

August 28, 2014

Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
Saint Paul, Minnesota 55101-2147

RE: **Letter of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. G011/GR-13-617, OAH Docket No. 8-2500-31126

Dear Dr. Haar:

On August 25, 2014, Minnesota Energy Resources Corporation (MERC or the Company) submitted its compliance filing¹ in response to the Administrative Law Judge's (ALJ) Report, dated August 12, 2014, and the Minnesota Public Utilities Commission's (Commission) August 13, 2014 Notice of Schedule and Request for MERC to File Schedules Reflecting the ALJ's Recommendations. In its notice, the Commission requested that MERC file a revised rate base, income statement, and revenue requirement summary, a schedule of the class revenue allocations and all billing determinants, and bridge schedules, that reflect the test year revenue requirement and rate design recommended by the ALJ. Comments were requested on MERC's revised financial summaries and schedules that reflect the test year revenue requirement and rate design recommended by the ALJ. The Minnesota Department of Commerce (Department or DOC) provides the following comments on MERC's revised summaries and schedules.

MERC Revised Financial Schedules Compliance

MERC's revised financial schedules include the ALJ's recommended adjustments to the rate base, income statement, and revenue requirement summary. The Department reviewed MERC's revised financial schedules. The Department agrees with MERC's revised financial schedules, including the total revenues used in the calculation of uncollectible expense,² except for the cost of gas adjustment.³ MERC's income statement adjustments include an incorrect cost of gas amount of \$38,873,289.⁴ As explained in the testimony of Department Witness Ms. Otis, in its April 15, 2014 cost of gas update "[t]he Company did

¹ On August 26, 2014, MERC filed revised schedules that were fully readable and adding Schedule D showing the calculation of bad debt expense.

² The Department now agrees with MERC that the sales margin adjustment should be included in the calculation.

³ In the Department's last submitted revenue requirement summary filed in Attachment 1 to its Post Hearing Reply Brief, the sales forecast adjustment and the cost of gas update adjustment (Operating Income Adjustments, cols. (a) and (b), respectively) double counted the cost of gas by \$6,999,406. In other words, when the cost of gas was updated, it included the \$6,999,406 adjustment.

⁴ MERC's August 25, 2014 filing, Attachment A, page 5.

not update its base cost of gas calculations with the DOC forecast to which it has agreed for this docket.”⁵ As explained by Ms. Otis, the appropriate cost of gas adjustment is \$41,446,798.⁶ Further, MERC provided the updated calculations that included the agreed-upon forecast figures and Ms. Otis attached it to her testimony.⁷ The cost of gas update affects the calculation of uncollectible expense and cash working capital. Based on a cost of gas adjustment of \$41,446,798, the Department calculated a revenue deficiency of negative \$211,917.⁸ See Department Attachment A. The Department notes that, because MERC’s recovery of conservation improvement program (CIP) costs is being moved from base rates via the conservation cost recovery charge (CCRC) to the CIP tracker, MERC will also continue to recover CIP costs through that mechanism.

MERC Revenue Apportionment & Rate Design Compliance

The Department has reviewed MERC’s compliance filing schedules, and believes they generally comply with the ALJ’s Order. In apportioning the revenue requirement in compliance with the ALJ Order, MERC determined that its Large Volume Interruptible CIP Exempt customers on the Northern system would be unreasonably affected because of the elimination of the CCRC from base rates. Since the apportionment percentages did not reflect the change in recovery of CIP costs, apportioning the revenue requirement without adjusting for change in recovery of CIP costs resulted in a 76 percent rate increase for the LVI-CIP Exempt customers on the Northern system. In order to more reasonably apportion the revenues to these customers, the Company apportioned its revenue requirement prior to the elimination of the CCRC revenues, and then subtracted out the CCRC revenues from affected classes to calculate the final class revenue requirement. The Department concludes that this approach is a reasonable methodology for apportioning the revenue requirement in this proceeding without unduly burdening one class. If the Commission approves the proposal to move recovery of CIP costs to the CIP tracker, this issue should not return in future MERC rate cases, since the apportionment percentages will reflect that CIP costs are recovered entirely in the CIP tracker.

⁵ Ex. 214 at 11 (Otis Surrebuttal).

