

PUBLIC DOCUMENT – TRADE SECRET DATA HAS BEEN EXCISED

Direct Testimony and Schedules
Joseph L. Zgonc

Before the Minnesota Public Utilities Commission
State of Minnesota

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

Docket No. G011/GR-22-504

Exhibit ____ (JLZ-D)

Test Year Revenue Requirements

November 1, 2022

TABLE OF CONTENTS

	Page
I. INTRODUCTION AND QUALIFICATIONS.....	1
II. 2023 PROPOSED TEST YEAR REVENUE REQUIREMENT.....	10
A. Rate Base	10
B. Amortizations, Taxes, and Depreciation	15
C. Sales and Revenue	26
D. O&M Forecast Detail.....	31
1. O&M Inflation Calculation.....	32
2. Known and Measurable (K&M) Adjustments.....	34
3. Regulated/Non-Regulated Allocations (ServiceChoice)	65
4. Allocations to Michigan Customers	69
E. Cost of Capital	71
1. Presentation of Rate of Return.....	73
2. Cost of Debt	74
3. WEC Merger Docket Compliance: Borrowing and Cost of Debt	76
4. The Common Equity Ratio	78
III. GUIC AND NGEF RIDER TRANSITION TO BASE RATES.....	81
1. GUIC Rider	82
2. Rochester Project NGEF Rider.....	86
IV. CONSERVATION IMPROVEMENT PROGRAM.....	89
A. Conservation Improvement Program Plan	89
B. Conservation Cost Recovery	89
V. MINNESOTA STATUTES SECTION 216B.16, SUBDIVISION 17	93
VI. OTHER COMPLIANCE ITEMS	102
VII. INTERIM RATES.....	105
VIII. CONCLUSION.....	107

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 0
- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 0
- 1
- 2

A. My name is Joseph Zgonc. My business address is 231 West Michigan Street, Milwaukee, Wisconsin 53203.

A. I received a Bachelor of Business Administration Degree from the University of Cincinnati College of Business in 1994. I joined the finance staff at Wisconsin Electric in 2012 and have performed various roles within budgeting, accounting, and rate cases. Prior to Wisconsin Electric, I worked at Utilities International, Inc. for 15 years, rising to the position of Principal. Utilities International is the industry leader in planning, budgeting, regulatory, revenue, and accounting software solutions for the utilities sector. As a Principal at Utilities International, I was responsible for designing, selling, and managing consulting and software installation projects that focused on financial and regulatory planning, budgeting, and reporting at large investor-owned utilities. Currently, my title is Manager – Financial and Regulatory Planning in the Finance Department of WEC Business Services, a company within WEC Energy Group, Inc. (“WEC”) that serves all of the WEC utilities, including Minnesota Energy Resources Corporation (“MERC” or the “Company”).

1 Q. ON WHOSE BEHALF ARE YOU OFFERING THIS TESTIMONY?

2 A. I am offering this testimony on behalf of MERC.

3

4 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

5 A. My testimony and exhibits support MERC's 2023 test year revenue requirement
6 in this proceeding. I provide testimony and evidence regarding:

- 7 1. MERC's proposed 2023 test year revenue requirement, including
8 revenue, rate base and income statement components with related
9 adjustments and amortizations, and the Company's cost of debt,
10 capital structure, and overall rate of return;
- 11 2. Treatment of the Company's Gas Utility Infrastructure Cost ("GUIC")
12 Rider and Rochester Natural Gas Extension Project ("NGEP") Rider in
13 this rate case;
- 14 3. Treatment of Conservation Improvement Program ("CIP") costs and
15 the calculation of the conservation cost recovery charge ("CCRC") rate;
- 16 4. Compliance with Minnesota Statutes section 216B.16, subdivision 17,
17 which concerns travel, entertainment, and related employee expenses;
- 18 5. Compliance with certain prior Commission order requirements; and
19 6. MERC's requested 2023 interim rate increase discussed in the
20 Company's Petition for Interim Rates.

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

3 A. The 2023 proposed test year includes a net annual revenue deficiency of
4 \$32.76M (7.9% of total Minnesota revenues absent rider roll-ins), or \$40.3M
5 (9.9% of total Minnesota revenues including the impacts of rolling in costs from
6 the GUIC and NGEF Riders). The rate increase for the 2023 proposed test year
7 would increase margin revenues 35.0% for MERC's Minnesota customers
8 without the cost of gas.

9
10 Please refer to Exhibit_(JLZ-D), Schedule 01 for a detailed breakdown of the
11 factors contributing to MERC's total company revenue deficiency for the 2023
12 proposed test year.¹

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

15 A. Since the Company's last rate case in Docket No. G011/GR-17-563 ("2017 Rate
16 Case"), MERC has increased investments and experienced increases in costs.
17 The majority of MERC's revenue deficiency is driven by capital investment and
18 capital-related costs, such as:

19 1. Increase in Plant in service related rate base, the forecast of which is
20 shown on Exhibit_(JLZ-D), Schedule 02;

¹ Because Exhibit_(JLZ-D), Schedule 01 provides total company data, the revenue deficiency number will differ slightly from MERC's requested revenue deficiency in this proceeding.

2. Increase in depreciation expense due to the increase in Plant-related rate base;
3. Move of GUIC and NGEP Plant previously recovered via riders to rate base;
4. Increase in property taxes as supported by Company witness Mr. Mark Kissinger; and
5. An increase in return on equity from currently authorized 9.70% to 10.30%, as supported by Company witness Ms. Ann Bulkley.

This revenue deficiency and increased costs are offset somewhat by margin from the increase in forecasted 2023 sales and resulting revenue, as discussed in the Direct Testimony of Mr. Jared Peccarelli.

In compliance with Order Point 41 in the Order of the Minnesota Public Utilities Commission (the “Commission”) in Docket No. G011/GR-13-617 and with Order Point 15 in the Commission’s December 21, 2012 Order in Docket G007,011/GR-10-977, I provide testimony explaining all large differences between base-year and test-year rate base, other income, and expense data, as well as additional testimony reflecting the financial adjustments to the Company’s position. Company witness Mr. Richard Stasik also discusses key capital projects driving the test year rate base increase. Additional information is provided by other witnesses in this case, as indicated below.

1 Q. ARE YOU SPONSORING ANY EXHIBITS IN CONNECTION WITH YOUR
2 TESTIMONY IN THIS PROCEEDING?

3 A. Yes. I am sponsoring the materials contained in MERC's Volume 3 providing
4 required financial information for the 2021 historical year, the 2022 projected
5 year, and the 2023 proposed test year on which MERC has based its rate
6 increase request. This information fulfills the filing requirements of Minn. R.
7 7825.3900 to 7825.4400. The Filing Requirements Compliance Table lists each
8 requirement of these rules and the location of the required information in MERC's
9 filing.

10
11 Q. ARE YOU ALSO SPONSORING ANY SCHEDULES WITH YOUR DIRECT
12 TESTIMONY?

13 A. Yes. I am also sponsoring the following schedules:

- 14 • Exhibit_(JLZ-D), Schedule 01 breaks down the major components of the
15 revenue deficiency.
- 16 • Exhibit_(JLZ-D1), Schedule 02 identifies the construction forecast by
17 project.
- 18 • Exhibit_(JLZ-D), Schedule 03_provides five years' historical and
19 forecasted bridge year and test year Plant Retirements.
- 20 • Exhibit_(JLZ-D), Schedule 04 identifies MERC's calculation of
21 depreciation expense.
- 22 • Exhibit_ (JLZ-D), Schedule 05 calculates the Rate Case Expenses
23 Amortization.

- Exhibit_(JLZ-D), Schedule 06 identifies five years' historical and test year Utility Revenue.
- Exhibit_(JLZ-D), Schedule 07 provides five years' historical and test year Other Revenue.
- Exhibit_(JLZ-D), Schedule 08 calculates total Non-Fuel operations and maintenance ("O&M") expenses for 2022 and 2023 by applying the 2022 and 2023 inflation rates to 2021 actual O&M expenses, and including the known and measurable ("K&M") items.
- Exhibit_(JLZ-D), Schedule 09 calculates the K&M adjustment for Mains Expense.
- Exhibit_(JLZ-D), Schedule 10 calculates the K&M adjustment for Maintenance of Mains.
- Exhibit_(JLZ-D), Schedule 11 calculates the K&M adjustment for Mains & Services Expenses.
- Exhibit_(JLZ-D), Schedule 12 calculates the K&M adjustment for Meter & House Regulator Expenses.
- Exhibit_(JLZ-D), Schedule 13 calculates the K&M adjustment for Other Expenses.
- Exhibit_(JLZ-D), Schedule 14 calculates the K&M adjustment for Maintenance of Mains.
- Exhibit_(JLZ-D), Schedule 15 calculates the K&M adjustment for Maintenance of Measures & Regulator Station Equipment-General.

- 1 • Exhibit_(JLZ-D), Schedule 16 calculates the K&M adjustment for
- 2 Maintenance of Measures & Regulator Station Equipment-City Gate
- 3 • Exhibit_(JLZ-D), Schedule 17 calculates the K&M adjustment for
- 4 Maintenance of Services.
- 5 • Exhibit_(JLZ-D), Schedule 18 calculates the K&M adjustment for
- 6 Maintenance of Meters & House Regulators.
- 7 • Exhibit_(JLZ-D), Schedule 19 calculates the K&M adjustment for Meter
- 8 Reading Expenses.
- 9 • Exhibit_(JLZ-D), Schedule 20 calculates the K&M adjustment for
- 10 Customer Records & Collections Expense.
- 11 • Exhibit_(JLZ-D), Schedule 21 calculates the K&M adjustment for
- 12 Customer Assistance Expense.
- 13 • Exhibit_(JLZ-D), Schedule 22 calculates the K&M adjustment for
- 14 Administrative & General Salaries.
- 15 • Exhibit_(JLZ-D), Schedule 23 calculates the K&M adjustment for Office
- 16 Supplies & Expenses.
- 17 • Exhibit_(JLZ-D), Schedule 24 calculates the K&M adjustment for Outside
- 18 Services Employed.
- 19 • Exhibit_(JLZ-D), Schedule 25 calculates the K&M adjustment for Property
- 20 Insurance.
- 21 • Exhibit_(JLZ-D), Schedule 26 calculates the K&M adjustment for Injuries &
- 22 Damages.

- 1 • Exhibit_(JLZ-D), Schedule 27 calculates the K&M amount related to
- 2 Former Manufactured Gas Plant (“FMGP”) sites.
- 3 • Exhibit_(JLZ-D), Schedule 28 calculates the K&M amount related to
- 4 Employee Pension & Benefits by MERC.
- 5 • Exhibit_(JLZ-D), Schedule 29 calculates the K&M amount related to
- 6 Incentive costs.
- 7 • Exhibit_(JLZ-D), Schedule 30 calculates the K&M amount related to
- 8 Memberships.
- 9 • Exhibit_(JLZ-D), Schedule 31 calculates the K&M amount related to
- 10 Advertising.
- 11 • Exhibit_(JLZ-D), Schedule 32 calculates the K&M amount related to
- 12 Charitable Contributions.
- 13 • Exhibit_(JLZ-D), Schedule 33 calculates the K&M amount related to
- 14 Travel and Entertainment (“T&E”) Expense.
- 15 • Exhibit_(JLZ-D), Schedule 34 calculates the K&M amount related to
- 16 Economic Development.
- 17 • Exhibit_(JLZ-D), Schedule 35 calculates the K&M amount related to
- 18 Investor Relations.
- 19 • Exhibit_(JLZ-D), Schedule 36 calculates the K&M amount related to
- 20 Uncollectible Expense.
- 21 • Exhibit_(JLZ-D), Schedule 37 calculates the ServiceChoice allocator.

- 1 • Exhibit_(JLZ-D), Schedule 38 recalculates the Conservation Cost
- 2 Recovery Charge (“CCRC”).
- 3 • Exhibit_(JLZ-D), Schedule 39 calculates the interim rate revenue
- 4 deficiency.
- 5 • Exhibit_(JLZ-D), Schedule 40 show Capital Structure and supporting
- 6 calculations.
- 7 • Exhibit_(JLZ-D), Schedule 41 supports the calculation of the Labor
- 8 Inflation rate (NONPUBLIC).
- 9 • Exhibit_(JLZ-D), Schedule 42 supports the calculation of the Account 921
- 10 Settlement account adjustment.
- 11 • Exhibit_(JLZ-D), Schedule 43 provides the information required by Order
- 12 Point 33.c in the Commission’s decision in the 2017 Rate Case.
- 13

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

16 A. Yes, except for the information related to the Company’s rate of return on equity
17 (“ROE”), class cost of service, and rate design. That information was prepared
18 and is sponsored by Company witnesses Ms. Bulkley, Mr. Patrick Sullivan, and
19 Ms. Joylyn Hoffman Malueg, respectively.

1 **II. 2023 PROPOSED TEST YEAR REVENUE REQUIREMENT**

2 **A. Rate Base**

3 Q. PLEASE DESCRIBE MERC'S APPROACH TO DEVELOPING THE 2023
4 PROPOSED TEST YEAR CONSTRUCTION FORECAST IN THIS CASE.

5 A. MERC's construction forecast included in this general rate case was developed
6 during July and August of 2021 as part of MERC's annual budget process. This
7 capital forecast was then "layered" onto March 2022 actuals, and updated based
8 on more current forecast information throughout the summer of 2022. The
9 construction forecast by project can be seen in Exhibit_(JLZ-D), Schedule 01.
10 Plant, Accumulated Depreciation, and Depreciation Expense related to MERC's
11 Michigan Taconite Mine customers are identified on Page 2 of Informational
12 Requirements Document 2, Schedule 1, but are excluded from the rate base
13 amount shown on Page 1 of Informational Requirements Document 2,
14 Schedule 1.

15
16 In compliance with Order Point 33.c of the Commission's December 26, 2018
17 Order in MERC's 2017 Rate Case, Exhibit ____ (JLZ-D), Schedule 43 calculates
18 MERC's average rate base to allow parties to better understand how MERC's
19 rate base is calculated and to be able to tie out to actual rate base amounts,
20 providing rate base information including beginning-of-year rate base and end-of-
21 year rate base, and 13-month rate base information.

1 Further, in compliance with Order Point 37 in the Company's 2017 Rate Case,
2 Exhibit ____ (JLZ-D), Schedule 03 separately provides the Plant retirements
3 included in the test year rate base, as well as actual retirements for the most
4 recent five years.

5
6 Q. CAN YOU PLEASE SUMMARIZE MERC'S CAPITAL FORECAST PRESENTED
7 IN EXHIBIT_(JLZ-D), SCHEDULE 02?

8 A. Yes. MERC's total plant additions for 2023 are \$57.9M. This total includes
9 primarily standard work requests that tend to occur each year, based on MERC's
10 past experiences, even where the specific project is not known at the time of the
11 forecast. Examples include meter replacements, service replacements and
12 additions, vehicle replacements, and building maintenance.

13
14 The remainder relates primarily to more specifically identifiable projects, such as
15 the GUIC work, Advanced Metering Infrastructure ("AMI"), the Rochester and
16 Worthington Projects, and Work Management projects. Company witnesses Mr.
17 Stasik and Mr. Ted Prosser discuss the Company's capital program in more
18 detail in their Direct Testimony.

