

**Attachment 1 to
POST HEARING REPLY BRIEF OF THE MINNESOTA
DEPARTMENT OF COMMERCE**

July 11, 2014

MERC
Revenue Requirements Summary
Test Year Ending December 31, 2014

Line No.	Description	MERC's Filing 1/	DOC Direct	DOC Surrebuttal	DOC Post Hearing
		(a)	(b)	(c)	(d)
1	Average Rate Base	\$198,314,568	\$185,823,411	\$192,039,273	2/ \$192,049,363
2	Rate of Return	8.0092%	7.3299%	7.2745%	3/ 7.2745%
3	Required Operating Income	\$15,883,387	\$13,620,670	\$13,969,897	4/ \$13,970,631
4	Adjusted Mn Net Operating Income	\$7,557,332	\$11,943,428	\$12,033,181	5/ \$11,899,900
5	Income Deficiency	\$8,326,054	\$1,677,242	\$1,936,716	6/ \$2,070,731
6	Gross Revenue Conversion Factor	1.704	1.704	1.704	7/ 1.704
7	Gross Revenue Deficiency	\$14,187,597	\$2,858,021	\$3,300,164	8/ \$3,528,525

1/ MERC Ex. _____, Vol. 3, Doc. 1, Sch. A-1 (Information Requirements).

2/ DOC Ex. _____ MAS-S-3 (St. Pierre Surrebuttal) .

3/ DOC Ex. _____ (Amit Surrebuttal Testimony).

4/ Lines (1) x (2).

5/ DOC Ex. _____ (MAS-S-5).

6/ Lines (3) - (4).

7/ MERC Ex. _____, Vol. 3, Doc. 1, Sch. A-2 (Information Requirements).

8/ Lines (5) X (6).

MERC
Rate Base Summary
Test Year Ending December 31, 2014

Line No.	Description	MERC's Filing 1/ (a)	Adjustments 2/ (b)	DOC Position 3/ (c)
PLANT IN SERVICE				
1	Energy	\$999,429	\$0	\$999,429
2	Transmission	\$6,833,452	\$0	\$6,833,452
3	Distribution	\$368,477,466	(\$6,633)	\$368,470,833
4	Customer	\$5,206,114	\$0	\$5,206,114
5	Total Plant	<u>\$381,516,461</u>	<u>(\$6,633)</u>	<u>\$381,509,828</u>
RESERVE FOR DEPRECIATION				
6	Energy	(\$326,488)	\$0	(\$326,488)
7	Transmission	(\$3,072,997)	\$0	(\$3,072,997)
8	Distribution	(\$164,797,536)	\$0	(\$164,797,536)
9	Customer	(\$1,700,703)	\$0	(\$1,700,703)
10	Total Accumulated Depreciation	<u>(\$169,897,723)</u>	<u>\$0</u>	<u>(\$169,897,723)</u>
NET PLANT IN SERVICE				
11	Energy	\$672,941	\$0	\$672,941
12	Transmission	\$3,760,455	\$0	\$3,760,455
13	Distribution	\$203,679,930	(\$6,633)	\$203,673,297
14	Customer	\$3,505,411	\$0	\$3,505,411
15	Total Net Plant	<u>\$211,618,737</u>	<u>(\$6,633)</u>	<u>\$211,612,104</u>
DEFERRED TAXES ON PLANT				
16	Energy Plant Deferred Tax	(\$71,144)	\$0	(\$71,144)
17	Transmission Plant Deferred Tax	(\$673,998)	\$0	(\$673,998)
18	Distribution Plant Deferred Tax	(\$35,515,782)	\$0	(\$35,515,782)
19	Customer Plant Deferred Tax	(\$370,594)	\$0	(\$370,594)
20	Total Plant Deferred Tax	<u>(\$36,631,519)</u>	<u>\$0</u>	<u>(\$36,631,519)</u>
21	Construction Work in Progress (CWIP)	\$0	\$0	\$0
22	LESS: Customer Advances	\$0	\$0	\$0
23	Net Utility Plant	<u>\$174,987,219</u>	<u>(\$6,633)</u>	<u>\$174,980,586</u>
24	Cash Working Capital from Lead/Lag	(\$3,908,368)	\$647,727	(\$3,260,641)
25	Deferred Taxes Other than Plant, M&S	(\$3,140,462)	\$4,834,648	\$1,694,186
26	Non-Utility Adjustment	(\$1,530,328)	\$0	(\$1,530,328)
27	Plant Adjustment	(\$29,112)	\$0	(\$29,112)
28	Subtotal	<u>(\$8,608,270)</u>	<u>\$5,482,375</u>	<u>(\$3,125,895)</u>
29	Materials and Supplies	\$279,570	\$0	\$279,570
30	Gas Storage	\$12,013,242	\$853,699	\$12,866,941
31	Regulatory Assets/Liabilities	\$19,642,806	(\$12,594,646)	\$7,048,160
32	Subtotal	<u>\$31,935,618</u>	<u>(\$11,740,947)</u>	<u>\$20,194,671</u>
33	TOTAL AVERAGE RATE BASE	<u>\$198,314,568</u>	<u>(\$6,265,205)</u>	<u>\$192,049,363</u>