⁶ *Id.*

⁷ DOC Ex. 214 LBO-S-6 (Otis Surrebuttal).

⁸ The Department notes that MERC’s income tax rates of 31.602% for federal and 9.708% for state are slightly off. MERC’s Vol. III, Doc. 1, Sch. A-2, shows income tax rates of 31.603% for federal and 9.706% for state. MERC stated in an 8/26/14 e-mail that it incorrectly used rates from its 2011 rate case and the Company will correct the income tax rates in its next round of financial summaries.

Burl W. Haar
August 28, 2014
Page 3

The Department has reviewed MERC's proposed rates. MERC's rates reflect appropriate customer charges. The Department concludes that MERC's revenue apportionment and rate design compliance schedules comply with the ALJ's Order.

The Department is available to answer any questions that the Commission may have.

Sincerely,

/s/ MICHELLE ST. PIERRE
Financial Analyst
651-539-1835

/s/ SUSAN PEIRCE
Rates Analyst
651-539-1832

MS/SP/lt

MERC
Revenue Requirements Summary
Test Year Ending December 31, 2014

Line No.	Description	MERC's Filing 1/	DOC Direct	DOC Surrebuttal	DOC's ALJ Post Hearing	MERC's ALJ Post Hearing
		(a)	(b)	(c)	(d)	
1	Average Rate Base	\$198,314,568	\$185,823,411	\$192,039,273	2/ \$192,019,456	\$191,933,874
2	Rate of Return	8.0092%	7.3299%	7.2745%	3/ 7.5262%	7.5262%
3	Required Operating Income	\$15,883,387	\$13,620,670	\$13,969,897	4/ \$14,451,768	\$14,449,843
4	Adjusted Mn Net Operating Income	\$7,557,332	\$11,943,428	\$12,033,181	5/ \$14,576,133	\$14,585,561
5	Income Deficiency	\$8,326,054	\$1,677,242	\$1,936,716	6/ (\$124,364)	(\$135,718)
6	Gross Revenue Conversion Factor	1.704	1.704	1.704	7/ 1.704	1.704
7	Gross Revenue Deficiency	\$14,187,597	\$2,858,021	\$3,300,164	8/ (\$211,917)	(\$231,264)
8	Difference between DOC and MERC rev. def.					\$19,347

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)	ALJ 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	\$0	\$368,477,466
4	Customer	\$5,206,114	\$0	\$5,206,114
5	Total Plant	<u>\$381,516,461</u>	<u>\$0</u>	<u>\$381,516,461</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	\$0	\$203,679,930
14	Customer	\$3,505,411	\$0	\$3,505,411
15	Total Net Plant	<u>\$211,618,737</u>	<u>\$0</u>	<u>\$211,618,737</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>\$0</u>	<u>\$174,987,219</u>
24	Cash Working Capital from Lead/Lag	(\$3,908,368)	\$617,820	(\$3,290,548)
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)	(\$6,633)	(\$35,745)
28	Subtotal	<u>(\$8,608,270)</u>	<u>\$5,445,835</u>	<u>(\$3,162,435)</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>(\$6,295,112)</u>	<u>\$192,019,456</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	(a) Regulatory Assets & Liabilities MAS	(b) Rate Case Expense LL	(c) Extensions MNZ	(d) Gas Storage LL	(e) Cash Working Capital	(f) Total Adjustments
PLANT IN SERVICE							
1	Energy	\$0	\$0	\$0	\$0	\$0	\$0
2	Transmission						\$0
3	Distribution						\$0
4	Customer						\$0
5	Total Plant	\$0	\$0	\$0	\$0	\$0	\$0
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	\$0
12	Transmission	\$0	\$0	\$0	\$0	\$0	\$0
13	Distribution	\$0	\$0	\$0	\$0	\$0	\$0
14	Customer	\$0	\$0	\$0	\$0	\$0	\$0
15	Total Net Plant	\$0	\$0	\$0	\$0	\$0	\$0
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	\$0	\$0	\$0	\$0	\$0
23	Net Utility Plant	\$0	\$0	\$0	\$0	\$0	\$0
24	Cash Working Capital from Lead/Lag					\$617,820	\$617,820
25	Deferred Taxes Other than Plant, M&S	\$4,294,542	\$540,106			\$4,834,648	\$4,834,648
26	Non-Utility Adjustment					\$0	\$0
27	Plant Adjustment				(\$6,633)		(\$6,633)
28	Subtotal	\$4,294,542	\$540,106		(\$6,633)	\$617,820	\$5,445,835
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	\$617,820	(\$6,295,112)

