J. AHERN
Partner
(612) 340-2881
FAX (612) 340-2643
ahern.michael@dorsey.com

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VIA ELECTRONIC FILING

The Honorable Eric L. Lipman
Administrative Law Judge
Office of Administrative Hearings
P.O. Box 64620
St. Paul, MN 55101

Re: In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota
MPUC Docket No. G-011/GR-13-617
OAH Docket No. 8-2500-31126

Dear Judge Lipman:

Enclosed please find the Issue Matrix submitted by Minnesota Energy Resources Corporation ("MERC") in compliance with the First Prehearing Order dated December 12, 2013 in this matter. The Issue Matrix provides a description and summary of the issues and the positions and financial adjustments proposed by the parties with citations to the record in this matter. Schedules supporting the financial summary positions of MERC, the Department of Commerce, Division of Energy Resources (the "Department"), and the Office of Attorney General, Antitrust and Utilities Division ("OAG") are included. The Schedules show the impact for each adjustment on the Operating Income Statement (Schedule 1), Rate Base (Schedule 2), and Rate of Return Calculation (Schedule 3).

MERC has attempted to provide a thorough analysis of the record and correctly identify disputed and resolved issues. We look forward to the review by other parties and will continue to work with the Department and the OAG to ensure the accuracy of this document.

Please feel free to contact me at (612) 340-2881 if you have any questions.

Sincerely yours,

/s/ Michael J. Ahern

Michael J. Ahern

Enclosure

cc: Service List

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I. INTRODUCTION

As required by the Administrative Law Judge's First Prehearing Order in this matter, Minnesota Energy Resources Corporation ("MERC" or the "Company") respectfully files this Issues Matrix, setting forth the positions of MERC, the Department of Commerce, Division of Energy Resources ("DOC" or the "Department"), the Office of the Attorney General – Antitrust & Utilities Division ("OAG"), and Constellation New Energy ("Constellation"), as demonstrated through the pre-filed and oral testimony of the parties, together with record cites documenting those positions. Schedules supporting the financial summary positions of MERC, the Department and the OAG are also included. The Schedules show the impact for each adjustment on the Operating Income Statement (Schedule 1), Rate Base (Schedule 2), and Rate of Return Calculation (Schedule 3).

II. ISSUES WITH REVENUE REQUIREMENT CALCULATIONS

1. Capital Structure

This issue is resolved between MERC and the Department. No other party offered testimony on this issue.

MERC proposed a capital structure and cost for short term and long term debt, which the Department agreed were reasonable.

- Ex. 28, L. Gast Direct at 3, LJG-1.
- Ex. 200, E. Amit Direct at 35-44.
- Ex. 201, E. Amit Rebuttal at 27.
- Ex. 202, E. Amit Surrebuttal at 12.

2. Return on Equity

MERC, the Department, and the OAG propose different Returns on Equity ("ROEs"). No other party offered testimony on the issue.

MERC Position: MERC recommended a ROE of 10.75 percent. In Rebuttal Testimony, MERC stated that if the Commission does not agree with a 10.75% ROE for MERC, based on the increase in capital costs since MERC's last rate case, the equity return in this case should be at least 10.27%. Calculation of ROE is most reliable when based on multiple analytical methodologies. MERC used the Discounted Cash Flow ("DCF") model, the Risk Premium ("RP") approach, and the Capital Asset Pricing Model ("CAPM") and used the Comparable Earnings ("CE") method to confirm the reasonableness of the results. The ROE must also reflect the risk factors that are unique to MERC in order for the ROE to be consistent with investor's requirements.

DOC Position: The Department originally recommended an ROE of 9.40 percent. In Surrebuttal Testimony, the Department adjusted its ROE recommendation to 9.29 percent. The Department's ROE recommendation is based on DCF analysis and two growth rate DCF analyses ("TGDCF"), using a comparison group of companies. The Department also used CAPM to confirm the results of the DCF analysis. The Department rejected MERC's proposed leverage and size adjustments. Additionally, the Department rejected the OAG's argument that

when market-to-book ratio is greater than one, the DCF results in an upward bias estimate of the cost of equity.

OAG Position: The OAG originally recommended a ROE of 8.90 percent. In Rebuttal Testimony, the OAG adjusted its ROE recommendation to 8.62. The OAG's ROE recommendation is based on a DCF analysis with CAPM to confirm the results. The OAG based its result on the position that when market-to-book ratio is greater than one, the DCF results in an upwardly biased estimate of the cost of equity. Additionally, the OAG objects to the inclusion of a flotation cost adjustment and a size-premium adjustment.

- Evidentiary Hearing Transcript at 179-186, 198-205.
- Ex. 17, P. Moul Direct at 6-7, 46.
- Ex. 18, P. Moul Rebuttal at 3-5, 9, 40.
- Ex. 200, E. Amit Direct at 2, 4-5, 22, 25-28, 34, 68 and Schedule EA-12.
- Ex. 201, E. Amit Rebuttal at 25, 27.
- Ex. 202, E. Amit Surrebuttal at 2, 5, 10-11.
- Ex. 161, P. Chattopadhyay Direct at 4, 13-17, 19-22, 43-45, 47, 49-50, 57.
- Ex. 164, P. Chattopadhyay Rebuttal at 25-28.
- Ex. 165, P. Chattopadhyay Surrebuttal at 2.

3. Flotation Costs

The inclusion of a flotation cost adjustment is disputed between MERC and the OAG. The Department includes a flotation cost adjustment in its ROE proposal, but the Department's flotation cost adjustment differs from MERC's flotation cost adjustment. No other party offered testimony on this issue.

MERC Position: MERC has proposed to include a flotation cost adjustment of 0.14% based on MERC's updated cost of equity analysis in its Rebuttal Testimony and based on a value of flotation costs of 3.90%. It is common for the Commission to recognize the issuance expense of capital when calculating the return with unadjusted stock prices.

DOC Position: The Department concluded that MERC's calculation of the value of flotation costs of 3.9% is appropriate but differed in its application of this value percentage to determine the appropriate flotation cost adjustment. The Department concluded that the flotation costs proposed by MERC are in-line with costs used in other general rate case dockets. The flotation cost adjustment must be recognized in a ROE for a company to earn its reasonable rate of return. In contrast to MERC's approach to determining flotation cost adjustment, the Department applied the 3.9% value of flotation costs to the dividend yield component of the DCF, resulting in 0.15% of return applicable to flotation costs.

OAG Position: The OAG argues against using a flotation cost adjustment. According to the OAG, when the market-to-book ratio is greater than one, the DCF produces a ROE that is biased upward and therefore, the ROE already includes a flotation cost adjustment.

- Evidentiary Hearing Transcript at 182, 202-204.
- Ex. 17, P. Moul Direct at 31-32, PRM-1, Schedule 1, Schedule 9.
- Ex. 18, P. Moul Rebuttal at 38-39.
- Ex. 200, E. Amit Direct at 26-27, EA-7, EA-14.
- Ex. 201, E. Amit Rebuttal at 24-26.

- Ex. 202, E. Amit Surrebuttal at 35-36.
- Ex. 161, P. Chattopadhyay Direct at 43-45.
- Ex. 164, P. Chattopadhyay Rebuttal at 25-27.
- Ex. 165, P. Chattopadhyay Surrebuttal at 33-36.