1/ MERC Ex. ____, Vol. 3, Doc. 2, Sch. B-1 (Information Requirements).

MERC Ex. ____, Vol. 3, Doc. 2, Sch. B-3 (Information Requirements) for Working Capital.

2/ DOC Ex. ____ MAS-S-4 (St. Pierre Surrebuttal).

3/ Columns (a) + (b).

MERC
Rate Base Adjustments
Test Year Ending December 31, 2014

Line No.	Description	Regulatory Assets & Liabilities MAS (a)	Rate Case Expense LL (b)	Extensions MNZ (c)	Gas Storage LL (d)	Cash Working Capital (e)	Total Adjustments (f)
PLANT IN SERVICE							
1	Energy						\$0
2	Transmission						\$0
3	Distribution			(\$6,633)			(\$6,633)
4	Customer						\$0
5	Total Plant	\$0	\$0	(\$6,633)	\$0	\$0	(\$6,633)
RESERVE FOR DEPRECIATION							
6	Energy						\$0
7	Transmission						\$0
8	Distribution						\$0
9	Customer						\$0
10	Total Accumulated Depreciation	\$0	\$0	\$0	\$0	\$0	\$0
NET PLANT IN SERVICE							
11	Energy	\$0	\$0	\$0		\$0	\$0
12	Transmission	\$0	\$0	\$0		\$0	\$0
13	Distribution	\$0	\$0	(\$6,633)		\$0	(\$6,633)
14	Customer	\$0	\$0	\$0		\$0	\$0
15	Total Net Plant	\$0	\$0	(\$6,633)	\$0	\$0	(\$6,633)
DEFERRED TAXES ON PLANT							
16	Energy Plant Deferred Tax						\$0
17	Transmission Plant Deferred Tax						\$0
18	Distribution Plant Deferred Tax						\$0
19	Customer Plant Deferred Tax						\$0
20	Total Plant Deferred Tax	\$0	\$0	\$0	\$0	\$0	\$0
21	Construction Work in Progress (CWIP)						\$0
22	LESS: Customer Advances						\$0
23	Net Utility Plant	\$0	\$0	(\$6,633)	\$0	\$0	(\$6,633)
24	Cash Working Capital from Lead/Lag					\$647,727	\$647,727
25	Deferred Taxes Other than Plant, M&S	\$4,294,542	\$540,106				\$4,834,648
26	Non-Utility Adjustment						\$0
27	Plant Adjustment						\$0
28	Subtotal	\$4,294,542	\$540,106	\$0	\$0	\$647,727	\$5,482,375
29	Materials and Supplies						\$0
30	Gas Storage				\$853,699		\$853,699
31	Regulatory Assets/Liabilities	(\$11,281,942)	(\$1,312,704)				(\$12,594,646)
32	Subtotal	(\$11,281,942)	(\$1,312,704)	\$0	\$853,699	\$0	(\$11,740,947)
33	TOTAL AVERAGE RATE BASE	(\$6,987,400)	(\$772,598)	(\$6,633)	\$853,699	\$647,727	(\$6,265,205)