19
20 Q. PLEASE DESCRIBE MERC'S APPROACH TO DEVELOPING THE 2023
21 PROPOSED TEST YEAR WORKING CAPITAL FORECAST IN THIS CASE.

22 A. MERC's working capital accounts were adjusted such that the 2023 proposed
23 working capital would be synchronized with the working capital calculated in the

1 Lead/Lag Study as described by Ms. Hoffman Malueg. Referring to Informational
2 Requirements Document 2, Schedule 1, cash working capital is identified on
3 Page 8 in totality, but amounts allocated to Michigan are excluded from the rate
4 base amount shown on Page 1.

5
6 Q. PLEASE DESCRIBE MERC'S APPROACH TO DEVELOPING THE 2023
7 PROPOSED TEST YEAR GAS STORAGE AND COST OF GAS FORECAST IN
8 THIS CASE.

9 A. MERC's cost of gas and gas in storage balances were updated using New York
10 Mercantile Exchange ("NYMEX") data from July 21, 2022, as described in the
11 Base Cost of Gas filing in Docket No. G011/MR-22-505.

12
13 Q. WOULD MERC AGREE TO AN UPDATE TO NYMEX PRICES IN THIS
14 CURRENT RATE CASE?

15 A. Yes. In Docket Nos. G007,011/GR-08-835, G007,011/GR-10-977, G011/GR-13-
16 617, G011/GR-15-736, and G011/GR-17-563, MERC agreed to update the
17 NYMEX prices to use more recent data in the calculation of cost of gas. This
18 impacts the gas storage balances used in determination of the final revenue
19 deficiency. MERC agrees to perform this update again if there is a significant
20 change in NYMEX pricing, but would prefer to do this update only once,
21 presumably with Rebuttal Testimony or before Surrebuttal Testimony is due.

22

1 Q. WHAT IS THE TYPICAL IMPACT OF THE BASE COST OF GAS TO THE
2 REVENUE DEFICIENCY IN A RATE CASE?

3 A. While the cost of gas is a significant component of a customer's bill, the cost of
4 gas has little impact on the overall revenue deficiency within this docket. For the
5 calculation of the revenue deficiency, the updated NYMEX prices would have
6 likely small impacts on components such as storage balances, bad debt
7 expense, and cash working capital. Accordingly, MERC does not believe it
8 warrants multiple updates.

9

10 Q. WHY IS IT APPROPRIATE TO UPDATE THE BASE COST OF GAS
11 CALCULATION ONCE DURING THE PROCEEDING?

12 A. The cost of gas can fluctuate month to month based on the NYMEX pricing that
13 is used. Therefore, while more updates may provide more data points to
14 analyze, MERC sees these additional data points as less informative than using
15 the most recent NYMEX pricing that is reasonably available to include in the rate
16 case.

17

18 Q. PLEASE EXPLAIN ANY REGULATORY ASSETS OR LIABILITIES MERC HAS
19 INCLUDED IN THE 2023 TEST YEAR RATE BASE CALCULATION.

20 A. MERC has included two Regulatory Asset balances in the 2023 test year rate
21 base: Purchase Accounting – PEC Merger and Aquila and Farm Taps:

- The first regulatory asset is related to the purchase accounting for pension and other post-retirement benefits acquired from Aquila in Docket No. G007-011/M-06-1287.
- The second regulatory asset is related to costs that MERC incurred for the initial Planning and Design Phase to replace customer-owned fuel lines located between the interstate pipeline tap and the customer's property (farm-tap lines or farm-tap service) with utility-owned lines. Deferral of these costs was approved in Docket No. G011/M-17-409.

MERC is also including Regulatory Liabilities balances related to Health Care Legislation, which reflects the re-measurement of deferred tax balances related to post-retirement medical obligations caused by the Patient Protection and Affordable Care Act and the Health Care and Education Affordability Act of 2010.

Next, the balances in Excess Deferred Income Tax accounts reflect the amount of excess deferred income taxes collect from customers prior to the federal Tax Cuts and Jobs Act ("TCJA") tax reform passed in 2018. The excess collected taxes are being amortized and returned to customers as prescribed in the Company's 2017 Rate Case.

Finally, the regulatory liability for Rate Case Expenses reflects the balance of revenue collected since the 2017 Rate Case after the amortization period ended.

1 As described in the Amortizations section of my Direct Testimony, below, these
2 amount are being amortized and returned to customers.

3
4 The inclusion of these regulatory assets and liabilities in rate base is consistent
5 with past Commission decisions, including MERC's 2017 Rate Case.

6
7 This is shown in Informational Requirements Document No. 2, Schedule 1,
8 Page 7.

9
10 Q. HOW IS MERC ACCOUNTING FOR THE REGULATORY ASSET
11 ASSOCIATED WITH THE PRE-INTEGRYS/WEC MERGER PENSION AND
12 OTHER POST-EMPLOYMENT BENEFIT ("OPEB") ASSETS?

13 A. As ordered by the Commission in Docket No. G011/M-15-992, amortization of
14 the pre-merger pension and OPEB assets is recoverable in rates but the
15 outstanding balance is excluded from rate base. Therefore, MERC has not
16 forecasted any regulatory asset balance in account 182623 Reg Asset-2015
17 Purchase Account to be included in rate base.

18
19 **B. Amortizations, Taxes, and Depreciation**

20 Q. PLEASE DESCRIBE MERC'S APPROACH TO DEVELOPING THE 2023
21 PROPOSED TEST YEAR RATE CASE EXPENSE AMORTIZATIONS.

22 A. In this general rate case, MERC has included amortization of CIP expenses
23 equal to the 2023 amount approved by the Commission in Docket No. G011/M-

1 22-209. MERC continues the fifteen-year amortization of Improved Customer
2 Experience (“ICE”) Capital costs as approved in Docket No. G011/GR-15-736.
3 The deferral of ICE implementation costs had been approved in Docket No.
4 G011/GR-13-617. MERC’s forecasted 2023 rate case costs of \$2.3M, as
5 included in this filing, are forecasted to be amortized over two years beginning
6 January 2023. Then, the 2021 carry costs incurred for the Gas Affordability
7 Program (GAP) were inflated applying the O&M inflation rates to obtain the
8 forecast 2023 value.² Finally, the deferral of Farm Tap Phase 1 costs for the
9 planning and design of the farm tap program was approved in Docket No. G-
10 011/M-17-409 on November 30, 2017. Amortization for the Farm Tap Phase 1
11 deferred costs is forecasted in 2023 using a 2-year amortization period.
12

13 Q. FOR WHAT AMOUNT OF RATE CASE EXPENSES DOES MERC SEEK RATE
14 RECOVERY?

15 A. MERC is forecasting total rate case expenses of \$2.435M and proposes to
16 amortize 100% of all costs associated with the cost of capital expert, legal
17 expenses, third-party requests, and newspaper notifications, and 87.7% of state
18 agency and administrative law judge fees. The result of this calculation is an
19 amount of \$2.330M to be amortized over a two-year period.
20

² In MERC’s 2017 Rate Case, the Commission ordered MERC to discontinue directly assigning regulatory costs to the Gas Affordability Program (“GAP”) Rider, and incorporate into base rates all regulatory costs, including those incurred for GAP evaluation. MERC has done so in this proceeding. Mr. Stasik addresses GAP in more detail in his Direct Testimony.

1 MERC's proposal to amortize expenses over two years results in test year
2 expenses of \$1.165M as shown on Exhibit_(JLZ-D), Schedule 05. The two-year
3 amortization amount of \$1.165M is only marginally higher than MERC's proposed
4 rate case expense in its 2017 Rate Case.

5
6 Similar to prior rate case expense recovery any amount recovered in excess of
7 the allowed expenses would be recorded as a regulatory liability to be returned to
8 customers in a subsequent proceeding.

9
10 Q. WHAT DOES THE 87.7% ALLOCATION OF STATE AGENCY AND
11 ADMINISTRATIVE LAW JUDGE FEES REPRESENT?

12 A. The 87.7% reflects the removal of a pro-rata share of rate case expenses for
13 MERC's non-utility business "ServiceChoice."³ MERC has allocated a portion of
14 the state agency and administrative law judge fees in recognition that those
15 agencies will spend some amount of time reviewing the allocation of costs
16 between regulated and non-regulated business that would not have been
17 necessary if MERC did not have non-regulated businesses.

18

³ Exhibit_(JLZ-D), Schedule 37.

1 Q. WHY WERE COST OF CAPITAL EXPERT, LEGAL EXPENSES, AND
2 NEWSPAPER NOTICES NOT ALLOCATED TO THE NON-REGULATED
3 BUSINESS?

4 A. None of these costs were influenced at all by the existence of our non-regulated
5 businesses. Based on the Commission-approved allocation principles of direct
6 charge and costs causation, all of these costs were assigned to the regulated
7 business.

8
9 Q. WHY IS MERC REQUESTING THE AMORTIZATION OF RATE CASE
10 EXPENSES OVER A TWO-YEAR PERIOD?

11 A. There are several reasons. First, because MERC is expecting to need to
12 continue its current level of capital improvements/investments, and at the same
13 time is experiencing higher rates of inflation, MERC will need access to
14 increased revenues on a more frequent basis. Additionally, the pending sunset
15 of the GUIC Rider means that reasonable recovery of the Company's capital
16 costs will be increasingly dependent on adjustments to base rates. Together,
17 these factors indicate that MERC will be returning to a shorter cycle in between
18 rate cases.

19
20 Further, in the event MERC does not file a 2025 test year rate case, MERC
21 would defer revenue collected associated with the rate case amortization until the
22 next rate case is filed, and in that case would propose a rate offset of the amount
23 collected. This tracking of any additional collection of rate case expense ensures

1 customers ultimately pay no more or less than MERC's approved expense. In
2 light of this customer protection, a two-year amortization period is reasonable
3 and protects both MERC and customers.
4

5 Q. SINCE MERC'S LAST RATE CASE, HAS MERC RECOVERED AMOUNTS
6 THAT EXCEEDED MERC'S PRIOR AUTHORIZED TEST YEAR EXPENSE?

7 A. Yes. In MERC's 2017 Rate Case, MERC was authorized a two-year
8 amortization period for the rate case expenses beginning January 1, 2018, and
9 ending December 31, 2019. In Order Point 12.c of the Commission's Order,
10 MERC was then ordered to track rate case expense recoveries exceeding the
11 authorized test-year expense for possible credits against the revenue
12 requirement in MERC's next (this) rate case. MERC's current rate case
13 proposes new rates, either final or interim, to take effect January 1, 2023,
14 inclusive of MERC's rate case expenses in this current docket. As a result,
15 MERC recovered three years of additional rate case expense (2020-2022).
16

17 Q. HOW IS THE ADDITIONAL RATE CASE EXPENSE AMOUNT MERC HAS
18 COLLECTED SINCE THE LAST RATE CASE BEING RETURNED TO
19 CUSTOMERS?

20 A. As MERC agreed in its 2017 Rate Case, MERC has been deferring revenue
21 collected associated with the 2018 test year rate case costs amortization in
22 excess of the approved costs in that docket. That credit balance is forecasted to
23 be \$3.62 million at year-end 2022. MERC is proposing to amortize that balance

1 as Other Revenue over four years starting in January 2023, as illustrated in
2 Exhibit_(JLZ-D), Schedule 07, page 2. That amortization is included in MERC's
3 filing and has reduced MERC's revenue requirement by \$0.815 million. MERC
4 chose four years as an amortization term in order to prevent the accounting
5 methodology from forcing MERC into a rate case in 2025. Further, a larger credit
6 balance is included in the Company's 2023 rate base than would be if the liability
7 were amortized more quickly.

8
9 Q. PLEASE DESCRIBE THE 2023 TEST YEAR ICE DEFERRAL AND
10 ASSOCIATED AMORTIZATION.

11 A. In Docket No. G011/GR-15-736, MERC's 2015 rate case, the Commission
12 ordered MERC to amortize ICE costs over a fifteen-year period for the capital
13 costs deferred. The 15-year amortization for capital costs is continuing as
14 illustrated in Informational Requirements Document 5, page 10.

15
16 Q. DOES MERC HAVE ANY AMORTIZATION AMOUNTS RELATED TO THE
17 PROPERTY TAX TRACKER APPROVED IN THE COMPANY'S 2017 RATE
18 CASE?

19 A. Yes. MERC is forecasting a \$3.35M credit balance at year end 2022 related to
20 the Property Tax tracker discussed in Mr. Kissinger's testimony. MERC is
21 proposing to amortize this balance as a credit to taxes other than income taxes
22 for four years starting in January 2023. The four years matches the time period
23 in which the balances accrued between rate cases, and is further proposed to

1 avoid having the return of accruals drive a rate case in 2025. This annual
2 amortization is included in MERC's filing and reduces MERC's revenue
3 requirement by \$0.89M.
4

5 Q. PLEASE DESCRIBE MERC'S APPROACH TO DEVELOPING THE 2023
6 PROPOSED TEST YEAR CIP AMORTIZATION IN THIS CASE.

7 A. The CIP amortization was updated to reflect the 2023 CIP budget recommended
8 for approval by the Minnesota Department of Commerce (the "Department") in
9 Docket No. G011/CIP-20-479, and the 2023 sales forecast. Additionally, per
10 Order Point 14 in Docket No. G011/GR-13-617, MERC had discussions with the
11 Department and Commission Staff confirming the treatment of CIP amortization
12 in rates is consistent with past precedent, including MERC's 2020-2023 CIP
13 Triennial Plan (Docket No. G011/CIP-20-479).
14

15 Q. DOES MERC HAVE ANY AMORTIZATIONS RELATED TO FMGP SITES FOR
16 WHICH MERC IS RESPONSIBLE?

17 A. Yes. MERC has amortizations related to FMGP sites, as set forth in Exhibit
18 (JLZ-D), Schedule 27, page 2. The amortizations relate to the acquisition of
19 Interstate Power & Light's ("IPL") assets in Docket No. G001,011/PA-14-107. In
20 that asset acquisition, MERC acquired the responsibility of monitoring and
21 maintaining IPL's FMGP sites as well as cleanup responsibility for IPL's Austin,
22 Minnesota FMGP site. As illustrated in MERC's annual FMGP Compliance

1 Reports filed in Docket Nos. G001/M-06-1166 and G001,011/PA-14-07,⁴ the
2 Company has provided information to the Commission each year on annual
3 FMGP expenses as compared to the baseline amortization amount authorized in
4 the most recent rate case. Specifically, the 2018 test year in the Company's
5 2017 Rate Case included a K&M adjustment illustrating forecasted 2017 and
6 2018 FMGP expenses offset by amounts collected but not spent following the
7 2015 rate case, with the net amortized over five years.

8
9 Since 2018, the Company has continued to incur annual FMGP clean-up costs
10 as set forth in Exhibit (JLZ-D), Schedule 27, and seeks to continue amortizing
11 such costs over five years, similar to the amortization periods approved in prior
12 rate cases. However, costs have declined in recent years and therefore current
13 amortizations are not as high as in prior years. Specifically, in 2022, MERC
14 anticipates approximately \$50,000 in costs associated with reporting and
15 documentation required to obtain closure of the Austin MGP site, and
16 approximately the same amount in 2023 for post-closure groundwater sampling
17 and related activities required by the state. Further, MERC is not seeking any
18 return on this regulatory asset, consistent with prior Commission decisions on
19 this topic. Accordingly, MERC anticipates a reduction in amortizations through
20 O&M of \$1.2M, as illustrated in Exhibit (JLZ-D), Schedule 27.