4. MERC's Test Year Sales Forecast

This issue is resolved between MERC and the Department. The OAG disputes aspects of the sales forecast. No other party offered testimony on the issue.

MERC accepted use of the Department's proposed test year sales forecast because the Department's forecast benefitted from a full year of calendar 2013 data that was not available to MERC when the Company prepared its test year sales forecast. Going forward, MERC and the Department have agreed to work together to address future sales forecasting methodology.

The OAG asserts that MERC's sales forecast underestimates MERC's actual 2013 and 2014 sales volumes. The OAG also argues that MERC's Transport sales forecast is not representative of the Company's historical Transport sales.

MERC responded to the OAG's concern noting that the OAG incorrectly included a non-jurisdictional component—the Michigan Taconite mines—in its test year sales forecast analysis. The sales forecast agreed to by MERC and the Department excludes these volumes.

- Evidentiary Hearing Transcript at 106-108, 207-209.
- Ex. 39, H. John Rebuttal at 2, 12.
- Ex. 214, L. Otis Surrebuttal at 1, 13.
- V. Chavez Direct at 57.¹
- Ex. 151, J. Lindell Direct at 14.

5. Gas Storage Balance Adjustment

This issue is resolved between MERC and the Department. No other party offered testimony on the issue.

MERC agreed with the Department that the balance should be based on MERC's most recent updated base cost of gas.

- Evidentiary Hearing Transcript at 97.
- Ex. 36, J. Wilde Direct at 11.
- Ex. 37, J. Wilde Rebuttal at 3-6.
- Ex. 217, M. St. Pierre Direct at 21-26.
- Ex. 219, M. St. Pierre Surrebuttal at 21-24.

¹ This portion of Vincent Chavez's Direct Testimony was not adopted by OAG witness John Lindell and is therefore not part of the record.

6. Actual Deferred Tax Balances

MERC and the Department are partly in agreement on this issue. MERC agreed with the Department's recommendation to remove Account 254400 (Regulatory Liabilities Deferred Taxes) from rate base. MERC noted that if the Commission removes the assets and liabilities associated with the benefit plans from rate base, then the corresponding deferred taxes also need to be removed. However, because the Department and MERC disagree on the inclusion of assets and liabilities associated with benefit plans, the amount of corresponding deferred taxes has not been determined and the issue remains unresolved between MERC and the Department. Based on the Department's recommended adjustment to regulatory assets and liabilities, the Department's recommend adjustment for corresponding deferred taxes to be removed is \$4,294,542.

MERC and the OAG are in disagreement on this issue as it relates to Net Operating Loss and tax carry forwards as discussed below. No other party offered testimony on this issue.

- Evidentiary Hearing Transcript at 216.
- Ex. 24, S. DeMerritt Rebuttal at 4-5, 17.
- Ex. 219, M. St. Pierre Surrebuttal at 5, 10-11.

7. Property Tax Expense

This issue is disputed between MERC and the OAG. MERC and the Department are in agreement with respect to property tax expense. No other party offered testimony on this issue.

MERC Position: MERC estimated a property tax expense of \$7,195,869 for the 2014 test year. MERC's estimate includes a reduction of \$118,260, (\$48,260² for Minnesota property taxes and \$70,000 for Kansas Ad Valorem property taxes). The OAG's recommended property tax expense does not accurately reflect actual expense. MERC's actual tax liability for 2012, which was paid in 2013, was greater than the OAG's estimate for MERC's 2014 property tax expense. MERC has provided support using actual data, for the Company's expectation that its 2013 property tax expense should increase on a statewide basis and has provided an appropriate method to estimate property tax obligations for 2014 using actual valuation methods and assumptions used by the State of Minnesota for developing valuations of MERC's property. In Rebuttal Testimony, MERC proposed a decrease in its test year 2014 accrual for the Company's Kansas property taxes on its storage gas based on revised tax estimates for 2009 through 2013 that MERC received from the Kansas Attorney General. The Department agreed with the decrease. MERC and the Department also agreed that upon resolution of the litigation regarding MERC's Kansas property tax obligations, MERC will credit ratepayers for the Kansas Ad Valorem taxes that MERC is not required to pay to the Kansas Revenue taxing authorities, with interest, for the years under appeal (i.e., 2009 through 2013).

DOC Position: Contingent on MERC providing updates on its property tax appeals, the Department has indicated that there are no additional issues between MERC and DOC regarding property tax expense. As requested by the Department, MERC provided an update regarding the status of Minnesota and Kansas property tax appeals at the Evidentiary Hearing.

² During the Evidentiary Hearing, MERC accepted the Department's correction from \$48,864 to \$48,260. Evidentiary Hearing Transcript at 103.

OAG Position: The OAG has proposed an additional reduction of \$690,700 to MERC's 2014 test year property tax expense. The OAG recommended that property taxes for 2013 be used as test year property taxes based on a review of sample property tax statements from Washington County for MERC's property located in Scandia, Minnesota. The OAG does not include any change in MERC's property tax expense for the 2013 accrual payable in 2014 or any change in the expense for the 2014 accrual payable in 2015.

- Evidentiary Hearing Transcript at 94-103.
- Ex. 36, J. Wilde Direct at 10-11.
- Ex., 37, J. Wilde Rebuttal at 5-9.
- Ex. 217, M. St. Pierre Direct at 21-26.
- Ex. 219, M. St. Pierre Surrebuttal at 20-24.
- Ex. 151, J. Lindell Direct at 11-13.

8. Net Operating Loss Carryforward

This issue is disputed between MERC and the OAG. No other party offered testimony on this issue.

MERC Position: MERC has included a deferred tax asset ("DTA") for a Net Operating Loss ("NOL") carryforward in its 2014 test year. The DTA represents MERC's stand-alone operating income NOL that arose in 2012 and 2013 due primarily to bonus depreciation. MERC is a regulated public utility that is subject to tax normalization rules and must comply with those rules to qualify for federal accelerated tax depreciation. While uncommon, a regulated public utility that is a member of a federal consolidated group can be in the position of having a DTA NOL carryforward. Each Integrys subsidiary, including MERC, is a taxpayer that has the ability to generate a tax liability, as well as avail itself of other tax attributes such as a NOL carryforward. MERC generated a federal NOL during 2012 and 2013 and will not receive the full benefit of accelerated tax depreciation for those years until it generates sufficient federal taxable income in 2014. In Rebuttal Testimony, MERC explained why the adjustment the OAG proposes would not appropriately reflect MERC's cost of service and average rate base estimated for the test year and would not be consistent with a normalized method of accounting.

OAG Position: The OAG has proposed to eliminate from the 2014 test year rate base the DTA related to the NOL MERC generated during 2012 and 2013, and that MERC is expected to carryforward for use in 2014. According to the OAG: (1) MERC's proposal to adjust deferred taxes for the carryforward of a NOL is very rarely utilized to set rates; (2) MERC is not a taxpayer that can generate or claim a NOL; (3) MERC has not supported that it has generated a NOL in 2012 and 2013 due to claiming accelerated depreciation deductions; (4) MERC has not demonstrated that the Tax Normalization rules apply to its facts; and (5) the NOL will be used in 2014, so the deferred tax asset should not be included in rate base during 2014.