MERC
Operating Income Summary
Test Year Ending December 31, 2014

Line No.	Description	Petitioner's Filing (a)	Total Adjustments (b)	DOC Position (c)
UTILITY OPERATING REVENUES				
1	Natural Gas Revenue	\$257,186,462	\$54,170,159	\$311,356,621
2	Late Payment Revenue	\$525,000	\$0	\$525,000
3	Other Revenue	\$234,470	\$51,493	\$285,963
4	Total Operating Revenues	<u>\$257,945,932</u>	<u>\$54,221,652</u>	<u>\$312,167,584</u>
UTILITY EXPENSES				
5	Cost of Gas	\$173,412,058	\$48,446,204	\$221,858,262
6	Production	\$10,636	\$0	\$10,636
7	Gas Supply	\$704,365	\$0	\$704,365
8	Transmission	\$94,181	\$0	\$94,181
9	Distribution	\$17,894,619	(\$228,726)	\$17,665,893
10	Customer Accounts	\$11,801,783	(\$104,720)	\$11,697,063
11	Customer Services	\$927,914	\$0	\$927,914
12	Sales	\$0	\$0	\$0
13	Administrative & General	\$15,998,503	(\$1,514,736)	\$14,483,767
14	Depreciation	\$9,347,278	\$0	\$9,347,278
15	Amortization	\$9,656,957	\$179,927	\$9,836,884
16	Property tax	\$7,314,733	(\$118,260)	\$7,196,473
17	Other taxes	\$1,581,627	\$0	\$1,581,627
18	Other Interest Expense	\$935	\$0	\$935
19	Subtotal utility expenses	<u>\$248,745,589</u>	<u>\$46,659,689</u>	<u>\$295,405,278</u>
20	OPERATING INCOME BEFORE TAXES	<u>\$9,200,343</u>	<u>\$7,561,963</u>	<u>\$16,762,306</u>
21	State Income Taxes 9.706%	3/ (\$294,993)	\$733,964	\$438,971
22	Federal Income Taxes 31.603%	3/ \$1,839,225	\$2,389,807	\$4,229,032
23	Interest Sync	2/ \$98,779	\$95,624	\$194,403
24	Subtotal income taxes	<u>\$1,643,011</u>	<u>\$3,219,395</u>	<u>\$4,862,406</u>
25	NET OPERATING INCOME AFTER TAXES	<u><u>\$7,557,332</u></u>	<u><u>\$4,342,568</u></u>	<u><u>\$11,899,900</u></u>

1/ MERC Ex. ____ Vol. 3, Doc. 5, Sch. C-3 (Information Requirements).

2/ MERC Ex. ____ Vol. 3, Doc. 5, Sch. C-2 (Information Requirements) for Interest Synchronization

3/ MERC Ex. ____ Vol. 3, Doc. 8, at 5 (Information Requirements) for Income Tax detail.

4/ DOC Ex.____ MAS-S-6 (St. Pierre Surrebuttal).

5/ Columns (a) + (b).