MERC
Operating Income Summary
Test Year Ending December 31, 2014

Line No.	Description	Petitioner's Filing ^{1/} (a)	Total Adjustments ^{4/} (b)	ALJ Position ^{5/} (c)
UTILITY OPERATING REVENUES				
1	Natural Gas Revenue	\$257,186,462	\$52,809,085	\$309,995,547
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>\$52,860,578</u>	<u>\$310,806,510</u>
UTILITY EXPENSES				
5	Cost of Gas	\$173,412,058	\$41,446,798	\$214,858,856
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	(\$165,000)	\$17,729,619
10	Customer Accounts	\$11,801,783	(\$28,748)	\$11,773,035
11	Customer Services	\$927,914	\$0	\$927,914
12	Sales	\$0	\$0	\$0
13	Administrative & General	\$15,998,503	(\$861,800)	\$15,136,703
14	Depreciation	\$9,347,278	\$0	\$9,347,278
15	Amortization	\$9,656,957	\$464,979	\$10,121,936
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>\$40,737,969</u>	<u>\$289,483,558</u>
20	OPERATING INCOME BEFORE TAXES	<u>\$9,200,343</u>	<u>\$12,122,610</u>	<u>\$21,322,953</u>
21	State Income Taxes 9.706%	^{3/} (\$294,993)	\$1,176,620	\$881,627
22	Federal Income Taxes 31.603%	^{3/} \$1,839,225	\$3,831,108	\$5,670,333
23	Interest Sync	^{2/} \$98,779	\$96,080	\$194,859
24	Subtotal income taxes	<u>\$1,643,011</u>	<u>\$5,103,809</u>	<u>\$6,746,820</u>
25	NET OPERATING INCOME AFTER TAXES	<u>\$7,557,332</u>	<u>\$7,018,801</u>	<u>\$14,576,133</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		Base Cost of Gas Update		CIP Rev. & Exp.		Property Tax		Pension Expense		Post-Ret. Medical		Post-Ret. Life		Executive Incentives		Bad Debt Expense		ICE Deferral		Mapping Project		Misc. Service		Rate Case Travel		Rate Case Amort.		Charitable Contributions		Aircraft Expense		Travel & Entertain.		Interest Synch.		ALJ Total Adjustments									
		(a)	(a)	(e)	(e)	(b)	(b)	(c)	(c)	(d)	(d)	(e)	(e)	(f)	(f)	(g)	(g)	(h)	(h)	(i)	(i)	(j)	(j)	(k)	(k)	(l)	(l)	(m)	(m)	(n)	(n)	(o)	(o)	(p)	(p)	(q)	(q)	(r)	(r)								
1	Natural Gas Revenue	\$0	\$43,412,663	\$9,396,422																																							\$52,808,085	\$0			
2	Late Payment Revenue																																										\$0	\$0			
3	Other Revenue																																										\$51,493	\$0			
4	Total Operating Revenues	\$0	\$43,412,663	\$9,396,422	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$52,860,578	\$0					
5	UTILITY EXPENSES																																											\$41,446,798	\$0		
6	Cost of Gas																																										\$0	\$0			
7	Production																																										\$0	\$0			
8	Gas Supply																																										\$0	\$0			
9	Transmission																																										\$0	\$0			