- Evidentiary Hearing Transcript at 96.
- Ex. 36, J. Wilde Direct at 3-7.
- Ex. 37, J. Wilde Rebuttal at 10-21, JWR-2.
- Ex. 151, J. Lindell Direct at 7-11.
- Ex. 154, J. Lindell Surrebuttal at 9-12.

9. Cost Allocation Factors

This issue is resolved between MERC and the Department. No other party offered testimony on this issue.

MERC used the Regulated Affiliated Interest Agreement (“AIA”), including the cost allocation methodologies and formulas established therein, as originally approved by the Commission in Docket No. G-007,011/AI-07-779, in March 2008, to determine the cost allocation factors used to set rates in this rate case. MERC also applied the subsequent changes to Exhibits B and C of the Regulated AIA, as approved by the Commission in Docket Nos. G007,011/AI-08-1376 (May 26, 2009), G-007,011/AI-09-1244 (May 17, 2011) and G007,011/AI-12-910 (July 3, 2013). MERC does not seek to recover the difference in costs calculated using the General/Corporate Allocation method in the Regulated AIA and the Commission’s preferred general allocation method. Rather, MERC seeks to recover the smaller amount provided by the Commission’s preferred allocation method in this rate case. The Department determined that MERC’s approach was reasonable.

- Ex. 12, T. Kupsh Direct at 2-3, 10-21.
- Ex. 215, L. La Plante Direct at 3-9.

10. Interest Synchronization

Interest synchronization is used to determine the amount of interest expense to be used in the calculation of income tax. MERC and the Department are in agreement on the methodology for calculating interest synchronization. The actual amount of the adjustment depends on the final outcome of rate base and interest adjustments. No other party offered testimony on this issue.

MERC calculated a negative \$98,779 tax effect of interest expense based on the proposed cost of debt, rather than the booked interest expense included in the income tax accruals, to determine the test year net operating income. MERC has agreed with the Department that an interest synchronization adjustment is needed, and that MERC will make that adjustment based on any adjustments to rate base or interest; however, the actual level of that adjustment is dependent on the final outcome of rate base and interest adjustments.

- Ex. 4, Initial Filing Volume 3, Document 5, Schedule C-1.
- Ex. 24, S. DeMerritt Rebuttal at 11, SSD-4.
- Ex. 217, M. St. Pierre Direct at 49.
- Ex. 219, M. St. Pierre Surrebuttal at 42-43.

11. Cash Working Capital

This issue is resolved between MERC and the Department. No other party offered testimony on this issue.

The Department recommended that in future rate cases MERC: (1) provide a schedule that reconciles the expense in Cash Working Capital (“CWC”) to the expense in MERC’s test-year income statement; and (2) base the CWC schedule on the number of days rather than percentages. MERC accepted both of these recommendations and agreed to the Department’s proposed methodology for future rate case reporting. Additionally, MERC and the Department agreed that the final CWC amount necessarily remains in flux until other items in the revenue deficiency calculation are resolved.

- Ex. 19, S. DeMerritt Direct at 33-40, SSD-21.
- Ex. 24, S. DeMerritt Rebuttal at 12-13, SSD-4.
- Ex. 217, M. St. Pierre Direct at 50-52.
- Ex. 218, Attachments to M. St. Pierre Direct, MAS-8, MAS-8a.
- Ex. 219, M. St. Pierre Surrebuttal at 43-44.

12. Other Gas Revenue

This issue is resolved between MERC and the Department. No other party offered testimony on this issue.

The Department recommended that test year revenue from miscellaneous service revenues be increased by \$51,493. According to the Department, this adjustment more reasonably averages annual revenue over a four-year period of historical data rather than using seven months of actual data. MERC accepted the Department's proposed adjustment.

- Ex. 24, S. DeMerritt Rebuttal at 15.
- Ex. 215, L. La Plante Direct at 3, LL-3.
- Ex. 216, L. La Plante Surrebuttal at 2.

13. Charitable Contributions

This issue is resolved between MERC and the Department. No other party offered testimony on this issue.

MERC included 2012 actual charitable contributions of \$31,050 in its test year income statement. MERC accepted the Department's recommended reduction of \$16,105.

- Ex. 4, Initial Filing Volume 3, Document 5.
- Ex. 24, S. DeMerritt Rebuttal at 17.
- Ex. 215, L. La Plante Direct at 20.
- Ex. 216, L. La Plante Surrebuttal at 5.

14. Conservation Improvement Program ("CIP") Matters

This issue is disputed between MERC and the Department. No other party offered testimony on this issue.

MERC Position: MERC agreed with the Department to increase its CIP expense by \$475,941 from \$8,920,481 to \$9,396,422 to include the correct test year CIP expense amount. MERC also agreed to update its CIP tracker carrying charge at the time of final rates based on the overall rate of return approved and to report its final CCRC rate based on the Commission's final order. Finally, MERC indicated that it had already updated the CCRC rate for interim rates as recommended by the Department and agreed that it would update the CCRC in final rates based on the higher CIP expense. MERC, however, disagrees with the Department's recommendation that MERC be required to increase natural gas revenue by \$3,758,090 because to do so would effectively reduce MERC's revenue requirement based on revenue that will never be collected. MERC did agree with the Department's recommendations that MERC update its CIP tracker carrying charges and CCRC calculation at the time final rates are approved.

DOC Position: The Department recommended that MERC be required to increase gas revenue for CIP expenses in the amount of \$3,758,090 to account for the increase in CIP expense. The Department asserts this increase in CIP revenue is necessary to ensure that the CIP expense is “revenue neutral” similar to the cost of gas where revenue from the sale of gas is equal to the cost. The Department further recommended that MERC update, at the time of final rates, its CIP tracker carrying charge based on the overall rate of return approved by the Commission and also that MERC report the calculation of its CCRC in its final rate compliance filing based on the level of CIP expenses divided by approved sales. MERC agreed with these two recommendations.

- Ex. 19, S. DeMerritt Direct at 10, 41-44, SSD-24.
- Ex. 21, S. DeMerritt Supplemental Direct at 4-5.
- Ex. 24, S. DeMerritt Rebuttal at 5-8, 13-14, SSD-2.
- Ex. 217, M. St. Pierre Direct at 12-21.
- Ex. 218, Attachments to M. St. Pierre Direct MAS-16.
- Ex. 219, M. St. Pierre Surrebuttal at 11-19.

15. Regulatory Assets and Liabilities (Non-Employee Benefits)

This issue is disputed between MERC and the Department. No other party offered testimony on this issue. (Note that regulatory assets and liabilities related to employee benefits are discussed below).

MERC Position: MERC originally included \$19,642,806 of regulated assets and liabilities in its proposed test-year rate base. MERC has since agreed with the Department that Account 186591, Deferred Debit-Long Term Account Receivable Arrearage, an asset of \$17,066 and Account 254400, Regulatory Liabilities-Derivatives, in the amount of \$244,040 should be excluded from rate base. MERC also accepted the Department’s proposed adjustment to remove from rate base the recovery of unamortized rate case expenses in the amount of \$1,315,335, as well as deferred taxes associated with that expense, in the amount of \$541,188.