21

⁴ MERC's most recent annual compliance report was filed on April 29, 2022.

1 Q. HAS MERC INCLUDED AMORTIZATIONS RELATED TO THE PENSION AND
2 OPEB AMORTIZATIONS APPROVED IN DOCKET NOS. G007/,011/M-06-1287
3 AND G011/M-15-992?

4 A. Yes. MERC does have amortizations related to pension and OPEB as approved
5 in Docket Nos. G007,011/M-06-1287 and G011/M-15-992 (pertaining to past
6 company mergers affecting MERC), but these amortizations are accounted for
7 and discussed below in the O&M section because they are booked to a Federal
8 Energy Regulatory Commission ("FERC") O&M Account. As noted above, these
9 costs are accounted for consistent with the requirements in their respective rate
10 case Orders governing these costs.

11
12 Q. THE COMMISSION'S ORDER IN DOCKET NO. G011/M-18-460 ALLOWED
13 MERC TO ESTABLISH A REGULATORY ASSET FOR REMAINING NEW
14 AREA EXTENSION COSTS ASSOCIATED WITH THE PENGILLY PROJECT
15 FOR INCLUSION IN BASE RATES IN ITS NEXT RATE CASE, APPLYING
16 SHORT-TERM DEBT COSTS TO THE REGULATORY ASSET. IS MERC
17 REQUESTING RECOVERY OF THIS REGULATORY ASSET IN THIS
18 DOCKET?

19 A. No. Given the size of the costs associated with the Pengilly Project included in
20 the regulatory asset and that the carrying charge is equal to the cost of short-
21 term debt, MERC has not included a regulatory asset for Pengilly or the
22 associated carrying charge in its cost of service.

1 Q. PLEASE DESCRIBE MERC'S APPROACH TO DEVELOPING THE 2023
2 PROPOSED TEST YEAR "TAXES OTHER THAN INCOME TAX" FORECAST
3 IN THIS CASE.

4 A. Taxes other than income taxes were forecasted using two different
5 methodologies. First, payroll taxes were calculated by inflating the 2021 payroll
6 taxes and applying the applicable payroll tax rates to the 2023 payroll
7 additions/subtractions. Second, property taxes and unauthorized insurance
8 taxes were forecasted based on past historical trends, as discussed by Mr.
9 Kissinger.

10
11 Q. PLEASE DESCRIBE MERC'S APPROACH TO DEVELOPING THE 2023
12 PROPOSED TEST YEAR INCOME TAX FORECAST IN THIS CASE.

13 A. Income taxes for the 2023 proposed test year were calculated by applying the
14 appropriate tax rates to net income before taxes, adjusted for M-1 adjustments
15 and deferred taxes. The calculation of income taxes can be found in
16 Informational Requirements Document 8.

17
18 Q. WHY IS MERC UTILIZING A DIFFERENT APPROACH FOR ESTIMATING
19 INCOME TAX VERSUS PROPERTY TAX?

20 A. Generally speaking, the statutory income tax rates are relatively stable year over
21 year, making the process of calculating income taxes based upon our forecasted
22 test year results more straight forward. Property taxes, on the other hand, have
23 seen a significant increase in past years due to the valuation policies the

1 Minnesota Department of Revenue has applied to MERC's assets. Therefore,
2 using a trend analysis for the property tax calculation is more appropriate for
3 developing a test year forecast.
4

5 Q. WHAT DEPRECIATION RATES DID MERC USE IN THE CALCULATION OF
6 THE 2021, 2022, AND 2023 REVENUE DEFICIENCIES?

7 A. MERC used the depreciation rates authorized in Docket No. G011/D-20-515 in
8 the calculation of the 2021 historical year revenue deficiency. The 2022
9 projected year and the 2023 proposed test year should be calculated using the
10 depreciation rates approved in MERC's five year review of depreciation
11 certification in Docket No. G011/D-22-261.
12

13 Exhibit_(JLZ-D), Schedule 04 identifies by month the average monthly Plant
14 balances, depreciation rates, and depreciation expense by Plant Guideline.
15

16 However, MERC discovered an inadvertent error in that we did not update
17 depreciation rates for the forecasted Plant additions in the case (April 2022
18 through December 2023). In light of the timing of this determination, MERC has
19 included an adjustment to depreciation expense in its interim rate cost of service
20 to reduce the interim revenue deficiency by approximately \$305,000, as noted
21 later in my testimony. For purposes of interim rates, in light of the timing of
22 identification of this error, and to ensure conservative interim rate levels for
23 customers, MERC has not incorporated the associated adjustment to

1 accumulated depreciation that would offset this reduction in the interim revenue
2 deficiency. The Company will update the depreciation calculation in rebuttal
3 testimony for purposes of final rates.
4

5 **C. Sales and Revenue**

6 Q. PLEASE DESCRIBE MERC'S APPROACH TO DEVELOPING THE 2023
7 PROPOSED TEST YEAR SALES AND REVENUES FORECAST IN THIS
8 CASE.

9 A. MERC forecasted sales and fixed charge counts as detailed in the Direct
10 Testimony of Mr. Peccarelli. Forecasted revenues for the test year were
11 calculated based on that sales forecast as described in the Direct Testimony and
12 Exhibits of Mr. Peccarelli, and as shown in Ms. Hoffman Malueg's
13 Exhibit_(JCHM-D), Schedule 1.
14

15 Q. WHAT DID THE COMMISSION REQUIRE WITH RESPECT TO REVENUE
16 REPORTING IN DOCKET NO. G011/GR-17-563?

17 A. Order Point 33.a of the Commission's Order in MERC's 2017 Rate Case required
18 that the Company "show all revenues by FERC Account, with a breakout of the
19 types of revenues included in each account; provide an explanation for why any
20 revenue amount is excluded from the test year; and provide the last five years of
21 actual revenues by type, plus related test-year amounts for that same period."
22

1 Q. ARE YOU ADDRESSING THIS REQUIREMENT WITH YOUR TESTIMONY?

2 A. Yes. Exhibit_(JLZ-D), Schedule 07 provides all revenue other than utility
3 revenue by FERC Account, and includes information about any revenue
4 excluded from the test year. Exhibit_(JLZ-D), Schedule 06 show Utility revenue
5 by FERC account for the test year and prior five complete actuals years (2017-
6 2021).

7

8 Q. PLEASE DESCRIBE MERC'S APPROACH TO DEVELOPING THE 2023
9 PROPOSED MISCELLANEOUS REVENUES FORECAST IN THIS CASE.

10 A. MERC defines miscellaneous revenues as revenues included in FERC Accounts
11 487, 488, 493, and 495, of which the primary component is FERC Account 487,
12 Late Payment Charges. FERC Accounts 487, 488, and 493 have relatively small
13 changes in activity over time. MERC therefore looked at past historical
14 experience to evaluate the levels included in the test year, and concluded that
15 the test year amounts are reasonable. FERC Account 495 includes several
16 items that are not relevant to test year forecasting and were excluded from the
17 2023 test year forecast as described below.

18

19 Q. CAN YOU EXPLAIN THE DECREASE IN REVENUES IN FERC ACCOUNT 495
20 FROM THE 2021 ACTUAL HISTORIC YEAR AMOUNT OF \$85,221,555 TO
21 THE 2023 TEST YEAR AMOUNT OF \$353,674?

22 A. Yes. As described in MERC's prior rate cases, FERC Account 495 is used
23 primarily to record the income statement activity for revenues that are not

1 included in test year revenues and do not factor into the revenue requirement
2 calculation. Of the \$85,221,555 in 2021 actuals, the following amounts would not
3 have an impact on test year revenues:

- 4 • \$86,867,627 associated with gas true-up revenues, which are associated with
5 the under-collection of actual gas costs in MERC's customers' base rates and
6 are collected in subsequent months via the Purchased Gas Adjustment factor.
7 As such, these do not represent revenues available for Company use, and
8 therefore do not affect the calculation of the revenue deficiency.
- 9 • \$3,355,790 associated with GUIC Revenue Accrued represents revenue
10 accrued for future collection under the GUIC Rider. The GUIC program will
11 not be in effect in the test year, and therefore these revenues are not factored
12 into the revenue deficiency.
- 13 • \$879,782 associated with NGEP Revenue Accrued represents revenue
14 accrued for future collection under the NGEP Rider. The NGEP program will
15 not be in effect in the test year and therefore these revenues are not factored
16 into the revenue deficiency.
- 17 • \$(4,459,388) associated with GUIC Revenue Billed represents GUIC
18 surcharge billings to customers. This amount is a reduction of revenue
19 because MERC is reversing the billed surcharge revenue amounts that are
20 included in the customer revenue accounts 480.00, 481.00, and 489.00. The
21 GUIC program will not be in effect in the test year and therefore these
22 revenues are not factored into the revenue deficiency.

- 1 • \$(669,391) associated with NGEP Revenue Billed represents NGEP
2 surcharge billings to customers. This amount is a reduction of revenue
3 because MERC is reversing the billed surcharge revenue amounts that are
4 included in the customer revenue accounts 480.00, 481.00 and 489.00. The
5 NGEP program will not be in effect in the test year and therefore these
6 revenues are not factored into the revenue deficiency.
- 7 • \$(1,087,524) is associated with the deferral of revenues collected for the
8 amortization of 2018 rate case costs beginning in 2020. In the 2023 test year,
9 MERC stops deferring this revenue and starts to amortize the credit balance
10 over four years. This is described earlier in my Direct Testimony.
- 11 • \$(5,251,759) associated with the Severe Weather Cost Recovery (“SWCR”)
12 billed revenues is related to billing to customers for the SWCR surcharge.
13 This amount is a reduction of revenue because the Company is reversing the
14 billed SWCR surcharge revenue amounts that are included in the customer
15 revenue accounts 480.00 and 481.00 and reclassifying the revenue to reduce
16 the regulatory SWCR asset account. Accordingly, this is not factored into
17 revenue deficiency.
- 18 • \$2,299,648 is associated with prior year revenue decoupling calculations.
19 The prior year decoupling refund was credited to residential customer
20 accounts in the 480.00 account in 2021. This amount represents the reversal
21 of these customer credits and is therefore not factored into the revenue
22 deficiency.

- 1 • \$3,310,610 is associated with the revenue decoupling for 2021, which
2 consists of revenues that will be collected from customers as a result of
3 MERC's 2016 decoupling program calculation in future years. Because these
4 revenues are also unavailable for Company use, they are not factored into the
5 calculation of the revenue deficiency.
- 6 • \$1,272,468 associated with the estimated 2021 CIP incentive, which is
7 revenue recognized by MERC as an accrual and ultimately collected in the
8 Conservation Cost Recovery Adjustment ("CCRA") when MERC meets its
9 Commission-authorized CIP goals; therefore, this is not factored in the
10 revenue deficiency.
- 11 • \$(1,300,000) is an accounting entry made for financial reporting purposes.
12 This represents an estimate of the amount of prior year CIP incentive
13 revenues that is being collected through the CCRA and is offset against CIP
14 expense; therefore, it is not factored into the revenue deficiency.
- 15 • \$3,692 associated with tax reform represents final adjustments to reflect prior
16 year tax reform credits; therefore, this is not factored into the revenue
17 deficiency.

18
19 Q. CAN YOU EXPLAIN THE DECREASE IN REVENUES IN FERC ACCOUNT 488
20 FROM THE 2021 ACTUAL HISTORICAL YEAR AMOUNT OF \$587,280 TO THE
21 2023 TEST YEAR AMOUNT OF \$30,000?

22 A. Yes. There are several components to this decrease, as illustrated in
23 Exhibit_(JLZ-D), Schedule 07:

- The forecast for the Misc. Service Revenue line was updated for the test year, and also includes non-sufficient funds (“NSF”) changes amounts that were broken out in a separate line in the actuals periods.
- The \$500,000 associated with Misc. Service Revenues-Reverse PY (Prior Year) ICE accrual represents the reversal of the accrual made in 2019 for the potential of having to refund this amount to customers if MERC did not meet its operating metrics related to the performance of the ICE system, per the Commission’s decision in MERC’s 2016 rate case. The Company did meet its metrics, and the Commission therefore allowed the Company to reverse this accrual. As a result, this amount is not factored into the revenue deficiency.
- The updated forecast for the NSF charges is included in “Misc. Service Revenues” line and therefore does not have a discretely forecasted amount in the test year. The amount for 2021 actuals is \$51,810.

D. O&M Forecast Detail

Q. PLEASE SUMMARIZE HOW MERC CALCULATED 2023 PROPOSED TEST YEAR O&M EXPENSES.

A. As described above, MERC started with 2021 actual O&M expenses, not including the cost of gas, and applied inflation factors for 2022 and 2023 to arrive at base O&M levels. MERC then adjusted this 2023 O&M expense value for certain known and measurable changes (“K&M adjustments”). Exhibit_(JLZ-D), Schedule 08 calculates total Non-Fuel O&M expense for 2022 and 2023 by

1 applying the 2022 and 2023 inflation rates to 2021 actual O&M expense, and
2 including the K&M items. Gas costs were developed as detailed in Docket No.
3 G011/MR-22-505.

4
5 *1. O&M Inflation Calculation*

6 Q. WHAT INFLATION FACTORS DID MERC APPLY TO 2021 ACTUAL O&M
7 LEVELS?

8 A. MERC inflated Non-Labor expenses 7.50% in 2022 and 3.2% in 2023; and
9 inflated Labor expenses 3.125% in 2022 and 4.308% in 2023.

10
11 Q. WHAT IS THE SOURCE OF THE INFLATION FACTORS MERC USED TO
12 ADJUST 2021 AND 2022 LABOR O&M EXPENSES?

13 A. MERC used a composite of union and non-union rates for labor inflation.
14 MERC's union employees are under contract through the test year. Those
15 contractual rate increases were factored into the overall composite rate. For the
16 non-union component of the composite rate, MERC used the actual increases for
17 non-union employees for 2022, and management's planned increases for 2023.
18 See Exhibit_(JLZ-D), Schedule 41.

1 Q. WHAT IS THE SOURCE OF THE INFLATION FACTORS MERC USED TO
2 ADJUST 2021 AND 2022 NON-LABOR O&M EXPENSES?

3 A. MERC used the Consumer Price Index – All Urban (“CPI-U”) as of August 12,
4 2022, from the forecast issued by the Federal Reserve Bank of Philadelphia.⁵
5 The Philadelphia Federal Reserve Survey of Professional Forecasters
6 (“Philadelphia Fed”) is the oldest quarterly survey of macroeconomic forecasts in
7 the United States, and is itself a consensus survey based on the input of 35
8 forecasters surveyed by the Federal Reserve Bank of Philadelphia. CPI-U is a
9 measure of the average change of the prices paid for a market basket of goods
10 and services over time. As such, the CPI-U represents the broadest measure of
11 the economy and is a reasonable estimate of the general direction of prices.
12 This forecast is highly respected, and the CPI-U data is publicly available and
13 updated quarterly.

14
15 Q. IS THERE ADDITIONAL EVIDENCE THAT RELYING ON THE PHILADELPHIA
16 FED IN THE NON-LABOR INFLATION CALCULATION IS REASONABLE?