MERC
Operating Income Adjustments
Test Year Ending December 31, 2014

Line No.	Description	Sales Forecast LBO (a)	Base Cost of Gas Update LBO (a)	CIP Rev. & Exp. MAS (b)	Property Tax MAS (c)	Pension Expense MAS (d)	Post-Ret. Medical MAS (e)	Post-Ret. Life MAS (f)	Executive Incentives MAS (g)	Bad Debt Expense MAS (h)	Sewer Laterals MAS (i)	Mapping Project MAS (j)	Misc. Service LL (k)	Rate Case Travel LL (l)	Rate Case Amort. LL (m)	Charitable Contributions LL (n)	Aircraft Expense LL (o)	Travel & Entertain. LL (p)	Interest Sync. (q)	Total Adjustments (r)	
UTILITY OPERATING REVENUES																					
1	Natural Gas Revenue	\$8,965,271	\$41,446,798	\$3,758,090																\$54,170,159	
2	Late Payment Revenue																				\$0
3	Other Revenue												\$51,493								\$51,493
4	Total Operating Revenues	\$8,965,271	\$41,446,798	\$3,758,090	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$51,493	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$54,221,652
UTILITY EXPENSES																					
5	Cost of Gas	\$6,999,406	\$41,446,798																		\$48,446,204
6	Production																				\$0
7	Gas Supply																				\$0
8	Transmission																				\$0
9	Distribution										\$0	(\$220,000)					(\$956)	(\$7,770)			(\$228,726)
10	Customer Accounts											(\$104,720)									(\$104,720)
11	Customer Services																				\$0
12	Sales																				\$0
13	Administrative & General					(\$1,350,012)	(\$140,720)	\$3,853	(\$27,857)												(\$1,514,736)
14	Depreciation																				\$0
15	Amortization			\$475,941																	\$179,927
16	Property tax				(\$118,260)										(\$21,925)	(\$257,984)	(\$16,105)				(\$118,260)
17	Other taxes																				\$0
18	Other Interest Expense																				\$0
19	Subtotal utility expenses	\$6,999,406	\$41,446,798	\$475,941	(\$118,260)	(\$1,350,012)	(\$140,720)	\$3,853	(\$27,857)	(\$104,720)	\$0	(\$220,000)	\$0	(\$21,925)	(\$257,984)	(\$16,105)	(\$956)	(\$7,770)	\$0		\$46,659,689
20	OPERATING INCOME BEFORE TAXES	\$1,965,865	\$0	\$3,282,149	\$118,260	\$1,350,012	\$140,720	(\$3,853)	\$27,857	\$104,720	\$0	\$220,000	\$51,493	\$21,925	\$257,984	\$16,105	\$956	\$7,770	\$0		\$7,561,963
21	State Income Taxes 9.706%	\$190,807	\$0	\$318,565	\$11,478	\$131,032	\$13,658	(\$374)	\$2,704	\$10,164	\$0	\$21,353	\$4,998	\$2,128	\$25,040	\$1,563	\$93	\$754	\$0		\$733,964
22	Federal Income Taxes 31.603%	\$621,272	\$0	\$1,037,258	\$37,374	\$426,644	\$44,472	(\$1,218)	\$8,804	\$33,095	\$0	\$69,527	\$16,273	\$6,929	\$81,531	\$5,090	\$302	\$2,456	\$0		\$2,389,807
23	Interest Sync	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$95,624	\$95,624
24	Subtotal income taxes	\$812,079	\$0	\$1,355,823	\$48,852	\$557,676	\$58,130	(\$1,592)	\$11,507	\$43,259	\$0	\$90,880	\$21,271	\$9,057	\$106,571	\$6,653	\$395	\$3,210	\$95,624		\$3,219,395
25	NET OPERATING INCOME AFTER TAXES	\$1,153,786	\$0	\$1,926,326	\$69,408	\$792,336	\$82,590	(\$2,261)	\$16,350	\$61,461	\$0	\$129,120	\$30,222	\$12,868	\$151,413	\$9,452	\$561	\$4,560	(\$95,624)		\$4,342,568

() = Reduction.

MERC
Interest Synchronization Adjustment
Test Year Ending December 31, 2014

Line No.	Petitioner's Filing ----- (a)	DOC Position ----- (b)	DOC Interest Sync Adjustment ----- (c)
1	Rate Base	\$198,314,568 1/	\$192,049,363 10/ (\$6,265,205)
2	Weighted Cost of Short- & Long-term Debt	<u>2.6008% 2/</u>	<u>2.6008%</u>
3	MERC-MN Interest	\$5,157,779 3/	\$4,994,820 (\$162,959)
4	Interest included in income tax accruals	<u>\$5,326,082 4/</u>	<u>\$5,326,082</u> \$0
5	Additional interest allowed (denied)	(\$168,303)	(\$331,262) 5/ (\$162,959)
6	Tax effect of interest allowed (denied)	\$98,779	\$194,403 6/ \$95,624

- 1/ MERC Ex. ____ Vol. 3, Doc. 2, Sch. B-1 (Information Requirements).
 2/ MERC Ex. ____ Vol. 3, Doc. 5, Sch. C-2 (Information Requirements).
 3/ Lines (1) x (2).
 4/ MERC Ex. ____ Vol. 3, Doc. 5, Sch. C-2 (Information Requirements).
 5/ Lines (3) - (4).
 6/ Line (5)/1.704.