DOC Position: The Department recommended that MERC reduce rate base by \$11,281,942 for Regulatory Assets and Liabilities adjustments related to 17 accounts. MERC has agreed to adjustments with respect to two of these accounts. Additionally, the Department recommended that \$1,315,335 be removed from rate base recovery for unamortized rate case expenses (Account 182513). As discussed below, MERC accepted the Department’s recommendation regarding unamortized rate case expenses. The Department’s proposed adjustments for the other accounts are summarized as follows:

	Regulatory Assets	Account Name	MERC Filed	DOC Direct	MERC Rebuttal	DOC Surrebuttal
1	182515	Post retirement Life	\$19,777	\$0	\$19,777	\$0
2	182312	FAS 158	\$16,587,916	\$0	\$16,587,916	\$0
3	186390	Labor loader	\$2,304	\$0	\$2,304	\$0
4	186591	Deferred Dr.-LT A/R	\$17,066	\$0	\$0	\$0
5		TOTAL ASSETS	\$16,627,063	\$0	\$16,609,997	\$0
	Regulatory Liabilities					

6	228200	Injuries & Damages Reserve	\$(217,943)	\$0	\$(217,943)	\$0
7	228210	Workers Comp Claim Reserve	\$(6,054)	\$0	\$(6,054)	\$0
8	228300	Deferred Cr-Sup Ret Select(SERP)	\$(163,731)	\$0	\$(163,731)	\$0
9	228305	Sup Remp ret Plan (SERP)	\$(19,719)	\$0	\$(19,719)	\$0
10	228310	Pension Restoration	\$(53,763)	\$0	\$(53,763)	\$0
11	228315	Post Ret Health Care-Admin	\$(2,590,545)	\$0	\$(2,590,545)	\$0
12	228320	Post Ret Health Care-NonAdmin	\$(749,060)	\$0	\$(749,060)	\$0
13	228331	Accr Pens Liab-CHI Retire Plan	\$(1,214,798)	\$0	\$(1,214,798)	\$0
14	242070	Current Pension Obligation	\$(20,572)	\$0	\$(20,572)	\$0
15	242072	Current Pension Restoration	\$(2,556)	\$0	\$(2,556)	\$0
16	254009	Reg Liab-Cost to Fwd External	\$(255)	\$0	\$(255)	\$0
17	254400	Reg Liability – Deferred Taxes	\$(39,556)	\$0	\$(39,556)	\$0
18	254450	Reg Liability-Derivatives	\$(244,050)	\$0	\$0	\$0
19		TOTAL LIABILITIES	\$(5,322,602)	\$0	\$(5,078,552)	\$0
20		TOTAL ASSETS/ LIABILITIES	\$11,304,461	\$0	\$11,531,445	\$0
21		Minnesota Jurisdiction 99.8007934%	\$11,281,942	\$0	\$11,508,474	\$0

The Department recommended that three accounts not be removed from rate base since these accounts were specifically discussed and approved in prior Commission filings: Regulatory Asset-Purchase Accounting Effect on Benefits, Account 182351; Regulatory Asset- Cloquet Plant Amortization, Account 182901; and Regulatory Liability-2010 Health Care Legislation, Account 254391.

- Ex. 4, Initial Filing Volume 3, Information Requirements, Document 2, Schedule B-6.
- Ex. 24, S. DeMerritt Rebuttal at 3-5.
- Ex. 217, M. St. Pierre Direct at 7-12.
- Ex. 218, Attachments to M. St. Pierre Direct, MAS-13.
- Ex. 219, M. St. Pierre Surrebuttal at 2-11.
- Ex. 215, L. La Plante Direct at 16-19.
- Ex. 216, L. La Plante Surrebuttal at 3-5.

16. Employee Benefit Costs and Pension Expense

MERC and the Department have reached agreement on several issues regarding employee benefit costs. MERC does not request recovery in 2014 of costs recorded in Accounts 926210 (Pension Restoration Plan Expense), 926220 (Supplemental Employee Retirement Plan (“SERP”)), and 926300 (Executive Deferred Compensation Employee Stock Ownership Plan Match) for MERC’s share of IBS’s current costs related to non-qualified benefits. Actuarially-calculated costs for MERC and IBS for post-retirement welfare will be based on an updated actuarial analysis reflecting the re-measurement at March 1, 2014. Other employee benefits for MERC and IBS will be projected based on inflating 2012 actual amounts. The Department agrees that the regulatory asset in Account 182351 (Purchase Accounting Effect on Benefits) should not be removed from rate base because in Docket No. G007,011/M-06-1287 the Commission authorized MERC to create a regulatory asset for the pension and other post retirements acquired from Aquila.

MERC and the Department continue to disagree on the assumptions that should be used to calculate pension plan expense and post-retirement life plan expense for the 2014 test year. MERC has proposed an actuarial determination of costs while the Department recommended adjustments to the actuarial analysis. Specifically, the Department recommended: (1) that plan asset values be updated to reflect the balance on December 31, 2013; and (2) that test-year actuarially-determined costs be based on equal discount and long-term growth rates of eight percent. Based on these two recommendations, the Department recommended that the Commission require MERC to decrease pension expense by \$1,350,012, increase post-retirement medical by \$10,260, and increase post retirement life insurance expense by \$3,853.

With respect to the Department's first recommendation, that plan asset values be updated to reflect the balance on December 31, 2013, MERC has agreed with the Department's recommendation to use the plan asset values and discount rates as of December 31, 2013 with respect to pension and post retirement life insurance plans. Additionally, for post-retirement medical plan, MERC proposed to update the plan asset values and discount rates as of March 1, 2014. The Department accepted this proposal.

MERC and the Department also disagree on the inclusion of Company supplied funds in rate base. MERC proposed to include cumulative excess funding in rate base because MERC's customers will benefit via lower benefit costs and the Department recommended removing \$11,508,474 related to employee benefits from rate base. The Department also recommended that since MERC is not requesting recovery of the expense portion of Account 926220, the related SERP and pension restoration accounts (228300, 228310, and 242072) be removed from rate base.

The OAG did not make a specific recommendation regarding employee benefits or pension expense. No other party offered testimony on the issue.

- Evidentiary Hearing Transcript at 23, 54-56, 213-216.
- Ex. 26, C. Hans Direct at 4, 8-13, 15-16.
- Ex. 27, C. Hans Rebuttal at 4-17.
- Ex. 217, M. St. Pierre Direct at 7-11, 28-34.
- Ex. 219, M. St. Pierre Surrebuttal at 2-4, 7-9, 25-33.

17. Rate Case Expense

MERC and the Department are in agreement on the issue of test year rate case expense. No other party offered testimony on this issue. The Department recommended that \$21,925 of MERC's travel expenses be removed from the proposed test year rate case expense. MERC accepted this adjustment.

MERC, the Department, and the OAG are in agreement on the issue of unamortized rate case expense. The Department proposed, and the OAG agreed with, excluding \$1,315,335 of unamortized rate case expense from rate base. MERC proposed an additional adjustment of \$541,188 to remove from the rate base deferred taxes associated with the removed unamortized rate case expenses. In Surrebuttal Testimony, the Department revised downward slightly its recommended adjustment to reflect the amount allocated to the Minnesota Jurisdiction. Specifically, the Department recommended that the rate base exclude unamortized rate case expenses of \$1,312,704 and related deferred taxes of \$540,106. MERC accepted the Department's recommendation regarding unamortized rate case expenses.

MERC and the Department disagree on the rate case expense amortization period. MERC proposed an amortization period of two years, while the Department recommended an amortization period of three years. No other party offered testimony on this issue.