17 A. Yes. The Philadelphia Fed has been involved in the monetary/financial markets
18 since the early 1900s, and is a well-accepted source of information related to
19 monetary policy, financial forecasts, and credit ratings.

20

⁵ Federal Reserve Bank of Philadelphia, <https://www.philadelphiafed.org/surveys-and-data/real-time-data-research/spf-q3-2022> (August 12, 2022).

Further, as an additional reasonableness check to the non-labor inflation forecast, MERC compared the May 2022 Moore Inflation Predictor (“MIP”) forecast to the Philadelphia Fed forecast. The MIP forecast was around 8% for 2022.⁶ This aligns with the 2022 Philadelphia Fed forecast’s inflation rate. That alignment supports the reasonableness of the Philadelphia Fed inflationary rates used in this proceeding.

2. *Known and Measurable (K&M) Adjustments*

Q. PLEASE DESCRIBE THE K&M ADJUSTMENTS INCLUDED IN 2023 PROPOSED TEST YEAR O&M EXPENSES COMPARED TO ACTUAL O&M EXPENSES FROM THE 2021 HISTORICAL YEAR.

A. There are twenty-five K&M adjustments reflected in 2023 proposed test year O&M expenses, including both increases and decreases. These adjustments are organized by FERC Account as summarized in Informational Requirements Document No. 5, Page 6, except where Commission policy statements require a particular adjustment that affects multiple FERC accounts. Individual schedules supporting each of these adjustments are attached to my Direct Testimony, as set forth below.

FERC Account No.	FERC Account Name	Exhibit_(JLZ-D), Schedule
856	Mains Expenses	09
863	Maintenance of Mains	10
874	Mains & Service Expenses	11

⁶ Moore Inflation Predictor, Financcail Trend Forecaster, <https://fintrend.com/charts/moore-inflation-predictor-mip/#Current>.

FERC Account No.	FERC Account Name	Exhibit_(JLZ-D), Schedule
878	Meter & House Regulator	12
880	Other Expenses	13
887	Maintenance of Mains	14
889	Maintenance of Measures & Reg Station Equipment - Gen	15
891	Maintenance of Measures & Reg Station Equipment – City Gate	16
892	Maint of Services	17
893	Maint of Meters & House Regulators	18
902	Meter Reading Expenses	19
903	Customer Records & Collections	20
904	Uncollectible Expense	36
908	Customer Assistance Expenses	21
909	Advertising	31
920, 921	Economic Development	34
920	Admin & General Salaries	22
921	Travel & Entertainment	33
921	Memberships	30
921	Investor Relations Expense	35
921	Charitable Contributions	32
921	Office Supplies & Expense	23
923	Outside Services	24
924	Property Insurance	25
925	Injuries & Damages	26
926	Employee Pension & Benefits	28
Multiple	Incentives	29

As described by Mr. Stasik, MERC has been able to contain O&M for a number of years and therefore avoided base rate increases for Minnesota customers. However, in addition to inflationary pressures, MERC needs to increase its maintenance activities in a number of areas to ensure facilities and infrastructure

1 remain safe, reliable, and in good condition. MERC anticipates this increased
2 level of work will need to continue into the future. Below, I walk through each
3 FERC account K&M adjustment, discussing the components of the proposed
4 adjustment to the FERC account(s) in question.

5
6 Q. PLEASE DESCRIBE THE K&M INCREASE REGARDING MAINS EXPENSES –
7 FERC ACCOUNT 856.

8 A. The K&M increase is related to casing vent replacements and outreach related to
9 farm tap replacements. First, the Company has approximately 30 casings that
10 require vents, where the casing depth requires contractor assistance to install the
11 vents. MERC anticipates a contractor installing vents on approximately ten
12 casings per year at a cost of \$25,000 per casing, totaling \$250,000 per year over
13 three years.

14
15 Second, in its June 18, 2020 Order in Docket No. G011/M-19-282, MERC's 2020
16 GUIC Rider docket, the Commission permitted MERC to true-up costs related to
17 enhanced safety outreach to farm tap customers. With the GUIC Rider sunseting
18 in 2023, MERC will need to recover these costs of \$250,000 in O&M included in
19 base rates.

20
21 The total K&M adjustment to O&M expense for proposed test year 2023 related
22 to these items is an increase of \$500,000, as shown in Exhibit_(JLZ-D),
23 Schedule 09.

1
2 Q. PLEASE DESCRIBE THE K&M INCREASE REGARDING MAINTENANCE OF
3 MAINS – FERC ACCOUNT 863.

4 A. The K&M increase is related to contractor work to complete bridge inspections
5 due in 2023. To complete bridge inspections due in 2023 and beyond, MERC
6 anticipates contracting out the work due to staffing limitations. The estimate is
7 based on contracting the labor to complete 29 bridge inspections annually at a
8 cost of \$4,300 per inspection. The K&M adjustment to O&M expense is
9 \$125,000.

10
11 FERC Account 863 also includes a K&M increase for right of way clearing at
12 \$300,000, as shown in Exhibit_(JLZ-D), Schedule 10. This additional increase
13 involves bringing in a contractor to complete clearing and removal of trees over
14 more miles of right of way (“ROW”) annually (approximately 30 miles at \$10,000
15 per mile), with costs based on recent historical experience.

16
17 Q. PLEASE DESCRIBE THE K&M INCREASE REGARDING MAINS & SERVICES
18 EXPENSES – FERC ACCOUNT 874.

19 A. The K&M increase for proposed test year 2023 is the result of four items, totaling
20 an increase of \$397,000, as shown in Exhibit_(JLZ-D), Schedule 11. These
21 items include:

1 **Line locating**

2 A K&M increase of \$200,000 is associated with additional expenses related to an
3 increase in the price of an ongoing contract with the vendor completing this work,
4 beginning in 2022. This increase is also due to additional work load for locate
5 tickets and the cost of completing locate tickets on weekends and after business
6 hours at overtime rates.

7
8 **Odorizer parts and Odorant**

9 K&M increases of \$91,000 and \$36,000 for parts and odorant, respectively,
10 beginning in 2022 allow for the purchase of additional odorant and odorant parts
11 and therefore more flexible management of these resources over time.

12
13 **Line locating**

14 A K&M increase of \$70,000 for line locating beginning in 2023 is related to the
15 relocation of line locating work in-house. MERC has depended on outside
16 resources for line locating in years past, but is now proposing relocating these
17 services in-house to better manage the line locating process and associated
18 labor. By bringing these services back in-house in its Southeast and Central
19 regions, MERC can maintain its workforce to complete line locating work and
20 shave down expense peaks in other required work. Creating internal resources to
21 perform this work in-house results in a K&M increase of \$1,400,000 for internal
22 labor, while eliminating external line locating work results in a K&M decrease of
23 \$1,330,000, for a net increase of \$70,000.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

Q. PLEASE DESCRIBE THE K&M INCREASE REGARDING METER & HOUSE
REGULATOR EXPENSES – FERC ACCOUNT 878.

A. The K&M increase for proposed test year 2023 is \$80,000 for MERC’s
implementation of its regulator station database, as shown in Exhibit_(JLZ-D),
Schedule 12. The \$80,000 total adjustment includes \$35,000 for software and
\$45,000 of implementation labor. The database implementation will help the
Company manage regulatory station inspections more effectively.

Q. PLEASE DESCRIBE THE K&M INCREASE REGARDING OTHER EXPENSES
– FERC ACCOUNT 880.

A. The K&M increase for proposed test year 2023 is the result of eight items,
totaling an increase of \$953,428, as shown in Exhibit_(JLZ-D), Schedule 13.

O&M Tools

A K&M increase of \$19,000 for projected test year 2022 relates to additional
purchases of small hand tools and equipment needed to perform work safely.
These are small tools, under \$1,000, for which the Company needs to increase
supplies for employee use.

Damage Prevention & Community Awareness

A K&M increase of \$172,500 for proposed test year 2023 is associated with
MERC’s proposal to create a damage prevention coordinator (managerial)

1 position that will monitor locates, provide detailed reports to governing bodies on
2 those locates, and increase community involvement with homeowners. Currently,
3 MERC does not have an employee dedicated to operating MERC's damage
4 prevention program. MERC also proposes an additional \$150,000 for materials,
5 public awareness meetings, and overtime related to local employees providing
6 education on opportunities to increase public safety related to damage
7 prevention.

8 9 **Facilities Maintenance**

10 K&M increases totaling \$255,000 are related to additional maintenance costs for
11 MERC's smaller facilities, including painting, parking lot upkeep, weatherization,
12 access upgrades, and other general items that MERC must address at these
13 facilities annually. Costs have increased and MERC proposes to utilize
14 contractors to meet the pace of work needed.

15 16 **AMI-Related Costs**

17 A K&M increase of \$130,000 for 2023 is associated with the cost of adding
18 compensation and benefits for a full-time employee to monitor AMI for large
19 customers and new area growth projects, work with Itron (MERC's AMI
20 contractor) to determine when new equipment is needed in the field, and manage
21 and facilitate the installation of new poles and contracts for new customers.

1 **Fleet Fuel Costs**

2 A K&M increase of \$114,928 for proposed test year 2023 is the result of an
3 increase in additional fleet fuel costs above inflation. The increase was
4 calculated by inflating 2021 actual expense to 2023 levels, and then estimated an
5 increase in the number of gallons used and an increase of \$1.00 per gallon for
6 proposed test year 2023.

7
8 **Gas Engineering Employee**

9 A K&M increase of \$112,000 for proposed test year 2023 is the cost associated
10 with allocating more resources to updating and managing internal data at MERC.
11 Currently, MERC has made strides to improve records and documentation, but it
12 still lacks the resources to efficiently update and manage the data, which makes
13 accurate data reporting a challenge. In particular, MERC requires resources to
14 continue to update and analyze internal data for use in improving MERC's
15 engineering analyses to ensure that MERC's system can efficiently and reliably
16 deliver gas. MERC therefore proposes a K&M increase of \$112,000 that is
17 associated with the cost of paying a gas engineering employee to assist in data
18 updating and analysis beginning in 2023.

19
20 Q. PLEASE DESCRIBE THE K&M INCREASE REGARDING MAINTENANCE OF
21 MAINS – FERC ACCOUNT 887.

22 A. The K&M increase is influenced by two factors in mains expense for projected
23 year 2022. First, the price of MERC's contract with NPL Construction Co. ("NPL")

1 is increasing, and MERC will therefore require additional dollars to fund this
2 contract. Second, additional O&M dollars are needed to provide a vacuum truck
3 for un-locatable service lines in the field. This will be used in lieu of MERC
4 sending two employees into the field to locate the service lines. The K&M
5 adjustment to O&M expense for proposed test year 2023 is an increase of
6 \$200,000, as shown in Exhibit_(JLZ-D), Schedule 14.

7
8 Q. PLEASE DESCRIBE THE K&M INCREASE REGARDING MAINTENANCE OF
9 MEASURES & REGULATOR STATIONS EQUIPMENT – GENERAL – FERC
10 ACCOUNT 889.

11 A. The K&M increase of \$490,000 for proposed test year 2023 is related to several
12 items, as shown in Exhibit_(JLZ-D), Schedule 15. While MERC's estimate for
13 these K&M is based on specific tasks planned for the test period, these projects
14 are indicative of the type and scope of work MERC needs to undertake in 2023
15 and beyond to enhance measure and regulatory station equipment.

16
17 More specifically, this K&M adjustment reflects an increase of \$225,000
18 associated with line heater maintenance, which is proposed to enhance MERC's
19 ability to proactively maintain and address station heaters going forward, before
20 problems arise. MERC owns 27 station heaters, each of which will cost
21 approximately \$25,000 to update. At a maintenance rate of nine heaters per
22 year, the annual cost will be \$225,000 for a three-year continuing cycle of
23 additional maintenance.

1
2 This also reflects an increase of \$125,000 related to structure painting and
3 ongoing upkeep, in relation to town border stations, farm taps, and other non-
4 station items. MERC has previously used its own employees to perform these
5 tasks, but MERC will seek to use a professional contractor to completely scrape,
6 blast, prime, and paint these structures to maintain their longevity. Currently, the
7 work is completed on a more reactive basis. This work would be conducted on a
8 3- to 5-year cycle, as circumstances permit.

9
10 This also includes an increase of \$80,000 for station painting (interconnects and
11 other infrastructure inside fences) to be performed by a contractor. MERC
12 intends to establish a recurring cycle of painting eight stations per year at a cost
13 of approximately \$10,000 per station.

14
15 This also reflects an increase of \$10,000 related to the repair of entry gates in the
16 Southwest district. Based on the bidding process, a contractor would complete
17 this work at a cost of \$5,000 per entry multiplied by two entries for a total cost of
18 \$10,000.

19
20 Finally, this K&M reflects an increase of \$50,000 related to MERC having a
21 contractor grade, fill, install, and maintain gravel for a parking area for its
22 employees in the field. This cost is based on current bid prices from similar
23 projects MERC has done in the past. This work is needed to maintain and allow

1 for improved access to sites. For example, in one case MERC employees
2 currently park in the roadway and walk back to the DRS on a two-track lane,
3 which increases the risk of an injury to those employees.
4

5 Q. PLEASE DESCRIBE THE K&M INCREASE REGARDING MAINTENANCE OF
6 MEASURES & REGULATOR STATIONS EQUIPMENT – CITY GATE – FERC
7 891.

8 A. The K&M increase of \$173,000 for proposed test year 2023 is related to two
9 K&M costs for 2022, as calculated in Exhibit_ (JLZ-D), Schedule 16. First, this
10 includes hiring a professional painter to paint district regulator stations (“DRSs”)
11 and Large Volume Meter (“LVM”) sets for transport and interruptible customers
12 on an ongoing basis to ensure adequate resources to complete the work. This
13 will put MERC on schedule to maintain these structures’ longevity in the future.
14 This results in a proposed \$140,000 increase to proposed test year expenses.
15

16 Second, this includes a \$33,000 increase for annual DRS clean-up above current
17 levels, which will include spraying for weeds and attending to rocked areas to
18 enhance maintenance going forward and avoid safety concerns associated with
19 these areas.
20

1 Q. PLEASE DESCRIBE THE K&M INCREASE REGARDING MAINTENANCE OF
2 SERVICES – FERC ACCOUNT 892.

3 A. The K&M increase of \$2,750,000 to proposed test year 2023 is the result of two
4 projects—the Sewer Cross Bore Survey Project (the “Sewer Cross Bore Project”)
5 (\$1,750,000) and the Mapping Project (\$1,000,000), as shown in Exhibit __ (JLZ-
6 D), Schedule 9. These two projects are described in more detail in the Direct
7 Testimony of Mr. Prosser. First, the Sewer Cross Bore Project was developed to
8 reduce the risk to customers and minimize the threat of sewer cross bores, which
9 occur where a natural gas line is installed through a sewer line. This is a multi-
10 year inspection project with a planned increased scope beginning in
11 2023. Second, the Mapping Project is a comprehensive effort to verify, compile,
12 and map MERC’s gas main and service line data, and ultimately link the service
13 line data to the Company’s Geographic Information System (“GIS”).

14
15 This also includes an increase of \$275,000 related to MERC contracting with a
16 company to do the 2023 leak survey of 53,000 meters at \$5.25 a meter, or
17 ≈ \$275,000. This estimate is based on previous contract pricing.