10	Distribution																																										\$0	\$0			
11	Customer Accounts																																										\$0	\$0			
12	Customer Services																																										\$0	\$0			
13	Sales																																										\$0	\$0			
14	Administrative & General																																										\$0	\$0			
15	Depreciation																																										\$0	\$0			
16	Amortization																																										\$0	\$0			
17	Property tax																																										\$0	\$0			
18	Other taxes																																										\$0	\$0			
19	Other Interest Expense																																										\$0	\$0			
20	Subtotal utility expenses																																										\$0	\$0			
21	OPERATING INCOME BEFORE TAXES	\$0	\$41,446,798	\$475,941	(\$118,260)	(\$118,260)	(\$118,260)	(\$118,260)	(\$118,260)	(\$668,392)	(\$140,720)	(\$140,720)	(\$140,720)	\$0	(\$27,857)	\$293,478	\$293,478	\$293,478	\$293,478	\$322,226	\$322,226	\$322,226	\$165,000	\$165,000	\$165,000	\$165,000	\$10,963	\$10,963	\$10,963	\$16,105	\$16,105	\$16,105	\$956	\$956	\$956	\$770	\$770	\$770	\$0	\$0	\$0	\$0	\$0				
22	State Income Taxes 9.706%	\$0	\$190,807	\$865,822	\$11,478	\$64,874	\$13,658	\$0	\$2,704	(\$28,485)	\$31,275	\$16,015	\$4,998	\$0	\$8,804	(\$92,748)	\$101,833	\$52,145	\$16,273	\$3,464	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0			
23	Federal Income Taxes 31.603%	\$0	\$621,272	\$2,819,140	\$37,374	\$211,232	\$44,472	\$0	\$6,804	(\$92,748)	\$101,833	\$52,145	\$16,273	\$0	\$8,804	(\$92,748)	\$101,833	\$52,145	\$16,273	\$3,464	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0		
24	Interest Sync	\$0	\$812,079	\$3,664,961	\$48,652	\$58,130	\$0	\$11,507	(\$121,233)	\$133,108	\$133,108	\$133,108	\$133,108	\$0	\$11,507	(\$121,233)	\$133,108	\$133,108	\$133,108	\$133,108	\$189,118	\$189,118	\$189,118	\$68,160	\$68,160	\$68,160	\$4,528	\$4,528	\$4,528	\$6,653	\$6,653	\$6,653	\$395	\$395	\$395	\$3,210	\$3,210	\$3,210	\$0	\$0	\$0	\$0	\$0	\$0	\$0		
25	Subtotal income taxes	\$0	\$1,153,786	\$5,235,520	\$69,408	\$92,590	\$0	\$16,350	(\$172,245)	\$189,118	\$189,118	\$189,118	\$0	\$16,350	(\$172,245)	\$189,118	\$189,118	\$189,118	\$189,118	\$245,434	\$245,434	\$245,434	\$96,840	\$96,840	\$96,840	\$30,222	\$30,222	\$30,222	\$6,434	\$6,434	\$6,434	\$9,452	\$9,452	\$9,452	\$4,560	\$4,560	\$4,560	\$0	\$0	\$0	\$0	\$0	\$0	\$0			
26	NET OPERATING INCOME AFTER TAXES	\$0	\$40,288,912	\$449,899	(\$187,520)	(\$187,520)	(\$187,520)	(\$187,520)	(\$854,742)	(\$370,274)	(\$370,274)	(\$370,274)	\$0	(\$11,147)	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226	\$121,226