MERC
Cash Working Capital (CWC) Adjustment
Test Year Ending December 31, 2014

Line No.	Description	MERC Test Year Expense	DOC Expense 1/ Adjustments	DOC Adjusted Expenses	MERC Expense per day using 365 days per Year 1/	DOC Expense per day using 365 days per Year	MERC # of Lead Days 1/	MERC # of Lag Days 1/	MERC Net Lag Days 1/	DOC Net Lag Days	DOC Net lag dollars	MERC Net lag dollars 1/	DOC CWC Adj. MERC	
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	
	Total MERC Operating Expense:													
1	Purchase Gas Expense	\$173,412,058	\$48,446,204	\$221,858,262	\$475,102	\$607,831	44.3	40.2	4.1	4.1	\$2,466,867	\$1,928,190	\$538,677	
2	Internal Payroll Excluding Incentive	\$13,056,431	(\$551,895) 4/	\$12,504,536	\$35,771	\$34,259	44.3	13.0	31.2	31.2	\$1,070,227	\$1,117,461	(\$47,234)	
3	Payroll Taxes	\$1,589,788		\$1,589,788	\$4,356	\$4,356	44.3	14.0	30.2	30.2	\$131,697	\$131,710	(\$13)	
4	MERC Internal Incentive Plan	\$688,744	(\$25,953) 4/	\$662,791	\$1,887	\$1,816	44.3	248.5	(204.2)	(204.2)	(\$370,870)	(\$385,398)	\$14,528	
5	O&M Expense Paid to Affiliates ex. interest	\$24,902,143		\$24,902,143	\$68,225	\$68,225	44.3	35.2	9.1	9.1	\$617,447	\$617,447	\$0	
6	Other O&M Expense	\$8,810,073	(\$1,270,334) 4/	\$7,539,739	\$24,137	\$20,657	44.3	30.0	14.3	14.3	\$294,537	\$344,160	(\$49,623)	
7	Total CWC Deficit (Available)	\$222,459,237	\$46,598,022	\$269,057,259	\$609,478	\$737,143					\$4,209,907	\$3,753,569	\$456,338	
8	Operating Expense in MERC's income statement	\$222,433,847												
9	Difference amount allocated to MI in rate base	\$25,390	7/											
10	Property Tax	\$7,314,733	(\$118,260)	\$7,196,473	\$20,040	\$19,716	44.3	409.3	6/ (365.0)	(365.0)	(\$7,196,473)	(\$7,314,733)	\$118,260	
11	State Income Taxes: Current + deficiency	\$1,186,701	8/ (\$405,248) 5/	\$781,453 2/	\$3,251	\$2,141	44.3	54.3	6/ (10.01)	(10.01)	(\$21,431)	(\$32,678)	\$11,247	
12	Federal Income Taxes: Current + deficiency	\$6,663,789	8/ (\$1,319,637) 5/	\$5,344,152 3/	\$18,257	\$14,642	44.3	62.0	6/ (17.7)	(17.7)	(\$259,155)	(\$322,331)	\$63,176	
13	Total Income Taxes	\$7,850,490	(\$1,724,885)	\$6,125,605										
											Total Income & Property Taxes	(\$7,477,059)	(\$7,669,743)	\$192,683
14	Net CWC (Available) Deficit										Total CWC Deficit (Available)	(\$3,267,152)	(\$3,916,174)	\$649,021
											MN allocator	99.800683%	99.800683%	99.800683%
											MERC MN	(\$3,260,640)	(\$3,908,368)	\$647,727

1/ MERC Ex. ___ at 6 (SSD-21) (DeMerritt Direct)

2/ DOC's State Tax adjustments +[DOC's increased or (decreased) Gross Revenue Deficiency X 0.097061]

3/ DOC's Federal Tax adjustments +[DOC's increased or (decreased) Gross Revenue Deficiency X 0.31603]

4/ DOC Ex. ___ MAS-S-9 (St. Pierre Surrebuttal).