18
19 Q. PLEASE DESCRIBE THE K&M INCREASE REGARDING MAINTENANCE OF
20 METERS & HOUSE REGULATORS – FERC ACCOUNT 893.

21 A. The K&M increase of \$710,000 to proposed test year 2023 expenses, as
22 calculated in Exhibit_(JLZ-D), Schedule 18, is the result of proposed increases to
23 five items discussed in turn below.

Atmospheric Corrosion Surveys

MERC conducts Atmospheric Corrosion Surveys for its meters on a three-year cycle, consistent with Pipeline and Hazardous Materials Safety Administration Distribution Integrity Management Program requirements. Currently, the work is being conducted by meter readers, but MERC's 2023 test year budget assumes meter readers will no longer be utilized wherever AML meters are deployed (as discussed with respect to FERC Account 902). A K&M increase of \$100,000 related to Atmospheric Corrosion Surveys for 2023 is proposed for MERC to use five contracted workers at a rate of approximately \$20 per hour to complete necessary work related to Atmospheric Corrosion Surveys.

Painting and Maintenance of Residential Meters & Large Meter Sets

MERC proposes K&M adjustments for painting and maintenance of residential meters and large meter sets for system supply customers for proposed test year 2023. MERC is required to do surveys of these meter sets when visiting the meter location, and is finding that additional painting, straightening, repair, and relocation work is needed in the field to continue to meet Minnesota Office of Pipeline Safety standards. MERC anticipates \$400,000 annually for painting and maintenance of residential and large meter sets respectively, and an additional \$200,000 to undertake approximately 2,000 meter repairs or relocations per year at a cost of \$1,000 per meter.

1 **Abandonment of Meterless Risers**

2 A K&M increase of \$10,000 for 2022 is projected to remove risers that have been
3 left in ground where a meter has otherwise been removed. Due to the
4 accumulation of meter risers over time, the Company seeks to increase ongoing
5 attention to removal of risers at approximately 10 risers per year at a cost of
6 approximately \$1,000 per riser.

7
8 Q. PLEASE DESCRIBE THE K&M INCREASE REGARDING METER READING
9 EXPENSES – FERC ACCOUNT 902.

10 A. The K&M increase of \$230,508 is related to two items in meter reading
11 expenses, as shown in Exhibit_(JLZ-D), Schedule 19. A K&M increase of
12 \$678,295 for projected year 2022 is related to MERC's contractual costs for
13 Itron's AMI-managed service. MERC has been actively rolling out AMI as part of
14 a capital project described by Mr. Stasik. Itron is the AMI vendor MERC has
15 contracted to provide managed services, consisting of (1) network fees, which
16 ensure MERC receives reliable meter reads and (2) system O&M, which ensures
17 that meter reads are accurately and timely reflected on MERC's billing system.
18 These costs are new to O&M in 2022 because the project upgrade has been
19 completed.

20
21 This increase is offset by a K&M decrease of \$447,787 for 2023 related to
22 MERC's reduction in meter reading expenses in light of Itron managing the
23 system. This decrease is in addition to reductions already captured in the 2021

1 actual data, where meter reading costs began to reflect the roll-out of AMI
2 meters. With the reduction of \$447,787, the remaining meter reading expense
3 included in test year O&M is based on the assumption that in any given month,
4 there would be a small number of meters that would have to be read manually.
5 The meter reading cost for MERC employees remaining in the test year would be
6 equivalent of the hours of 1 full-time employee over the course of the year.
7

8 Q. PLEASE DESCRIBE THE K&M INCREASE REGARDING CUSTOMER
9 RECORDS AND COLLECTIONS EXPENSES – FERC ACCOUNT 903.

10 A. The total K&M increase to proposed test year 2023 associated with customer
11 records and collections expenses of \$2,155,733 is related to four items, as
12 shown in Exhibit_(JLZ-D), Schedule 20 and described below:
13

14 **Overtime (“OT”) Related to Collections**

15 In 2020 and 2021, the pandemic and associated Executive Orders led to a
16 reduction in the number of meter disconnections for nonpayment. For 2022 and
17 beyond, the Company anticipates a return to somewhat higher levels of meter
18 disconnections. This K&M expense is associated with nine additional
19 disconnections per day at one hour each, likely utilizing overtime due to time
20 constraints on existing employees. This totals a K&M increase for 2023 of
21 \$210,600.
22

1 **Meter to Bill (“M2B”) Postage and Bill Print**

2 Expenses associated with United States Postal Service postage and bill print
3 vendor costs for printing and sending out customer bills have both increased,
4 primarily due to increases in postage scheduled for both January and July of
5 2022 and 2023. These increases are anticipated to be approximately 7% for
6 each increase, and therefore in excess of normal inflation. MERC therefore
7 anticipates a K&M increase for 2023 of \$150,000.

8
9 **Care Center Outsourcing Costs**

10 Care Center costs continue to trend up due to new vendor contracts associated
11 with the Company's efforts to better align with market pressures for retention and
12 recruitment of resources. Increased costs are also associated with MERC's
13 strides to meet the aggressive average speed of answer (“ASA”) and service
14 levels regulatory requirements for customer service calls. Call volumes have
15 also increased to pre-COVID-19 pandemic levels, particularly as customers have
16 questions about rising gas costs. Since 2021, call volumes have increased
17 approximately 15%-20%, and vendor rates are increasing 30% from 2021 to
18 2023. As a result, contract costs are expected to increase above general
19 inflation levels both in terms of the vendor rates and the quantity of work to
20 decrease ASAs. While the Care Center Team continues to find ways to optimize
21 and reduce costs and leverage vendors as well as internal resources, these
22 increased Care Center expenses result in a K&M increase of \$1,200,000 for

1 proposed test year 2023, with approximately \$950,000 due to vendor rates and
2 \$250,000 due to call volumes.

3 4 **Bring Dispatch In-House**

5 MERC is moving the dispatch function from an outside contractor to internal
6 personnel for two primary reasons First, as the vendor contract neared
7 expiration, the vendor sought to increase costs significantly. Second, MERC
8 would be able to utilize new and existing dispatch employees to create a larger
9 pool of resources to respond to customer needs, and also have more flexibility
10 about which dispatch resource to utilize at any given time. This will help with
11 enhancing customer responsiveness and further ensure safe and reliable
12 service. The move results in a K&M increase for proposed test year 2023 of
13 \$595,133.

14
15 Q. PLEASE DESCRIBE THE K&M INCREASE RELATED TO UNCOLLECTIBLE
16 EXPENSE IN ACCOUNT 904.

17 A. MERC calculated the 2023 test year uncollectible expense using a similar
18 methodology as used in MERC's past two rate cases, applying an average of
19 multiple years' uncollectible expenses over tariff revenue. This percentage was
20 multiplied by MERC's 2023 test year forecasted revenue plus the total Company
21 revenue deficiency, resulting in a forecast of uncollectible expense for 2023.

1 Comparing lines 7 and 14 of Exhibit_(JLZ-D), Schedule 36, illustrates that the
2 K&Ms used in calculating the 2023 uncollectible expense (on lines 10 and 13)
3 totals \$2,996,000.
4

5 Q. HOW MANY YEARS WERE USED TO CALCULATE THE AVERAGE OF
6 UNCOLLECTIBLE EXPENSES?

7 A. MERC used four years (2018-2021) of data to calculate the uncollectible
8 expense percentage of tariff revenue for 2023. Line 3 of Exhibit_(JLZ-D),
9 Schedule 36 shows the volatility of the uncollectible expense percentage of
10 tariffed revenue observed in each of the last several years. In order to moderate
11 that volatility, MERC proposes using a four-year average, reflecting two pre-
12 pandemic years as well as data available for 2020 and 2021.
13

14 Q. PLEASE DESCRIBE THE K&M INCREASE REGARDING CUSTOMER
15 ASSISTANCE EXPENSES – FERC ACCOUNT 908.

16 A. The K&M increase is related to MERC's mobile application spend and MERC's
17 efforts to encourage customers to use the mobile application to improve their
18 access to information, improve outage data, and otherwise improve customer
19 satisfaction with information available from their utility. To accomplish this, the
20 Company anticipates additional costs associated with advertising and customer
21 outreach. The K&M adjustment to O&M expense related to mobile application
22 support is an increase of \$75,000, as shown in Exhibit_(JLZ-D), Schedule 21.
23

1 Q. PLEASE DESCRIBE THE K&M DECREASE REGARDING ADVERTISING
2 EXPENSES – FERC ACCOUNT 909.

3 A. Consistent with Commission policy, MERC has excluded all advertising costs
4 associated with economic development and goodwill from the 2023 test year.
5 This adjustment reduces 2023 projected O&M expense by \$945, as shown on
6 Exhibit_(JLZ-D), Schedule 31. However, in preparing this filing, MERC
7 determined that the incorrect inflation rate was inadvertently applied to the 2021
8 actual costs, such that the Advertising expense reduction should be \$958 rather
9 than \$945. This correction is reflected in the interim rate adjustment request.

10
11 In accordance with the Commission's Policy Statement on Advertising Expenses
12 dated June 14, 1982, Volume 3, Informational Requirements Document 13 of
13 MERC's filing contains a list of the advertisements for which MERC seeks cost
14 recovery in this case, and provides the information requested by the Policy
15 Statement for each advertisement.

16
17 Q. PLEASE DESCRIBE THE K&M DECREASE REGARDING ECONOMIC
18 DEVELOPMENT – FERC ACCOUNT 920, 921.

19 A. To be consistent with the costs allowed in past rate cases, MERC has removed
20 50% of the 2021 Economic Development costs, which totals \$97,265, from the
21 2023 projected test year as seen in Exhibit_(JLZ-D), Schedule 34. These costs
22 include both actual expenditures and labor costs associated with administering
23 economic development programs.

1
2 Q. PLEASE DESCRIBE THE K&M INCREASE REGARDING ADMINISTRATIVE
3 AND GENERAL SALARIES – FERC ACCOUNT 920.

4 A. MERC is proposing to add labor costs related to the addition of two new
5 employees to its test year. These employees include an administrative assistant
6 to replace an employee that retired in 2020 and a transportation and installation
7 employee for a position that has also been vacant since 2020 (each, a \$124,800
8 K&M increase). The combined \$249,600 increase is offset by a \$38,886
9 downward reserve adjustment for 2022, to reflect removal of reserve for COVID-
10 19 labor costs for which the Company is not seeking to recovery. This results in
11 a total K&M increase to O&M expense of \$210,714, as shown in Exhibit_(JLZ-D),
12 Schedule 22.

13
14 Q. PLEASE DESCRIBE THE K&M DECREASE REGARDING T&E EXPENSE –
15 FERC ACCOUNT 921.

16 A. Per Minn. Stat. § 216B.16, subd. 17, MERC has included the information as
17 required in Informational Requirements Document 14. In MERC's analysis of
18 T&E expenses, MERC identified certain expenses from the 2021 actual costs
19 that would be removed from its request for cost recovery, for a reduction of
20 \$22,967. Inflating this K&M disallowance for 2022 reduces 2022 projected O&M
21 expense by \$3,824, as shown on Exhibit_(JLZ-D), Schedule 33. By removing this
22 amount in 2022, these costs are also effectively removed from the 2023

1 proposed test year. I describe the Company's efforts in this regard in Section V
2 of my Direct Testimony.

3
4 Q. PLEASE DESCRIBE THE K&M DECREASE REGARDING ORGANIZATION
5 MEMBERSHIP DUES – FERC ACCOUNT 921.

6 A. MERC has excluded all individual organization membership dues from the 2023
7 proposed test year. This adjustment reduces 2023 projected O&M expense by
8 \$483.75, as shown on Exhibit_(JLZ-D), Schedule 30.

9
10 Q. PLEASE DESCRIBE THE K&M ADJUSTMENT REGARDING INVESTOR
11 RELATIONS EXPENSE – FERC ACCOUNT 921.

12 A. In prior Company rate cases, the Commission has only permitted MERC to
13 recover half of its annual investor relations expense. Reducing the expense
14 recovery by 50% reduces 2023 projected O&M expense by approximately
15 \$59,738, as shown on Exhibit_(JLZ-D), Schedule 35. However, in final review of
16 the case filing, the Company discovered the investor relations expense
17 adjustment was inadvertently excluded from the Company' cost of service. Since
18 this adjustment would reduce MERC's revenue requirement, MERC has included
19 the adjustment in its interim rate revenue deficiency and will likewise reduce its
20 final rate revenue deficiency in rebuttal.

1 Q. PLEASE DESCRIBE THE K&M DECREASE REGARDING CHARITABLE
2 CONTRIBUTIONS – FERC ACCOUNT 921.

3 A. Consistent with Commission policy, MERC has excluded 50% of its charitable
4 contributions from the revenue requirement. This adjustment reduces 2023
5 projected O&M expense by \$34,164, as shown on Exhibit_(JLZ-D), Schedule 32.

6
7 In accordance with the Commission's Policy Statement on Charitable
8 Contributions, Volume 3, Informational Requirements Document 15 of MERC's
9 filing contains an itemized list of the charitable contributions for which MERC
10 seeks cost recovery in this case, including the amount, recipient, and date of the
11 donation, as well as the type or purpose of the organization.

12
13 Q. HAS MERC INCLUDED ANY ADMINISTRATIVE COSTS ASSOCIATED WITH
14 ITS CHARITABLE CONTRIBUTIONS IN THE 2023 TEST YEAR?

15 A. No. Consistent with the Commission's Order in the 2017 Rate Case, which
16 required MERC to exclude charitable contribution administrative expense in the
17 Company's 2017 Rate Case, MERC has not included any administrative expense
18 in the 2023 test year. The costs associated with administration of MERC's
19 charitable contributions are charged to the WPS Foundation and are not
20 allocated to MERC. As a result, no administrative costs are included in the 2023
21 test year.

1 Q. PLEASE DESCRIBE THE K&M DECREASE REGARDING OFFICE SUPPLIES
2 & EXPENSES – FERC ACCOUNT 921.

3 A. The K&M decrease of \$3,201,130 includes four items related to office supplies
4 and expenses, as shown in Exhibit_(JLZ-D), Schedule 23 and described below.
5 By removing this amount in 2022, these costs are also effectively removed from
6 the 2023 proposed test year.

7
8 **Office Supplies**

9 Due to efforts to contain O&M in recent years, as well the fact that the Company
10 did not utilize as many in-office supplies during the COVID-19 pandemic, MERC
11 proposes a K&M increase in 2022 test year expense of \$51,000 related to office
12 supplies. This amount would facilitate additional internal office supplies, stamps,
13 chairs, and community relations supplies to levels generally commensurate with
14 employees having returned to the office in 2022 and beyond.

15
16 **Software/Maintenance Costs**

17 The total increase of \$500,000 consists of approximately \$200,000 in individual
18 information technology (“IT”) software/maintenance costs, as well as cost
19 increases associated with addressing cyber security threats of approximately
20 \$100,000. These increases are supported by the existing IT software,
21 maintenance, and security contracts and historical cost increase in these areas.
22 The remainder of the cost increases are driven by historical rates for cost

1 increases to support other existing programs which require non-capital
2 maintenance investments, higher license fees, and the like.