MERC Position: MERC proposed amortizing rate case expense over two years because of the possibility of filing a rate case in 2015 using a 2016 test year. MERC has pointed out that it anticipates increased construction activity that may necessitate a 2015 rate case filing.

DOC Position: The Department argues that an average time period between rate cases should be used to estimate the appropriate period of time over which to recover rate case expenses. The Department's calculation results in an average for MERC of three years. This is the same recovery period approved by the Commission in the Company's 2008 and 2010 rate cases (Docket No. G007,011/GR-08-835 and G007,011/GR-10-977).

Test Year Rate Case Expense

- Ex. 19, S. DeMerritt Direct at 27, SSD-20.
- Ex. 24, S. DeMerritt Rebuttal at 16-17.
- Ex. 215, L. La Plante Direct at 12-14, LL-7.
- Ex. 216, L. La Plante Surrebuttal at 2-3.
- Ex. 153, J. Lindell Rebuttal at 1-2.

Unamortized Rate Case Expenses

- Ex. 19, S. DeMerritt Direct at 27, SSD-20.
- Ex. 24, S. DeMerritt Rebuttal at 16-17.
- Ex. 215, L. La Plante Direct at 16-19, LL-11, LL-12.
- Ex. 216, L. La Plante Surrebuttal at 3-5.

Rate Case Amortization Period

- Evidentiary Hearing Transcript at 22.
- Ex. 19, S. DeMerritt Direct at 27.
- Ex. 24, S. DeMerritt Rebuttal at 15-17.
- Ex. 215, L. La Plante Direct at 12-16.
- Ex. 216, L. La Plante Surrebuttal at 8-10.

18. Executive Incentive Compensation

MERC and the Department are in agreement on the issue of executive incentive compensation. MERC has agreed with the Department's recommendation to reduce executive incentive compensation costs by \$27,857 and to retain MERC's existing incentive compensation refund mechanism at the approved test-year level.

- Ex. 19, S. DeMerritt Direct at 24, SSD-16.
- Ex. 13, N. Cleary Direct at 1-13.
- Ex. 217, M. St. Pierre Direct at 35-37.
- Ex. 24, S. DeMerritt Rebuttal at 8, 14.
- Ex. 219, M. St. Pierre Surrebuttal at 34-35.

19. Non-fuel O&M Expense

The issue of the appropriate inflation adjustment and methodology to calculate base O&M expense is disputed between MERC and the OAG. No other party offered testimony on this issue.

MERC Position: To calculate its 2014 non-fuel operations and maintenance (“O&M”) expense, MERC used actual 2012 non-fuel O&M costs and applied an inflation factor for 2013 and 2014 and then applied known and measurable (“K&M”) adjustments. The inflation adjustment is based on an average of inflation from Value Line, Global Insight, Moore Inflation Predictor, Energy Information Administration, and International Monetary Fund. MERC used 2.6% as a labor inflator rate based on union contract wage increases. MERC’s calculated inflation between 2012 and 2014 is 3.74% on non-labor and 5.27% on labor.

MERC then applied seventeen K&M adjustments, nine increases and eight decreases. The specific K&M adjustments are disputed between MERC, the Department, and OAG as discussed in greater detail in the issue sections that follow.

OAG Position: The OAG asserts that MERC’s approach produces an unreasonable increase in costs for the test year because MERC uses two years of inflation and two years of adjustments. The OAG recommended a one year inflation factor covering both labor and general inflation, based on historical O&M expense. The OAG recommended O&M expenses be inflated by 2.2% to determine test year O&M expense based on the three year average annual inflation. The O&G’s positions on the proposed K&M adjustments are summarized in sections below.

- Ex. 4, Initial Filing Volume 3, Document 5, Schedule C-6.
- Ex. 19, S. DeMerritt Direct at 9, 12-27, SSD-2 through SSD-19.
- Ex. 24, S. DeMerritt Rebuttal at 19-25.
- Ex. 151, J. Lindell Direct at 14-21, JLL-6, JLL-7, JLL-8.
- Ex. 154, J. Lindell Surrebuttal at 4-7.

20. Uncollectable Expense

This issue is disputed between MERC, the Department, and the OAG. No other party offered testimony on this issue.

MERC Position: MERC proposed to use a three year average of uncollectible debt expense, which is consistent with the approach taken by the Commission in MERC’s past rate case proceedings. Additionally, MERC has asserted that the proposed levelization approach is a more reasonable method than picking a fixed point in time because it accounts for fluctuations.

DOC Position: The Department has recommended that the actual 2013 uncollectible expense ratio be used to determine uncollectible expense, rather than using a three year average from 2010 through 2012.

OAG Position: The OAG proposed a bad debt expense of \$1.35 million based on the estimate of 2012 bad debt expense and taking into consideration an improved economy and lower relative price of natural gas.

- Ex. 19, S. DeMerritt Direct at 16-17, SSD-4.
- Ex. 24, S. DeMerritt Rebuttal at 9-10.

- Ex. 151, J. Lindell Direct at 5-7.
- Ex. 154, J. Lindell Surrebuttal at 3-4.
- Ex. 217, M. St. Pierre Direct at 37-40.
- Ex. 219, M. St. Pierre Surrebuttal at 35-38, MAS-S-10.

21. IBS Customer Relations

This issue is disputed between MERC and OAG. No other party offered testimony on this issue.

MERC Position: MERC included a \$730,681 K&M adjustment to non-fuel O&M expense for IBS-customer relations costs associated with MERC's contract increases for Vertex and the Integrays Customer Experience ("ICE") Project. MERC believes these costs are used and useful as Vertex is currently providing billing and customer care services to MERC customers. Alternatively, MERC proposed to defer ICE costs totaling \$322,226 annually as a regulatory asset until MERC's next rate case, with recovery of the regulatory asset from customers over a reasonable period (e.g., 3 years) to commence once the in-house customer service and billing system is implemented.

OAG Position: The OAG recommended that MERC's proposed increase for IBS-customer relations be denied. Specifically, the OAG has recommended that MERC reduce O&M expense by \$823,990 for IBS Customer Relations costs.

- Ex. 19, S. DeMerritt Direct at 13-16, SSD-9.
- Ex. 24, S. DeMerritt Rebuttal at 25.
- Ex. 151, J. Lindell Direct at 19-21.
- Ex. 152, Schedules to J. Lindell Direct, JLL-8.

22. Mapping Project

This issue is disputed between MERC and the Department. No other party offered testimony on this issue.

MERC Position: MERC identified gaps in its mapping accuracy that field personnel utilize to locate lines, manage outages, determine flow modeling, and other critical infrastructure tasks. To improve the quality and utilization of the mapping systems, MERC plans to validate the accuracy of its mapping by verifying as built drawings and actual field data. MERC included an adjustment for the mapping project of \$330,000 O&M for the test year.

DOC Position: The Department has argued that the Mapping Project is a one-time project since it is projected to be done at the end of the test year. The Department, therefore, recommended that Mapping Project costs be levelized over three years and that the Commission reduce MERC's distribution expense by \$220,000.

- Evidentiary Hearing Transcript at 23-24, 37-39, 44.
- Ex. 19, S. DeMerritt Direct at 18-19, SSD-7.
- Ex. 24, S. DeMerritt Rebuttal at 10-11.
- Ex. 217, M. St. Pierre Direct at 44-46.
- Ex. 218, M. St. Pierre Direct Attachments, MAS-28, MAS-29.
- Ex. 219, M. St. Pierre Surrebuttal at 40-41.