5/ col. (b) = col. (c) - col. (a)

6/ The Department calculated the number of days based on MERC's percentages as follows: (365 days x MERC's %) /100

7/ DOC Ex. ___ MAS-8a (St. Pierre Direct)

8/ MERC Ex. ___ at 5 (SSD-21) (DeMerritt Direct)

MERC
Cash Working Capital Workpaper
Test Year Ending December 31, 2014

Line No. Description	Petitioner's O&M Expenses	%	of Total
	(a)		(b)
1 Internal Payroll Excluding Incentive	\$14,646,219	1/	29.86% 2/
2 MERC Internal Incentive Plan	\$688,744	1/	1.40% 3/
3 All Other O&M Expense	<u>\$33,712,216</u>	1/	68.73% 4/
4 Total	<u>\$49,047,179</u>		100.00%
	Expense Adjustments		
5 Production	\$0		
6 Gas Supply	\$0		
7 Transmission	\$0		
8 Distribution	(\$228,726)		
9 Customer Accounts	(\$104,720)		
10 Customer Services	\$0		
11 Sales	\$0		
12 Administrative & General	<u>(\$1,514,736)</u>		
13 Total	<u>(\$1,848,182)</u>		
14 Internal Payroll Excluding Incentive	(\$551,895)	6/	
15 MERC Internal Incentive Plan	(\$25,953)	7/	
16 All Other O&M Expense	<u>(\$1,270,334)</u>	8/	
17 Total	<u>(\$1,848,182)</u>	9/	

1/ DOC Ex. ____ MAS-S-8, Col. (a), (St. Pierre Surrebuttal).

2/ Lines (1)/(4).

3/ Lines (2)/(4).

4/ Lines (3)/(4).

5/ DOC Ex. ____ MAS-S-8, Col. (b) (St. Pierre Surrebuttal).

6/ Line (13)*(0.2986).

7/ Line (13)*(0.0140).

8/ Line (13)*(0.6873).

9/ Sum Lines (14), (15), (16).

MERC
Bad Debt Expense Adjustment
Docket No. G011/GR-13-617

Line No.	2011 Test Year Commission Approved	2011 Actual	2012 Actual	2013 Actual	2014 Test-year Forecast	DOC Recommended Test year Amount	Difference DOC Recommended adjustment
1	Bad Debt	\$2,031,888 1/	\$1,984,374 2/	\$1,313,501 2/	\$1,481,318 3/	\$1,765,884 4/	\$1,661,164 (\$104,720)
2	Tariffed Revenues		\$255,269,107 2/	\$200,736,162 2/	269,448,208 3/	\$271,506,848 5/	\$302,161,785 6/
	<u>Summary of Tariffed Revenues</u>						
3	Tariffed Revenues					\$257,506,848 7/	
4	Less Michigan revenue					<u>-\$320,386</u>	
5	Tariffed Revenues MN jurisdiction					<u>\$257,186,462</u>	
6	Base cost of gas update April 1, 2014					<u>\$41,446,798</u>	
7	Plus: DOC's revenue deficiency					<u>\$3,528,525</u>	
8	Total tariffed revenues plus revenue deficiency					<u><u>\$302,161,785</u></u>	
9	% of Tariffed Revenues		0.777366%	0.654342%	0.549760%	0.650401%	0.549760% 8/
10	Increase (decrease)			-0.123024%	-0.104582%	0.100641%	

- 1/ MERC's response to OAG IR 122
- 2/ MERC Ex. ___ SSD-4 (Demerritt Direct).
- 3/ DOC Ex. ___ MAS-24 (St. Pierre Direct).
- 4/ MERC Ex. ___ SSD-4 (DeMerritt Direct).
- 5/ \$257,506,848 + MERC's estimated revenue deficiency of \$14,000,000.
- 6/ \$257,506,848 + DOC's revenue deficiency from DOC Ex. ___ at MAS-S-2 (St. Pierre Surrebuttal).
- 7/ MERC Ex. ___ SSD-4 (DeMerritt Direct).
- 8/ The 2013 uncollectible rate