3 4 **Settlement Accounting**

5 In every year since 2016, the Integrys Qualified Retirement Pension Plan paid
6 out lump sum benefit payments to retirees greater than the accounting threshold
7 due to retirees choosing lump sum payments over the annuity option of their
8 pension benefit. Under ASC715 accounting rules, when this happened MERC
9 was required to accelerate a portion of the actuarial gains and losses into the
10 current period, also known as settlement accounting. Simultaneously, MERC
11 established a regulatory asset to defer these costs, and is requesting
12 amortization of these annual deferrals over ten years. MERC undertook this
13 same process in its 2017 Rate Case for the 2016 regulatory asset. The end
14 result of these adjustments is an increase in MERC's 2023 O&M in Account 921
15 of approximately \$129,000, as calculated in Exhibit_(JLZ-D), Schedule 42, which
16 removes the negative expense (deferral offset by reserve amortization)
17 recognized in 2021 from MERC's 2023 test year. Additionally, within FERC
18 Account 926, MERC is requesting recovery of approximately \$145,213, as seen
19 on line 19 of Exhibit_(JLZ-D), Schedule 28, page 2. This is 1/10th of the
20 deferrals that have occurred from 2016-2022.

Storm Gas Recovery Reserve & COVID-19 Reserve

MERC established a reserve of \$3,000,000 for the settlement of the February 2021 Winter Storm Uri extraordinary gas cost event, and maintained a reserve of approximately \$930,000 in relation to COVID-19 non-labor O&M expenses for potential future recovery. In light of the Uri settlement and MERC's decision not to seek recovery of COVID-19 deferral costs, this K&M results in a decrease in 2023 proposed test year K&M expense of \$3,930,711.

Q. PLEASE DESCRIBE THE K&M INCREASE REGARDING OUTSIDE SERVICES EMPLOYED – FERC ACCOUNT 923.

A. The K&M increase is related to costs associated with litigating property tax complaints. The increase represents only one-third of the total litigation costs associated with these complaints and is incremental to the ongoing legal costs related to settling property tax complaints. The K&M adjustment to O&M expense related to these legal costs is an increase of \$190,000 to 2023, as shown in Exhibit_(JLZ-D), Schedule 24. Mr. Kissinger discusses these costs in more detail in his Direct Testimony.

Q. PLEASE DESCRIBE THE K&M INCREASE REGARDING PROPERTY INSURANCE – FERC ACCOUNT 924 AND INJURIES & DAMAGES – FERC ACCOUNT 925.

A. Annualized double digit increases in insurance are projected due to insurance market forces as well as inflation. Inflation impacts the value of the exposure

1 being insured, and the property casualty insurance market remains challenging
2 as double digit rate increases have become normalized in the aftermath of
3 increasingly severe natural gas utility liability losses from leaks and explosions,
4 an uptick in natural disasters, and cyber-attacks. As a result, the K&M increase
5 related to property insurance results in an adjustment to O&M expense of
6 \$10,196 for proposed test year 2023, as shown in Exhibit_(JLZ-D), Schedule 25.
7 Further, the K&M increase related to injuries and damages results in an
8 adjustment to O&M expense of \$202,045 for proposed test year 2023, as shown
9 in Exhibit_(JLZ-D), Schedule 26.

10
11 Q. WHAT ARE THE EMPLOYEE BENEFITS EXPENSES BEING FORECASTED IN
12 THE 2023 TEST YEAR?

13 A. In 2023, MERC is forecasting total benefit expense of \$4,353,591 in FERC
14 Account 926 as compared to the 2021 total benefit expense of \$3,904,844,
15 representing a K&M increase of \$21,557, as calculated in Exhibit_(JLZ-D),
16 Schedule 28.

17
18 Q. HOW DID MERC DEVELOP THE 2023 FORECAST OF EMPLOYEE BENEFIT
19 COSTS?

20 A. The 2023 forecast reflects the benefit designs and structures that were effective
21 in 2022. A detailed list of each of the benefit accounting components can be
22 found in Exhibit_(JLZ-D), Schedule 28, including identification of removal of
23 certain benefit costs not requested for recovery consistent with treatment in

1 MERC's prior rate cases. In each instance, MERC believes it is accounting for
2 employee benefit costs in the manner approved in MERC's prior rate cases.

3 Costs include:
4

5 **Costs Not Requested for Recovery**

6 Certain costs in Account 926 are not requested for recovery due to exclusion
7 from base rates in prior dockets. The Company has excluded costs for non-
8 qualified pensions, restricted stock, stock options, and performance units from its
9 request in this proceeding, as illustrated in Exhibit_(JLZ-D), Schedule 28.
10

11 **Actuarially-Calculated Costs**

12 Actuarial expenses included in the 2023 forecast are based on the most recent
13 actuarial study performed by MERC's independent actuary, Willis Towers
14 Watson, using actual asset values at December 31, 2021, and actual participant
15 demographic data as of January 1, 2022. The actuarially-calculated expense for
16 each pension and OPEB plan is based upon market conditions as of June 16,
17 2022.
18

19 **Approved Amortizations**

20 In addition to the actuarially-calculated costs for pension and OPEB plan costs,
21 the 2023 forecast also includes amortizations related to those plans approved in
22 Docket Nos. G007,011/M-06-1287 and G011/M-15-992, consistent with the
23 Orders in those dockets governing cost recovery in subsequent rate cases.

1

2 **Medical**

3 The 2023 forecast for medical reflects an embedded blended annual trend rate of
4 6.9% (6.0% for medical claims and 10% for Rx) over actual premium rates in
5 2022. The 2022 premium rates were calculated by MERC's independent
6 actuarial consultant, Fidelity, incorporating benefit designs such as cost sharing,
7 deductibles, and surcharges in effect in 2022. For the 2023 forecast, Fidelity
8 considered 30 months of historical claims/enrollment data. Due to the impact of
9 COVID-19 on the actual claims experience in 2020 and 2021, more credibility
10 was weighted on the 2019 claims data.

11

12 **Dental**

13 Dental costs for the 2023 forecast reflect costs for both fully-insured and self-
14 insured lines of coverage. The forecast for the fully-insured portion reflects a
15 5.0% trend over actual premium rates in effect for 2022. The forecast for the self-
16 insured portion reflects a 2.5% trend over actual premium rates for 2022.

17

18 **Defined Contribution Plan (401(k))**

19 The 2023 forecast for defined contribution costs is based on actual employee
20 participation in calculating the employer matching contribution. This item also
21 includes the annual age/service contribution which replaced the pension accruals
22 in the defined benefit qualified pension plan.

Life Insurance and Long-Term Disability Insurance

The 2023 forecast for life and long-term disability insurance reflects the actual premium rates charged to MERC for such coverage beginning 2022. Premium rates for life insurance and long-term disability insurance increased 52% and 10%, respectively, beginning in 2022 as a result of unfavorable experience. These rates are guaranteed for 2022 through 2024.

Tuition Reimbursement and Other

The 2023 forecast for tuition reimbursement and other includes costs related to the reimbursement of tuition costs and employee milestone service anniversary awards for MERC employees. Tuition reimbursement is calculated using the actual number of MERC employees utilizing this benefit during a three-year look-back period. The service award costs are based on actual demographics of employees reaching milestones in 2023.

Executive Benefits

2023 costs for executive benefits consist of costs related to executive financial planning. The forecast is rounded to the nearest thousand.

Benefits Administration

2023 costs for benefits administration consist of administrative fees charged by third party vendors to administer the Company's benefit plans, fees for benefit plan audits, and actuarial consulting fees.

1

2 **Benefits Billed from WEC Business Services**

3 The 2023 forecast for this item follows the methodologies described above: costs
4 for items not requested for recovery have been removed; the most recent
5 actuarial analysis for pension and OPEB is reflected; and the remaining benefit
6 costs have been calculated as described for MERC. MERC received 3.1% of the
7 WEC Business Services employee benefit costs in 2021. This same percentage
8 was used in the calculation for MERC's allocation in the 2023 forecast.

9

10 **Capitalized Benefits**

11 The 2023 forecasted capitalized benefits were calculated to reflect a 24.98%
12 capitalization rate on forecasted costs subject to capitalization. This calculation
13 takes into consideration the 2023 forecasted benefit costs reflected in
14 Exhibit_(JLZ-D), Schedule 28.

15

16 **Benefits Billed to Affiliates (MERC Non-Utility)**

17 The 2023 forecast was based on past experience and checked against 2021
18 actuals for reasonableness. In total, these expenses increased from the 2021
19 historical year to the 2023 test year by \$36,844. Since this item is for MERC
20 non-utility, it reduces the Account 926 costs for MERC utility.

1 Q. PLEASE DESCRIBE THE K&M DECREASE REGARDING EMPLOYEE PAY-AT
2 RISK INCENTIVE COSTS.

3 A. The K&M decrease associated with employee pay-at-risk incentive plans is
4 calculated on Exhibit __ (JLZ-D), Schedule 29. Page 1 identifies the total K&M
5 adjustment for incentives. Page 2 calculates the permissible level of annual
6 incentive pay ("AIP") pay-at-risk incentive costs at target levels as compared to
7 actual payments, whereas Page 3 illustrates the actual 2021 incentives by FERC
8 account and Page 4 illustrates the adjustments by FERC account to remove
9 incentive compensation above target from the revenue requirement. The total
10 represents a decrease of \$557,117 in incentive costs, due in part to payment
11 above target levels in 2021.

12
13 The 2023 pay-at-risk incentive costs for non-executive employees was calculated
14 at the target level expense, and the executive employee incentives were limited
15 to 15% to be consistent with the costs approved in MERC's last two rate cases.

16
17 Q. PLEASE SUMMARIZE THE FORECASTED O&M EXPENSES FOR
18 PROPOSED TEST YEAR 2023.

19 A. Overall, the 2023 forecasted total O&M represents a net increase of
20 approximately \$3.7M as compared to the total O&M approved by the
21 Commission in MERC's 2018 test year in the 2017 Rate Case, for an increase of
22 about 8% over five years or an annual increase of roughly 1.5% per year.

1 3. *Regulated/Non-Regulated Allocations (ServiceChoice)*

2 Q. DOES MERC HAVE A NON-REGULATED APPLIANCE SERVICE BUSINESS?

3 A. Yes, MERC has an appliance service business called ServiceChoice (formerly
4 known as Home Services). ServiceChoice offers appliance repair, service
5 protection plans, and heating, air conditioner, and water heater repair and
6 maintenance services. This service is primarily provided to Residential
7 customers, and is available on both an on-demand and contract basis.

8
9 Q. DO MERC'S UTILITY EMPLOYEES ALSO PROVIDE SERVICES TO
10 CUSTOMERS THROUGH SERVICECHOICE?

11 A. Yes, MERC field technicians perform both regulated and non-regulated work in
12 the majority of the State. In Rochester and the Southern Metro area of
13 Rosemount, Farmington, Lakeville, Eagan, and New Market, MERC has
14 dedicated employees for the utility and non-utility businesses. The number of
15 customers in these areas makes it economically practical to have different
16 employees for the regulated and non-regulated businesses.

17
18 Q. HOW ARE MERC'S NON-REGULATED BUSINESS ACTIVITIES SEPARATED
19 FROM ITS REGULATED UTILITY ACTIVITIES?

20 A. MERC is very careful to keep the costs separate for the utility and non-utility
21 businesses. This separation of costs prevents the utility's customers from
22 subsidizing the costs of the ServiceChoice business. The costs of MERC's non-
23 regulated business activities are separated through the use of specific general

1 ledger accounts. The specific accounts are coded as non-regulated and have a
2 non-utility FERC account assignment that ensures costs are recorded
3 appropriately and are therefore excluded from utility revenue requirements
4 calculations. All expenses recorded in each non-regulated business activity
5 account are linked to FERC 417.1, Nonutility Expenses. These costs are not
6 recorded in MERC's O&M accounts.
7

8 Q. HOW ARE COSTS ALLOCATED BETWEEN THE UTILITY AND NON-UTILITY
9 BUSINESSES?

10 A. MERC utilizes three different means of allocating the correct costs to the utility
11 and non-utility businesses: direct charge, allocation based on known factors, and
12 general allocation. Of those costs, 84.7% are directly charged, 7.8% are charged
13 based on known factors, and 7.5% are allocated based on the general allocator.
14

15 Q. PLEASE EXPLAIN HOW EACH OF THESE ALLOCATIONS WORK.

16 A. First, non-regulated business activities are directly charged whenever possible.

17 Under the direct charge allocation, costs that are directly related to
18 ServiceChoice are charged to that business. Examples of costs directly related
19 to ServiceChoice include all costs associated with the employment of the
20 ServiceChoice Product Manager, including labor and all related expenses.

21 These costs are directly charged to the ServiceChoice business. Field
22 Technicians directly charge their time and expenses for time spent doing

1 ServiceChoice work. Field Managers monitor timesheets to assure that the
2 employees are charging their time appropriately.

3
4 For allocations based on known factors, a percentage is calculated to allocate
5 costs between the regulated and non-regulated businesses. At this time, call
6 center costs are the only costs allocated by a known factor. A portion of these
7 costs are allocated based on the percentage of utility and non-utility service calls
8 received out of the total number of utility and non-utility service calls received.
9 The remaining costs are allocated based on the percentage of utility and non-
10 utility customers out of the total number of utility and non-utility customers. The
11 customer count allocation factor is recalculated on an annual basis.

12
13 The general allocation method is used to allocate those costs that cannot be
14 directly charged to either regulated or non-regulated activities and for which there
15 are no known allocation factors. For example, the costs of employee safety
16 meetings where the topic is generic to both businesses, such as safe driving,
17 would be allocated using the general allocator. Another example is facilities
18 costs. Buildings are used for both utility and non-utility business and therefore
19 the general allocator is used to allocate the costs between the utility and non-
20 utility businesses.

1 Q. PLEASE STATE THE CURRENT GENERAL ALLOCATION FACTOR AND
2 DESCRIBE HOW THE FACTOR IS CALCULATED.

3 A. The current general allocation factor is 87.7% to the utility and 12.3% to the non-
4 utility, as shown on Exhibit_(JLZ-D), Schedule 37. This percentage is based on
5 three statistics: margin, net plant, and payroll. These statistics are gathered for
6 the utility and non-utility activities and averaged together on a weighted basis.
7

8 Q. IS MERC'S ALLOCATION OF COSTS BETWEEN THE UTILITY AND THE
9 NON-UTILITY CONSISTENT WITH THE COMMISSION'S COST ALLOCATION
10 REQUIREMENTS?

11 A. Yes. MERC's method of allocating costs between its regulated and non-
12 regulated businesses is consistent with hierarchical cost allocation principles
13 adopted by the Commission. In its September 28, 1994 Order in Docket No.
14 G,E999/CI-90-1008, the Commission required all utilities to adopt fully allocated
15 costing to assign and allocate costs between regulated and non-regulated
16 activities unless the utility demonstrates that its non-regulated activities are
17 insignificant or that the public interest would be better served by another method.
18 As noted above, costs are directly assigned to either the regulated or non-
19 regulated activities whenever possible. Next, costs that cannot be directly
20 assigned are allocated based on a known cost-causal factor. Finally, if costs
21 cannot be directly allocated or allocated based on a known factor, costs are
22 allocated using the general allocation method.
23

1 For the benefit of customers, however, the calculation of MERC's general
2 allocation factor does not follow the Commission's preferred methodology, which
3 requires that: "When neither direct nor indirect measures of cost causation can
4 be found, the cost category shall be allocated based upon a general allocator
5 computed by using the ratio of all expenses directly assigned or attributed to
6 regulated and nonregulated activities." To demonstrate the reasonableness of its
7 general allocation factor, MERC calculated the general allocation factor using
8 2021 data and the Commission's method. MERC's general allocation factor was
9 87.7% to the utility and 12.3% to the non-regulated business.⁷ Using the
10 Commission's method, the resulting allocation factor was 88.0% to the utility and
11 12.0% to the non-regulated business. MERC's current general allocation factor,
12 therefore, is very close to the allocation factor calculated using the Commission's
13 methodology. Moreover, MERC's general allocator allocates 0.6% fewer costs to
14 the utility than the Commission's method, resulting in a slight benefit to utility
15 customers.