23. Gate Stations Project

This issue is resolved between MERC and the Department. Constellation New Energy – Gas Division, LLC also filed testimony regarding the Gate Stations Project, requesting that MERC complete the project prior to October 1, 2014. MERC responded in Rebuttal Testimony that the gate station project is a multi-year project that will not be completed in 2014. No other party offered testimony on this issue.

The Department has agreed with MERC's proposal to increase 2014 proposed O&M by \$330,000 for the Gate Station Project. The Department concluded MERC's proposal is reasonable because the project is a long-term project rather than a one-time project and because gate station equipment and installation costs will be capitalized and the O&M costs represent incremental costs of operating and maintaining the equipment.

- Ex.19, S. DeMerritt Direct at 17-18, SSD-6.
- Ex. 24, S. DeMerritt Rebuttal at 28.
- Ex. 125, R. Haubensak Direct at 4.
- Ex. 217, M. St. Pierre Direct at 46-49.
- Ex. 219, M. St. Pierre Surrebuttal at 41-42.

24. Sewer Laterals Pilot Program

MERC and the Department are in agreement with respect to this issue. No other party offered testimony on the issue.

The Department originally concluded that the Sewer Laterals Pilot Program was a one-time project and therefore recommended that the costs be levelized over three years. Based on information provided by MERC that the sewer lateral pilot project is a multi-year project that will extend beyond 2014 and the community of Cannon Falls, the Department recommended that the Commission accept MERC's proposed test year sewer laterals pilot program costs.

- Evidentiary Hearing Transcript at 37-40, 44-45, 51-52.
- Ex. 19, S. DeMerritt Direct at 17, SSD-5.
- Ex. 24, S. DeMerritt Rebuttal at 10.
- Ex. 217, M. St. Pierre Direct at 40-43.
- Ex. 218, Attachments to M. St. Pierre Direct at MAS-26, MAS-27.
- Ex. 219, M. St. Pierre Surrebuttal at 38-40.

25. Travel and Entertainment Expense

MERC and the Department are in agreement with respect to Travel and Entertainment ("T&E") expense. MERC accepted the Department's recommendation to remove \$7,770 for travel and entertainment for expenses that the Department determined did not appear to be reasonably related to Minnesota regulated utility operations. MERC also accepted the Department's recommendation to reduce test year Administrative and General Expense by \$956 for test year corporate aircraft costs. Although MERC asserts these costs are prudent, it agreed with the DOC's recommended adjustment because the costs are not material. Additionally, the Department recommended that T&E expenses allocated from MERC's service company should be filed with the rate case, which MERC agreed to do in future rate filings.

The OAG recommend disallowance of MERC's T&E expense in the amount of \$569,450. Additionally, the OAG recommended that membership dues in the amount of \$63,245 be disallowed. The OAG also recommended that the Commission require MERC, in future rate cases, to fully disclose all dues, memberships, and T&E expenses including customer events and expenses if the cost is included in MERC's request for cost recovery.

No other party offered testimony on the issue.

- Evidentiary Hearing Transcript at 25, 138-139.
- Ex. 4, Initial Filing Volume 3, Informational Document 14.
- Ex. 19, S. DeMerritt Direct at 47-50.
- Ex. 24, S. DeMerritt Rebuttal at 17-18.
- Ex. 25, S. DeMerritt Surrebuttal at 2-4.
- Ex. 151, J. Lindell Direct at 21-26.
- Ex. 154, J. Lindell Surrebuttal at 7-9.
- Ex. 215, L. La Plante Direct at 20-24 and LL-14.
- Ex. 216, L. La Plante Surrebuttal at 6-7.

III. OTHER ISSUES

1. Rate Design

MERC and the Department are in agreement with respect to rate design. MERC accepted the Department's proposed apportionment of revenue responsibility with some slight modifications, which were agreed to by the Department. Specifically, MERC recommended, and the Department agreed, to maintain proposed rates for the Super Large Volume customer class and Flex customer class and to group customers within the same distribution rates together for revenue apportionment purposes.

The OAG offered an alternative proposed revenue apportionment and recommended any approved revenue increase be shared equally among all customer classes after removing MERC's proposed revenue from the SLVI classes.

- Ex. 40, G. Walters Direct at 6-10 and GJW-1.
- Ex. 42, G. Walters Rebuttal at 3-6 and GJW-1, GJW-2.
- V. Chavez Direct at 4-35 and VCC-2.³
- Ex. 203, S. Peirce Direct at 2-16 and SLP-2, SLP-3, SLP-4.
- Ex. 205, S. Peirce Surrebuttal at 2-3.

2. Customer Charge

This issue is disputed between MERC and the OAG. MERC and the Department are in agreement regarding the amount of customer charges. No other party offered testimony on the issue.

³ This portion of Vincent Chavez's Direct Testimony was not adopted by OAG witness John Lindell and is therefore not part of the record.

MERC proposed the following monthly customer charges: \$11.00 for Residential, \$18.00 for Small Commercial and Industrial (“C&I”) customers, \$45.00 for Large C&I customers, \$160.00 for Small Volume Interruptible (“SVI”) customers, \$185.00 for Large Volume Interruptible customers (“LVI”) and \$300.00 for all Super Large Volume customers. MERC proposed a monthly customer charge of \$300.00 for the Super Large Volume Town Plant Transportation rate class. MERC also proposed to increase the Transportation Administration Fee from \$70.00 to \$110.00 per metered account.

No other party addressed MERC’s proposed increase to the Transportation Administration Fee.

The Department recommended that the residential customer charge be increased to \$9.50 and agreed with MERC’s proposed customer charges for all other customer classes.

MERC accepted the Department’s customer charge recommendations.

	Current	MERC Originally Proposed	MERC Rebuttal/DOC Proposed
Residential	\$8.50	\$11.00	\$9.50
Small Vol. C&I	\$14.50	\$18.00	\$18.00
Large Vol. C&I	\$35.00	\$45.00	\$45.00
Small Vol. Interruptible	\$150.00	\$160.00	\$160.00
Large Vol. Interruptible	\$175.00	\$185.00	\$185.00
Super Lg. Volume	\$300.00	\$300.00	\$300.00

The OAG recommended no increase to the customer charge for Residential and Small Commercial and Industrial classes.

- Evidentiary Hearing Transcript at 114-115,132-134.
- Ex. 40, G. Walters Direct at 10-26.
- Ex. 42, G. Walters Rebuttal at 6-12.
- Ex. 150, V. Chavez Direct (adopted by J. Lindell) at 36-47, 59-60.
- Ex. 154, J. Lindell Surrebuttal at 15-20.
- Ex. 205, S. Peirce Surrebuttal at 3-4.
- Ex. 203, S. Peirce Direct at 16-19 and SLP-5, SLP-6.

3. Class Cost of Service Study (“CCOSS”)

This issue is resolved between MERC and the Department. The OAG disputes aspects of the CCOSS. No other party offered testimony on the issue.

MERC prepared a CCOSS for the purposes of establishing rates. The Department has recommended that the Commission accept MERC’s proposed CCOSS as a useful tool for the purpose of setting rates.

The OAG maintains that MERC’s zero-intercept analysis, used to classify costs associated with the Mains account, violates econometric assumptions. The OAG recommended that the Commission disregard MERC’s zero-intercept analysis and instead classify 30% of the Mains account as customer cost.