() = Reduction.

MERC
Interest Synchronization Adjustment
Test Year Ending December 31, 2014

Line No.	Petitioner's	DOC	ALJ
	Filing	Position	Interest Sync Adjustment
	(a)	(b)	(c)
1	Rate Base	\$198,314,568 1/	\$192,019,456 10/ (\$6,295,112)
2	Weighted Cost of Short- & Long-term Debt	<u>2.6008%</u> 2/	<u>2.6008%</u>
3	MERC-MN Interest	\$5,157,779 3/	\$4,994,042 (\$163,737)
4	Interest included in income tax accruals	<u>\$5,326,082</u> 4/	<u>\$5,326,082</u> \$0
5	Additional interest allowed (denied)	(\$168,303)	(\$332,040) 5/ (\$163,737)
6	Tax effect of interest allowed (denied)	\$98,779	\$194,859 6/ \$96,080



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	1/ Adjustments	DOC Expense Adjusted	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 dollars 1/	DOC Net Lag dollars	DOC Net Lag Days	MERC Net Lag dollars 1/	DOC Net Lag dollars	DOC Net Lag Days	DOC Adj. MERC
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)
	Total MERC Operating Expense:														
1	Purchase Gas Expense	\$173,412,058	\$41,446,798	\$214,858,856	\$475,102	\$588,654	44.3	40.2	4.1	4.1	4.1	\$1,928,190	\$2,413,483	4.1	\$465,293
2	Internal Payroll Excluding Incentive	\$13,056,431	(\$315,202)	\$12,741,229	\$35,771	\$34,907	44.3	13.0	31.2	31.2	31.2	\$1,117,461	\$1,089,113	31.2	(\$28,348)
3	Payroll Taxes	\$1,589,788		\$1,589,788	\$4,356	\$4,356	44.3	14.0	30.2	30.2	30.2	\$131,710	\$131,539	30.2	(\$171)
4	MERC Internal Incentive Plan	\$688,744	(\$14,823)	\$673,921	\$1,857	\$1,846	44.3	248.5	(204.2)	(204.2)	(204.2)	(\$385,398)	(\$377,027)	(204.2)	\$8,371
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	9.1	\$617,447	\$620,848	9.1	\$3,401
6	Other O&M Expense	\$8,810,073	(\$725,523)	\$8,084,550	\$24,137	\$22,149	44.3	30.0	14.3	14.3	14.3	\$344,160	\$316,737	14.3	\$27,423
7	Total CWC Deficit (Available)	\$222,459,237	\$40,391,250	\$262,850,487	\$609,478	\$720,138									
8	Operating Expense in MERC's income statement	\$222,433,847		\$222,850,487											
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	(365.0)	(365.0)	(365.0)	(\$7,314,733)	(\$7,196,473)	(365.0)	\$118,260
11	State Income Taxes: Current + deficiency	\$1,186,701	(\$325,642)	\$861,059	\$3,251	\$2,359	44.3	54.3	(10.0)	(10.0)	(10.0)	(\$32,678)	(\$23,614)	(10.0)	\$9,064
12	Federal Income Taxes: Current + deficiency	\$6,653,789	(\$1,080,428)	\$5,573,361	\$18,257	\$15,352	44.3	62.0	(17.7)	(17.7)	(17.7)	(\$322,331)	(\$271,725)	(17.7)	\$50,606
13	Total Income Taxes	\$7,850,490	(\$1,386,070)	\$6,464,291											
14	Net CWC (Available) Deficit														
	Total CWC Deficit (Available)														
	MN allocator														
	MERC MN														

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. (e)
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 (a)	% of Total (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	\$33,712,216 1/	68.73% 4/
4	Total	\$49,047,179	100.00%
Expense Adjustments 5/			
5	Production	\$0	
6	Gas Supply	\$0	
7	Transmission	\$0	
8	Distribution	(\$165,000)	
9	Customer Accounts	(\$28,748)	
10	Customer Services	\$0	
11	Sales	\$0	
12	Administrative & General	(\$861,800)	
13	Total	(\$1,055,548)	
14	Internal Payroll Excluding Incentive	(\$315,202) 6/	
15	MERC Internal Incentive Plan	(\$14,823) 7/	
16	All Other O&M Expense	(\$725,523) 8/	
17	Total	(\$1,055,548) 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	ALJ Recommended	ALJ Recommended Test year Amount	Difference DOC Recommended adjustment
1	Bad Debt	1/ \$2,031,888	2/ \$1,984,374	2/ \$1,313,501	3/ \$1,481,318	4/ \$1,765,884	\$2,059,362	\$293,478
2	Tariffed Revenues		\$255,269,107	\$200,736,162	2/ 269,448,208	5/ \$271,506,848	\$312,599,125	6/
Summary of Tariffed Revenues								
3	Tariffed Revenues						\$257,506,848	7/
4	Less Michigan revenue						-\$320,386	
5	Tariffed Revenues MN jurisdiction						\$257,186,462	
6	Margin adjustment						\$1,965,865	
7	Base cost of gas update 9/						\$41,446,798	
8	Plus: DOC's revenue deficiency						\$12,000,000	
9	Total tariffed revenues plus revenue deficiency						\$312,599,125	
10	% of Tariffed Revenues		0.777366%	0.654342%	0.549760%	0.650401%	0.658787%	8/
11	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 = \$1,593,064/\$241,817,826
 9/ April 15, 2014, Docket No. G011/MR-13-732. DOC Ex. __ at 9-12 (Otis Surrebuttal).

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce
Letter**

Docket No. G011/GR-13-617

Dated this 28th day of August 2014

/s/Sharon Ferguson

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	Integrys 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, Integrys	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	Integrys 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