16
17 *4. Allocations to Michigan Customers*

18 Q. HAS DATA RELATED TO THE MICHIGAN CUSTOMERS BEEN INCLUDED IN
19 THIS FILING?

20 A. No. As shown on Rate Base Schedules in Informational Requirements
21 Document 2, and Net Operating Income Schedules in Informational

⁷ Exhibit_(JLZ-D), Schedule 37.

1 Requirements Document 5, corporate MERC data inclusive of Michigan detail
2 are shown. However, in each of the schedules, the Minnesota and Michigan
3 details are broken out, and only the Minnesota data is flowed through and shown
4 on the summary Rate Base schedule on Page 1 of Informational Requirements
5 Document 1, and the summary Operating Income schedule on Page 1 of
6 Informational Requirements Document 5.

7
8 Additionally, while Michigan customer data is included on Exhibit_(JJP-D),
9 Schedules 1, 2, and 3 of Mr. Peccarelli's Direct Testimony, this data is not
10 included in the Minnesota jurisdiction revenue deficiency, nor is it included in the
11 rate design model of Ms. Hoffman Malueg.

12
13 Q. PLEASE EXPLAIN HOW MERC ALLOCATED COSTS BETWEEN THE MERC-
14 MINNESOTA AND MERC-MICHIGAN SERVICE TERRITORIES.

15 A. MERC has described the methodologies used to allocate costs between MERC-
16 Minnesota and MERC-Michigan in Informational Requirements Documents 4
17 (Summary of Allocation Factors - Rate Base) and 7 (Summary of Allocation
18 Factors - Income Statement), which are both contained in Volume 3 of MERC's
19 filing. As described in Informational Requirements Documents 4 and 7, the first
20 step is to functionalize the costs and rate base items as production, transmission,
21 distribution, or customer. After the functionalization is completed, these costs are
22 then allocated to MERC-Minnesota and MERC-Michigan using system sales as

1 the allocator for energy and demand, total sales for transmission, distribution
2 plant for distribution costs, and fixed charge count for the customer function.

3
4 These allocations are consistent with the allocators used in past MERC rate
5 cases.

6
7 **E. Cost of Capital**

8 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

9 A. The purpose of this section of my testimony is to present MERC's capital
10 structure and cost of capital for the 2021 historical year, the 2022 projected year,
11 and the 2023 proposed test year; support MERC's cost of debt; address other
12 compliance issues related to MERC's borrowing and cost of debt; and provide
13 additional information regarding MERC's equity ratio request.

14
15 Q. DOES MERC PRESENT ANY OTHER EVIDENCE ON COST OF CAPITAL?

16 A. Yes. The Direct Testimony of Ms. Bulkley of Concentric Energy Advisors
17 provides evidence regarding MERC's cost of capital. She presents analytical
18 studies employing various industry models to derive her recommendation for the
19 return on common equity that MERC is requesting in this case. Ms. Bulkley also
20 provides support for MERC's requested equity ratio in this proceeding.

1 Q. IS MERC PUBLICLY OWNED?

2 A. Yes, via its parent. MERC is a wholly-owned indirect subsidiary of WEC Energy
3 Group. WEC Energy Group is traded on the New York Stock Exchange under
4 the symbol "WEC."

5
6 Q. PLEASE SUMMARIZE MERC'S REQUESTED OVERALL COST OF CAPITAL
7 FOR THE 2023 TEST YEAR.

8 A. For the 2023 proposed test year, MERC requests that the Commission approve
9 an overall cost of capital of 7.07%. This cost of capital is based on a common
10 equity ratio of 53.00% equity, 42.64% long-term debt, and 4.36% short-term debt
11 for the test year, and a 10.30% cost of common equity as supported in my
12 testimony and in the testimony of Ann Bulkley. MERC's cost of long-term debt
13 for the 2023 test year is 3.14% and its cost of short-term debt is 6.16%. The
14 recommended capital structure and ROE will ensure that MERC has access to
15 capital at reasonable rates when MERC needs it, thereby benefiting its
16 customers.

17

18 Q. ARE YOU SPONSORING ANY EXHIBITS IN CONNECTION WITH THE COST
19 OF CAPITAL PORTION OF YOUR TESTIMONY IN THIS PROCEEDING?

20 A. Yes, I am sponsoring Exhibit_(JLZ-D), Schedule 40, 2021-2023 Capital
21 Structure. I also sponsor Informational Requirement 16 in Volume 3 of MERC's
22 filing, which presents the 2021 actual, 2022 projected, and 2023 proposed test

1 year capital structure and cost of capital for WEC Energy Group on a
2 consolidated basis.

3
4 *1. Presentation of Rate of Return*

5 Q. HOW DO YOU PRESENT THE COMPANY'S PROPOSED CAPITAL
6 STRUCTURE, COST OF CAPITAL, AND RATE OF RETURN FOR THE 2023
7 TEST YEAR?

8 A. In general, Pages 1 through 4 of Exhibit_(JLZ-D), Schedule 40 support and
9 calculate MERC's capital structure, cost of capital, and required rate of return for
10 the 2021 historical year, 2022 projected year, and 2023 proposed test year.
11 Thirteen-month average balances are used to derive the cost rates in these
12 exhibits.

13
14 Page 1 develops MERC's overall rates of return of 6.17% and 6.34% for 2021
15 and 2022, respectively, using the calculated cost rates for debt from pages 2 and
16 3, and a 9.70% ROE. This schedule also develops MERC's overall rate of return
17 of 7.07% for the 2023 proposed test year using the recommended 10.30 percent
18 ROE.

19
20 Page 2 develops MERC's embedded cost of long-term debt of 3.31% and 3.14%
21 for 2021 and 2022, respectively. This schedule also calculates MERC's 2023
22 proposed test year embedded cost of long-term debt of 3.14%.

Page 3 calculates MERC's average cost of short-term debt of 0.69% and 3.77% percent for 2021 and 2022, respectively. This schedule also develops MERC's 2023 proposed test year weighted cost of short-term debt of 6.16%.

Page 4 develops MERC's 13-month average balance of Adjusted Common Equity for the 2021 historical year, 2022 projected year, and 2023 proposed test year.

2. Cost of Debt

Q. HOW DOES MERC'S OVERALL COST OF DEBT FOR THE 2023 TEST YEAR COMPARE TO ITS COST OF DEBT IN RECENT YEARS?

A. As illustrated on page 1 of Exhibit_(JLZ-D), Schedule 40, MERC's weighted cost of long-term debt decreases slightly from 3.31% in 2021 to 3.14% in 2023 due to two incremental debt issuances. MERC issued \$50 million of new debt in April 2020 at 2.69% and \$40 million in November 2021 at 2.07%. However, the cost of short-term debt increases from 0.69% in 2021 to 6.16% in 2023.

Q. HOW ARE THE RATES FOR THE INTERCOMPANY SHORT-TERM DEBT FROM INTEGRYS FORECASTED?

A. Under the affiliated interest borrowing agreement approved by the Commission in Docket No. G007,011/AI-09-1108, Integrys provides short-term debt to MERC at

1 its cost of external commercial paper.⁸ Integrys no longer issues commercial
2 paper; rather, it is now funded by WEC Energy Group commercial paper. For the
3 2023 test year, the short-term debt rate is calculated with an assumption of
4 Federal Funds rate increases experienced through September 2022 with
5 additional forecasted activity leveling off in Q3 of the test year. The non-
6 weighted, average forecasted short-term debt rate applicable to WEC Energy
7 Group commercial paper is 5.12% for the test year. This is one portion of the
8 short-term interest cost for MERC. See Exhibit_(JLZ-D), Schedule 40.

9
10 Q. HOW HAVE CHANGES IN INTEREST RATES AFFECTED MERC'S COST OF
11 SHORT-TERM DEBT?

12 A. As described by Mr. Stasik, the Federal Reserve has been steadily raising the
13 Federal Funds rate over the last year to combat rising inflation. As a result,
14 WEC's commercial paper borrowing rate and thus MERC's cost of short-term
15 debt have increased in step with the Federal Funds rate.

16

⁸ The Commission approved MERC's Affiliated Interest Borrowing Agreement for short-term borrowing from Integrys in its April 20, 2010, Order Approving Affiliated Interest Borrowing Agreement. *In the Matter of the Annual Capital Structure Filing of Minn. Energy Res. Corp. and Request for Approval of Affiliated Interest Agreement*, Docket No. G-007,011/AI-09-1108, Order Approving Affiliated Interest Borrowing Agreement (Apr. 20, 2010).

1 3. *WEC Merger Docket Compliance: Borrowing and Cost of Debt*

2 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR DIRECT
3 TESTIMONY?

4 A. In this section of my testimony, I address order points from the Commission's
5 Order in Docket No. G011/PA-14-664 ("Merger Docket") related to the
6 Company's borrowing and cost of debt. Specifically, I address Order Point 3-14
7 and Order Point 14 from the Merger Docket.

8
9 Q. WHAT DOES THE COMMISSION'S ORDER IN THE MERGER DOCKET
10 REQUIRE REGARDING INTERCOMPANY LENDING AND BORROWING?

11 A. Order Point 3-14 of the Commission's Order Approving Merger Subject to
12 Conditions prohibits MERC from establishing new intercompany lending or
13 borrowing agreements unless the arrangement costs less than other alternatives.
14 MERC issued long-term debt via the private placement market in the debt
15 issuances discussed above. Additionally, short-term debt is provided by Integrys
16 under an existing agreement that was approved by the Commission in 2010 and
17 modified by approval of the Commission in September of 2017 in Docket No.
18 G011/AI-17-303.

19
20 Q. WHAT DOES ORDER POINT 14 OF THE MERGER DOCKET REQUIRE?

21 A. Order Point 14 required that MERC must request and obtain Commission
22 approval pursuant to Minn. Stat. § 216B.48 (affiliated interest approval) and/or
23 Minn. Stat. § 216B.49 (approval of issuances that encumber Minnesota property)

1 before it includes any debt provided by its parent companies in its capital
2 structure.

3
4 Q. DID ANY OF MERC'S PRIVATE ISSUANCES SINCE 2018 ENCUMBER
5 PROPERTY IN MINNESOTA?

6 A. No. Therefore, no filing under Order Point 14 of the Merger Docket was required.

7
8 Q. ARE THERE ANY FORECASTED LONG-TERM DEBT ISSUANCES IN THE
9 TEST YEAR?

10 A. No, there are no forecasted long-term debt issuances in the test year.

11
12 Q. DID MERC REQUEST AND OBTAIN APPROVAL FOR ITS INCREASE IN
13 SHORT-TERM DEBT FROM INTEGRYS PURSUANT TO MINN. STAT.
14 § 216B.48?

15 A. Yes. As noted above, the Commission approved MERC's requested modification
16 to the Affiliated Interest Borrowing Agreement with Integrys by Order dated
17 September 27, 2017, in Docket No. G011/AI-17-303. As such, the Order Points
18 from the Merger Docket noted above are satisfied.

1 4. *The Common Equity Ratio*

2 Q. WHAT COMMON EQUITY RATIO AND OVERALL RATE OF RETURN IS
3 APPROPRIATE FOR MERC?

4 A. A common equity ratio of 53.00 percent for the 2023 proposed test year is
5 appropriate for MERC. MERC is also requesting a 10.30 percent ROE for the
6 2023 proposed test year as described in the Direct Testimony of Ms. Bulkley.
7 Along with the cost of debt, these proposals result in an overall reasonable rate
8 of return of 7.07 percent.

9
10 Q. WHY DOES MERC RECOMMEND THIS COMMON EQUITY RATIO?

11 A. It is MERC's goal to establish a common equity ratio that is commensurate with
12 the risk of the Company and that provides a fair return to its parent (which in turn
13 provides a fair return to investors). MERC believes this equity ratio achieves
14 these goals. In addition, this ratio is on the low end of the companies included in
15 Ms. Bulkley's proxy group.⁹

16
17 Q. HOW DO THE COMPANY'S PROPOSED COMMON EQUITY RATIO AND ROE
18 ADDRESS MERC'S BUSINESS RISK?

19 A. MERC is a small utility competing for capital in a larger marketplace, with a high
20 concentration of large customers in the cyclical mining business. MERC needs
21 increasing amounts of capital in the years ahead due to its customers' capital

⁹ See Section IX of the Direct Testimony of Ms. Bulkley for a comparison of the Company's proposed capital structure to that of the proxy group.

1 expansion needs. Each of these factors and circumstances presents risks to
2 investments in MERC.

3
4 Business risk can be offset somewhat with decreased financial risk by
5 maintaining a lower debt ratio (and a higher common equity ratio), which in turn
6 increases interest coverage. Interest coverage is an indication of the amount of
7 cash flow required to make interest payments. A lower debt ratio leads to lower
8 interest payments and higher interest coverage, all of which indicate decreased
9 financial risk. Such ratios help MERC attract capital to finance its investments on
10 behalf of customers.

11
12 Q. WHAT OTHER BENEFITS DOES A CAPITAL STRUCTURE WITH AN
13 ADEQUATE COMMON EQUITY RATIO PROVIDE?

14 A. An adequate common equity ratio is critical to maintaining MERC's position as a
15 quality utility that is both able to attract capital and provide quality gas service. In
16 its own right, MERC is a relatively small utility that does not directly compete for
17 equity capital in the marketplace. However, MERC does receive equity through
18 its parent, which in turn must attract capital from marketplace investors. MERC
19 customers benefit from the Company being part of a larger entity that is able to
20 utilize scalability to deliver quality platforms for service. For example, MERC
21 likely could not attract the same level of capital its parent can attract.

1 At the same time, this also means MERC is a relatively small component of a
2 larger organization and that organization must consider the levels of investment
3 necessary to deliver high quality gas delivery service to be of value. Providing
4 MERC with an adequate authorized ROE and capital structure will help ensure
5 that MERC has access to capital at reasonable rates when MERC needs it,
6 which in turn promotes financial stability and reliable operations on behalf of
7 customers.

8
9 Q. IN SUMMARY, WHAT IS YOUR RECOMMENDATION REGARDING THE
10 REQUIRED COMMON EQUITY RATIO AND THE REQUIRED ROE FOR THE
11 2023 PROPOSED TEST YEAR?