The OAG also maintains that MERC's allocation of FERC account 903 fails to take into consideration the complexity of accounts and meters within each customer class. The OAG recommended that these accounts be allocated using a weighted customer allocator. The OAG initially argued that MERC's allocation of FERC account 902 was also improper but has since agreed with MERC's allocation methodology with respect to account 902.

MERC and the Department agree that income taxes should be allocated to the rate schedule on the basis of taxable income by class that fully and only reflects the cost of providing service. In this rate case, this is mathematically equivalent to using the Rate Base allocation methodology.

The OAG maintains that income taxes should be allocated within the CCOSS in the same manner as MERC calculates total income taxes for the total Minnesota Jurisdiction. The OAG also suggests that MERC's allocation of income taxes to customer classes within the CCOSS is inconsistent with past Commission decisions. No other party offered testimony on this issue.

- Evidentiary Hearing Transcript at 64-92, 137-147, 149-178, 186-198.
- Ex. 4, Initial Filing Volume 3, Informational Requirement, Document 12.
- Ex. 29, J. Hoffman Malueg Direct at 3-31.
- Ex. 30, J. Hoffman Malueg Rebuttal.
- Ex. 31, J. Hoffman Malueg Errata to Rebuttal Testimony.
- Ex. 32, Response to OAG IR No. 700.
- Ex. 33, Response to OAG IR No. 702.
- Ex. 34, Response to OAG IR No. 704.
- Ex. 35, Response to OAG IR No. 711.
- Ex. 43, Response to OAG IR No. 703.
- Ex. 151, J. Lindell Direct at 26-28.
- Ex. 153, J. Lindell Rebuttal at 6-8.
- Ex. 154, J. Lindell Surrebuttal at 12-15.
- Ex. 155, R. Nelson Direct.
- Ex. 156, Schedules to R. Nelson Direct.
- Ex. 158, R. Nelson Surrebuttal at 1-23.
- Ex. 206, S. Ouanes Direct.
- Ex. 207, Attachments to S. Ouanes Direct.
- Ex. 208, S. Ouanes Rebuttal and Attachments.
- Ex. 209, S. Ouanes Surrebuttal and Attachments.

4. Uncollected CIP Revenues

This issue is resolved between MERC and the Department. No other party offered testimony on the issue.

The Department recommended that MERC credit the CIP tracker for uncollected amounts of CCRA and CCRC from July 2006 through December 2013, before Northshore Mining's CIP exemption was effective January 1, 2014. MERC has agreed to absorb this under-recovery and credit the CIP tracker accordingly.

- Evidentiary Hearing Transcript at 35-37.
- Ex. 19, S. DeMerritt Direct at 44.
- Ex. 21, S. DeMerritt Supplemental Direct at 3-4.
- Ex. 22, Exhibits to S. DeMerritt Supplemental Direct, SSD-1, SSD-2.

- Ex. 24, S. DeMerritt Rebuttal at 7-8.
- Ex. 217, M. St. Pierre Direct at 17-19.
- Ex. 219, M. St. Pierre Surrebuttal at 19-20.

5. Service and Main Extension

This issue is resolved between MERC and the Department. No other party offered testimony on this issue.

MERC and the Department have agreed to a rate base reduction of \$35,803.18 for unbilled extension costs. MERC and the Department have also agreed that it is reasonable for MERC to continue to apply MERC's approved 75-foot allowance for each stand-alone service line extension and MERC's approved feasibility model for other residential and commercial, and industrial extensions.

- Ex.14, D. Kult Direct at 3-12, DGK-1, DGK-2.
- Ex.15, D. Kult Rebuttal at 3-4.
- Ex. 210, M. Zajicek Direct at 2-27, MZ-1, MZ-2, MZ-3, MZ-4.
- Ex. 211, M. Zajicek Surrebuttal at 2-3.

6. New Area Surcharge

This issue is resolved between MERC and DOC. No other party offered testimony on this issue.

MERC and the Department agreed that MERC should examine, in a separate proceeding, its New Area Surcharge, and assess whether extensions could be made more affordable by, for example, extending the surcharge period longer than the current 15 year limit.

- Ex. 42, G. Walters Rebuttal at 13.
- Ex. 210, M. Zajicek Direct at 11-13.
- Ex. 211, M. Zajicek Surrebuttal at 5.

7. Winter Construction Charges

This issue is resolved between MERC and the Department. No other party offered testimony on this issue.

MERC agreed with the Department's recommendation that MERC be required to show that no winter construction charges are assessed outside the winter construction period and that no winter construction charges incurred by MERC from any contractor, outside of the winter construction period, are proposed to be recovered from other customers.

- Ex.14, D. Kult Direct at 13, DGK-3.
- Ex. 15, D. Kult Rebuttal at 5.
- Ex. 210, M. Zajicek Direct at 27-28.
- Ex. 211, M. Zajicek Surrebuttal at 4.

8. Farm Tap Safety Inspection Program

This issue is resolved between MERC and the Department. No other party offered testimony on this issue.

The Department recommended that MERC provide the most current five-year farm tap inspection reports and any recommendations for improvement in its next rate case. MERC agreed with the Department's recommendations. No other party offered testimony on the issue.

- Ex. 14, D. Kult Direct at 14-15, DGK-4.
- Ex. 15, D. Kult Rebuttal at 6.
- Ex. 210, M. Zajicek Direct at 28-30.
- Ex. 211, M. Zajicek Surrebuttal at 4-5.

V. SCHEDULE 1: OPERATING INCOME STATEMENT

Operating Income Statement			
	MERC	DOC	OAG
Filed Net Operating Income	\$ 7,557,332	\$ 7,557,332	\$ 7,557,332
Sales forecast	\$ 1,965,866	\$ 1,965,866	\$ 2,000,000
Cost of Gas Revenues	\$ 38,873,289	\$ 41,446,798	
Cost of Gas	\$ (38,873,289)	\$ (41,446,798)	
CIP Revenue	\$ -	\$ 3,758,090	
Benefit Expenses	\$ 651,524	\$ 1,486,879	
Property Tax	\$ 118,864	\$ 118,864	\$ 690,700
CIP Amortization	\$ (475,941)	\$ (475,941)	
Uncollectible Expense	\$ (250,526)	\$ 332,072	\$ 415,848
Mapping Project		\$ 220,000	
Executive Incentive Adjustment	\$ 27,857	\$ 27,857	
Miscellaneous Revenues	\$ 51,493	\$ 51,493	
Rate Case Amortization	\$ 10,963	\$ 279,909	
Charitable Contributions	\$ 16,105	\$ 16,105	
Travel and Entertainment	\$ 7,770	\$ 7,770	\$ 569,450
Corporate Aircraft	\$ 956	\$ 956	
Non-Fuel O&M Inflation	\$ -	\$ -	\$ 1,032,578
IBS Customer Relations	\$ -	\$ -	\$ 823,990
Interest Sync Adjustment	\$ 13,397	\$ (95,778)	
Income Taxes	\$ (877,809)	\$ (3,217,688)	\$ (2,285,503)
Net Operating Income after Hearings	\$ 8,817,851	\$ 12,033,786	\$ 10,804,395

- (1) Credits in this table represent a decrease to Operating Income, while Debits represent an increase.
- (2) The OAG did not specifically address income taxes so a calculation was done by applying a Federal Income tax rate of 31.602% and a State Tax Rate of 9.708% to the adjustments.
- (3) Income Taxes in the MERC column represent the income taxes MERC included in it's Rebuttal Testimony understanding that these will need to be updated after the final adjustments are determined.
- (4) Income Taxes in the DOC column represent the income taxes the DOC included in it's Surrebuttal Testimony understanding that these will need to be updated after the final adjustments are determined.

VII. SCHEDULE 2: RATE BASE

	MERC	DOC	OAG
Filed Rate Base	\$ 198,314,568	\$ 198,314,568	\$ 198,314,568
Service Extensions	\$ (6,633)	\$ (6,633)	
Long Term A/R Arrearage	\$ (17,066)	\$ (17,066)	
Regulatory Liabilities Derivatives	\$ 244,050	\$ 244,050	
Unamortized Rate Case Expenses	\$ (1,315,335)	\$ (1,312,704)	\$ (1,315,335)
Unamortized Rate Case Expenses DT	\$ 541,188	\$ 540,106	
Gas Storage	\$ 853,699	\$ 853,699	
Cash Working Capital	\$ 577,765	\$ 637,637	
Regulatory Assets	\$ -	\$ (11,508,926)	
Deferred Taxes Regulatory Assets		\$ 4,294,542	
Rate Base after Hearings	\$ 199,192,236	\$ 192,039,273	\$ 196,999,233

- (1) Credits in this table represent a decrease to Rate Base, while Debits represent an increase.
- (2) Cash Working Capital Adjustment included in the MERC column represents MERC's position from Rebuttal Testimony understanding this will be updated after the final adjustments are determined.
- (3) Cash Working Capital Adjustment included in the DOC column represents the DOC's position from Surrebuttal Testimony understanding this will be updated after the final adjustments are determined.

IX. SCHEDULE 3: RATE OF RETURN CALCULATION

	MERC	DOC	OAG
Average Rate Base	\$199,192,236	\$192,039,273	\$196,999,233
Rate of Return After Adjustments	8.0092%	7.3299%	6.9376%
Required Operating Income	\$15,953,705	\$14,076,287	\$13,667,019
Operating Income	\$8,817,851	\$12,033,786	\$10,804,395
Income Deficiency	\$7,135,854	\$2,042,501	\$2,862,624
Gross Revenue Conversion Factor	1.7040	1.7040	1.7040
Gross Revenue Deficiency	\$12,159,494	\$3,480,421	\$4,877,911
MERC's Initial Filing	\$ 14,187,597	\$ 14,187,597	\$ 14,187,597
Change from Petitioner's Filing	\$ (2,028,103)	\$ (10,707,176)	\$ (9,309,686)
(1) The OAG did not specifically address the capital structure so the OAG proposed ROE of 8.62% was imputed into MERC's capital structure to derive the rate of return of 6.9376%.			

AFFIDAVIT OF SERVICE

STATE OF MINNESOTA)
) ss
COUNTY OF HENNEPIN)

Kristin M. Stastny hereby certifies that on the 6th day of June, 2014, on behalf of Minnesota Energy Resources Corporation (MERC) she electronically filed a true and correct copy of MERC's Issues Matrix on www.edockets.state.mn.us. Said documents were also served via U.S. mail and electronic service as designated on the attached service list.

/s/ Kristin M. Stastny
Kristin M. Stastny

Subscribed and sworn to before me
this 6th Day of June, 2014.

/s/ Alice Jaworski
Notary Public, State of Minnesota

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Michael	Ahern	ahern.michael@dorsey.com	Dorsey & Whitney, LLP	50 S 6th St Ste 1500 Minneapolis, MN 554021498	Electronic Service	No	OFF_SL_13-617_Official cc service list
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_13-617_Official cc service list
Seth	DeMerritt	ssdemerritt@integrysgroup.com	Integrays Business Support	700 North Adams P.O. Box 19001 Green Bay, WI 543079001	Electronic Service	No	OFF_SL_13-617_Official cc service list
Ian	Dobson	ian.dobson@ag.state.mn.us	Office of the Attorney General-RUD	Antitrust and Utilities Division 445 Minnesota Street, BRM Tower St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_13-617_Official cc service list
Burl W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_13-617_Official cc service list
Robert	Harding	robert.harding@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_13-617_Official cc service list
Linda	Jensen	linda.s.jensen@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota Street St. Paul, MN 551012134	Electronic Service	No	OFF_SL_13-617_Official cc service list
Harry W	John	HWJohn@integrysgroup.com	MERC, Integrays	700 North Adams PO Box 19001 Green Bay, WI 54307-9001	Electronic Service	No	OFF_SL_13-617_Official cc service list
David G.	Kult	dgkult@minnesotaenergyresources.com	Minnesota Energy Resources Corporation	2665 145th St. NW Rosemount, MN 55068	Electronic Service	No	OFF_SL_13-617_Official cc service list
David	Kyto	djkyto@integrysgroup.com	Integrays Business Support	700 North Adams PO Box 19001 Green Bay, WI 543079001	Electronic Service	No	OFF_SL_13-617_Official cc service list

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_13-617_Official cc service list
Eric	Lipman	eric.lipman@state.mn.us	Office of Administrative Hearings	PO Box 64620 St. Paul, MN 551640620	Electronic Service	Yes	OFF_SL_13-617_Official cc service list
Peter	Madsen	peter.madsen@ag.state.mn.us	Office of the Attorney General-DOC	Bremer Tower, Suite 1800 445 Minnesota Street St. Paul, Minnesota 55101	Electronic Service	No	OFF_SL_13-617_Official cc service list
Chad T	Marriott	ctmarriott@stoel.com	Stoel Rives LLP	900 SW 5th Ave Ste 2600 Portland, OR 97204	Electronic Service	No	OFF_SL_13-617_Official cc service list
Andrew	Moratzka	apmoratzka@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_13-617_Official cc service list
Barbara	Nick	banick@integrysgroup.com	Minnesota Energy Resources Corporation	2665 145th Street PO Box 455 Rosemount, MN 55068-0455	Electronic Service	No	OFF_SL_13-617_Official cc service list
Richard	Savelkoul	rsavelkoul@martinsquires.com	Martin & Squires, P.A.	332 Minnesota Street Ste W2750 St. Paul, MN 55101	Electronic Service	No	OFF_SL_13-617_Official cc service list
Janet	Shaddix Elling	jshaddix@janetshaddix.com	Shaddix And Associates	Ste 122 9100 W Bloomington Frwy Bloomington, MN 55431	Electronic Service	Yes	OFF_SL_13-617_Official cc service list
Kristin	Stastny	stastny.kristin@dorsey.com	Dorsey & Whitney LLP	50 South 6th Street Suite 1500 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_13-617_Official cc service list
Gregory	Walters	gjwalters@minnesotaenergyresources.com	Minnesota Energy Resources Corporation	3460 Technology Dr. NW Rochester, MN 55901	Electronic Service	No	OFF_SL_13-617_Official cc service list

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
James P.	Zakoura	Jim@smizak-law.com	Smithyman & Zakoura Chartered	750 Commerce Plaza II 7400 West 110th Street Overland Park, KS 662102362	Electronic Service	No	OFF_SL_13-617_Official cc service list