12 A. MERC recommends that the average common equity ratio be set at 53.00
13 percent with an ROE of 10.30 percent. These values are recommended
14 because:

- 15 1. They reflect the business risk associated with the utility industry and with
16 MERC in particular;
- 17 2. They recognize that MERC has delivered, and will continue to deliver,
18 reliable service at a reasonable cost to its customers. Therefore, the
19 shareholder should be properly compensated for delivering on its
20 commitment to those customers; and
- 21 3. They reflect a cost of capital that will help keep customer costs at
22 reasonable levels during MERC's current capital investment period.

1 Q. DOES THE PROPOSED CAPITAL STRUCTURE AND COST OF CAPITAL
2 PROVIDE A REASONABLE BASIS FOR ESTABLISHING RATES IN THIS
3 CASE?

4 A. Yes. The proposed capital structure and cost of capital is reasonable and
5 supports the revenue increase MERC has requested in this case.
6

7 Q. WHAT DO YOU CONCLUDE REGARDING THE 2023 TEST YEAR REVENUE
8 REQUIREMENT?

9 A. MERC has made every effort to ensure the test year revenue requirement is
10 reasonable, consistent with past Commission direction where applicable, and
11 reflective of the costs and revenues MERC anticipates for the 2023 test year.
12 Additional support for the overall revenue requirement is provided by other
13 MERC witnesses, and indicates a reasonable rate request.
14

15 **III. GUIC AND NGEP RIDER TRANSITION TO BASE RATES**

16 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

17 A. In this section, I discuss the Company's proposed treatment of costs that are
18 currently being recovered in the GUIC and NGEP Riders. In this proceeding, the
19 Company is proposing to roll all GUIC Rider projects and the Rochester NGEP
20 Rider project into base rates with interim rates.
21

1 Q. ARE THERE ANY ORDERS THAT ARE RELEVANT TO MERC'S PROPOSED
2 TREATMENT OF THE NGEP AND GUIC RIDERS IN THIS CASE?

3 A. Yes. in its June 18, 2020 Order in Docket No. G011/M-19-282, MERC's 2020
4 GUIC Rider docket, the Commission required that MERC roll in rider recovered
5 facilities at the beginning of its next general rate case and provide a discussion of
6 its GUIC Rider cost recovery transition to base rates (and requested interim rate)
7 recovery. Similarly, with respect to the NGEP Rider, in Docket No. G011/M-20-
8 420, MERC agreed in its next rate case to eliminate the NGEP Rider and recover
9 depreciation and return on rate base as part of its base rates, with the NGEP
10 Rider suspended upon implementation of interim rates.

11
12 1. *GUIC Rider*

13 Q. WHAT IS THE GUIC RIDER?

14 A. The GUIC statute, Minn. Stat. § 216B.1635, authorizes utilities to seek rider
15 recovery of gas utility infrastructure costs, which are defined under the statute as
16 costs incurred in gas utility projects that are in-service but were not included in
17 the utility's rate base in its most recent general rate case or are planned to be in
18 service during the period covered by the filing. "Gas utility projects" involve either
19 (1) the replacement of natural gas facilities required by road construction or other
20 public works by or on behalf of a government agency, or (2) the replacement or
21 modification of existing facilities required by a federal or state agency, including
22 surveys, assessments, reassessment, and other work necessary to determine
23 the need for replacement or modification of existing infrastructure.

1
2 MERC first requested and received approval to establish a GUIC Rider under the
3 GUIC Statute in Docket No. G011/M-18-281 for the Company's forecasted 2019
4 GUIC-eligible projects and costs. The Commission issued an Order Approving
5 Gas Utility Infrastructure Cost Rider with Modifications and Requiring Compliance
6 Filing in that docket on February 5, 2019.¹⁰ The Commission subsequently
7 approved MERC's 2020 and 2021 GUIC rider petitions in Docket Nos. G011/M-
8 19-282 and G011/M-20-405.

9
10 Q. WHAT ACTIONS HAS THE COMMISSION REQUIRED THE COMPANY TO
11 TAKE IN THIS RATE CASE REGARDING THE GUIC RIDER?

12 A. In its Order in Docket No. G011/M-19-282, the Commission required that "MERC
13 must include in its next general rate case filing a discussion of its GUIC rider cost
14 recovery transition to base (and requested interim rate) recovery."¹¹ The
15 Commission also required MERC to "roll in rider recovered facilities at the
16 beginning of its next general rate case."¹²

17

¹⁰ *In the Matter of Minn. Energy Res. Corp.'s Request for Approval of a Gas Util. Infrastructure Cost Rider*, Docket No. G011/M-18-281, Order Approving Gas Utility Infrastructure Cost Rider with Modifications and Requiring Compliance Filing at 6 (Feb. 5, 2019).

¹¹ *In re Petition of Minnesota Energy Resources Corporation for Approval of 2020 Gas Util. Infrastructure Costs Rider Revenue Requirement and Revised Surcharge Factor*, Docket No. G-011/M-19-282, Order Authorizing Rider Recovery and Setting Reporting Requirements at 12 (Order Point No. 11) (June 18, 2020).

¹² *Id.* (Order Point No. 12).

1 Q. WHAT IS MERC PROPOSING WITH RESPECT TO THE GUIC RIDER IN THIS
2 CASE?

3 A. MERC is proposing to zero out the existing GUIC Rider with respect to the
4 unrecovered rate base value of all GUIC project plant-in-service. During the
5 interim rate period, the Company proposes to roll all projects into interim rates
6 and discontinue use of the GUIC Rider. The unrecovered GUIC-eligible plant
7 balance is included in rate base in this case. Planned capital investments and
8 O&M projects that would have been GUIC Rider-eligible are also included in
9 base rates as part of the 2023 test year. While those 2023 costs were presented
10 in the Company's 2023 GUIC Rider petition in Docket No. G011/M-22-127, that
11 Petition was withdrawn as a result of this general rate case filing.

12
13 Additionally, as discussed in Docket No. G011/M-19-282, the Department has
14 indicated it is not opposed MERC accounting for prior year true-ups within its rate
15 case filing, eliminating the need for a true-up filing, but has suggested that
16 supplemental rate case filings may be required to update for the estimated rate
17 case amounts, depending on the timing of a rate case filing relative to when
18 GUIC Rider billing is suspended as well as to update for forecasted project
19 spending.¹³ As detailed in Docket No. G011/M-19-282, MERC agreed with the

¹³ *In the Matter of the Petition of Minn. Energy Res. Corp. for Approval of 2020 Gas Util. Infrastructure Cost Rider Revenue Requirement and Revised Surcharge Factor*, Docket No. G011/M-19-282, Department Comments at 22 (Aug. 23, 2019).

1 Department's recommendation to address any true-up recovery through
2 supplemental testimony as necessary.¹⁴
3

4 Q. WHAT ACTION DOES THE COMPANY PROPOSE REGARDING THE GUIC
5 RIDER GOING FORWARD?

6 A. Effective with interim rates, January 1, 2023, the Company proposes to set the
7 GUIC Rider rate surcharge rates to zero, as discussed by Ms. Hoffman Malueg.
8 MERC has also rolled GUIC project costs into its interim rates effective January
9 1, 2023. MERC proposes to address the remaining GUIC rider true-up
10 adjustments in this proceeding.¹⁵ Specifically, the Company proposes to provide
11 an update on GUIC revenues through the end of 2022 in Rebuttal Testimony, by
12 which time actual 2022 revenues will be known. Any true-up adjustments could
13 then be resolved as an adjustment to any interim rate true-up, which would fully
14 resolve GUIC revenues.
15

16 Further, there would be no further true-up adjustments for 2023, as 2023 GUIC-
17 eligible projects would simply be included in the Company's test year rate base
18 and O&M expense. Currently, Minn. Stat. § 216B.1635 contains a sunset of
19 June 30, 2023. Assuming no legislation is implemented to extend or remove the

¹⁴ *In the Matter of the Petition of Minn. Energy Res. Corp. for Approval of 2020 Gas Util. Infrastructure Cost Rider Revenue Requirement and Revised Surcharge Factor*, Docket No. G011/M-19-282, MERC Reply Comments at 25-26 (Sept. 17, 2019).

¹⁵ Depending on the schedule set in this matter, MERC proposes to address the true-up for the remaining 2021 and 2021 GUIC Rider in subsequent testimony once the 2022 true-up balance is known.

1 sunset provision, the termination of the GUIC statute effective June 30, 2023
2 would eliminate the Company's ability to file a future GUIC Rider petition.
3 However, if the GUIC statute sunset is extended or eliminated, MERC may
4 request rider recovery of future GUIC-eligible project costs for forecast year 2024
5 or beyond.

6
7 Q. CONSISTENT WITH THE COMMISSION'S REQUIREMENT TO TRANSITION
8 GUIC RIDER COST RECOVERY TO BASE RATES IN MERC'S NEXT RATE
9 CASE, PLEASE DESCRIBE HOW THE COMPANY PROPOSES TO DO SO.

10 A. The Company's proposal to move costs currently being recovered in the GUIC
11 Rider upon implementation of interim rates during the 2023 test year is consistent
12 with the Commission's directive to move to rate base costs currently being
13 recovered in the GUIC Rider. That is, all costs associated with project costs
14 currently being recovered in the GUIC Rider have been included in rate base for
15 the 2023 test year and reflected in interim rates, thereby transitioning GUIC cost
16 recovery to base rates for 2023 and future years absent extension of the GUIC
17 Rider.

18
19 2. *Rochester Project NGEP Rider*

20 Q. WHAT IS THE NGEP RIDER?

21 A. Minn. Stat. §216B.1638, the NGEP statute, permits gas utilities to petition for up
22 to 33 percent of the cost of a natural gas extension project through a rider. The
23 Commission approved MERC's Rochester Project as a qualifying NGEP in its

1 May 5, 2017 Order Approving Rochester Project and Granting Rider Recovery
2 with Conditions in Docket No. G011/M-15-895, which authorized NGEP Rider
3 recovery for up to 33 percent of the cost to upgrade the Rochester-area
4 distribution system. Since MERC's 2017 Rate Case, the Company has made
5 five NGEP Rider filings, including three petitions for approval of its NGEP true-up
6 reconciliations.¹⁶ The NGEP Rider has allowed MERC to recover a portion of its
7 annual depreciation expense, property tax expense, and return on capital
8 investment each year. Additional details regarding the Rochester Project and
9 NGEP rider are discussed in the Direct Testimony of Mr. Prosser.

10
11 Q. HAS THE COMPANY PREVIOUSLY COMMITTED TO TAKING ANY ACTIONS
12 IN ITS NEXT RATE CASE REGARDING ITS NGEP RIDER?

13 A. Yes. In Docket No. G011/M-20-420, the Company agreed, in its next rate case,
14 to eliminate Rochester Project cost recovery in the NGEP Rider and instead seek
15 to recover depreciation and return on rate base as part of its base rates, and to
16 support suspending the NGEP Rider when it implements interim rates.¹⁷

17

¹⁶ These filings are reflected in Docket Nos. G011/M-18-182, G011/M-19-608, G011/M-20-420, G011/M-21-271, and G011/M-22-195.

¹⁷ *In re Petition of Minnesota Energy Resources Corporation (MERC) for Approval of its Natural Gas Extension Project (NGEP) Rider True-up for 2019, Rider Revenue Deficiency for 2021, and Revised Surcharge Factors*, Docket No. G-011/M-20-420, Order Approving 2021 NGEP Rider Surcharge Factors with Modifications at 5 (July 15, 2021).

1 Q. WHAT IS MERC PROPOSING WITH RESPECT TO THE NGEP RIDER IN THIS
2 CASE?

3 A. Now that the Rochester Project is fully in service and all remaining project
4 phases and project costs are forecasted to be incurred and completed in 2022,
5 MERC is proposing to roll the Rochester Project into base rates with interim rates
6 as part of this rate case, effective January 1, 2023. The NGEP Rider surcharge
7 will be terminated effective with the implementation of interim rates, consistent
8 with the Commission's Order in Docket No. G011/M-20-420, which ensures no
9 double recovery of Rochester Project costs through base rates and the NGEP
10 Rider.

11
12 Q. AS PART OF THIS PROCEEDING, DOES THE COMPANY PROPOSE TO
13 ELIMINATE USE OF THE NGEP RIDER UPON IMPLEMENTATION OF
14 INTERIM RATES?

15 A. Yes, it does. Upon implementation of interim rates effective January 1, 2023, the
16 Company proposes that the NGEP Rider surcharge rates be set to zero, as
17 discussed by Ms. Hoffman Malueg. Upon the effective date of a final decision in
18 this rate case, the Company proposes that the Commission close the NGEP
19 Rider to the Rochester Project, which are the only costs presently eligible for any
20 NGEP Rider recovery.

21

1 **IV. CONSERVATION IMPROVEMENT PROGRAM**

2 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

3 A. The purpose of this section is to discuss the CIP costs included in MERC's
4 current revenue requirement, as well as the treatment of those costs in both
5 interim and final rates.

6
7 **A. Conservation Improvement Program Plan**

8 Q. DOES MERC HAVE AN APPROVED CIP PLAN ON FILE WITH THE
9 DEPARTMENT?

10 A. Yes. Minnesota Statutes section 216B.16, subdivision 1, states in relevant part
11 that if a utility filing a general rate case does not have an approved energy
12 conservation improvement plan on file with the Department, it shall include in its
13 general rate case notice an energy conservation plan pursuant to Section
14 216B.241. MERC's 2020-2023 CIP plan was submitted to the Department on
15 July 1, 2020, and approved by the Deputy Commissioner of the Department on
16 November 25, 2020, in Docket No. G011/CIP-20-479.

17
18 **B. Conservation Cost Recovery**

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

21 A. In MERC's 2017 Rate Case, MERC received Commission approval to update the
22 CCRC factors for MERC to recover its annual CIP costs. In addition, MERC
23 received Commission approval in Docket No. G007,011/GR-08-835 to implement

1 a CCRA factor in order to recover the amount by which actual CIP expenditures
2 are different from the amount recovered through the CCRC factor plus the
3 amount of any Commission-approved CIP financial incentive on an annual basis.
4 The Commission initially set the CCRA factors at \$0.0000 per therm. MERC has
5 subsequently filed annual requests to update the CCRA factor; the latest was
6 approved by the Commission on August 31, 2022 in Docket No. G011/M-22-209
7 at \$0.00116 per therm.

8
9 Q. PLEASE DESCRIBE HOW CIP EXPENSES ARE TREATED IN THIS
10 PROCEEDING.

11 A. First, MERC is proposing to update the CCRC factors included in base rates to
12 recover the 2023 CIP expenses of \$12,737,748 as shown on Exhibit_(JLZ-D),
13 Schedule 38. MERC calculated the CCRC using the 2023 CIP expenses
14 approved by the Deputy Commissioner of the Department on August 29, 2022, in
15 Docket No. G011/CIP-20-479. In MERC's 2017 Rate Case, the Commission
16 approved a CCRC factor of \$0.02953 per therm for MERC. Consistent with
17 Commission precedent, and as approved in Docket No. G011/GR-17-563, MERC
18 has calculated the CCRC factors on a volumetric basis by dividing the CIP test
19 year expenses by test year sales volumes less the volumes attributed to those
20 customers who have opted out of the CIP. The result of this calculation is an
21 updated CCRC factor of \$0.02953.

22

1 Q. IS MERC SEEKING RECOVERY OF THE UNAMORTIZED BALANCE IN THE
2 CIP TRACKER ACCOUNTS?

3 A. No, MERC is not seeking recovery of the unamortized balance in the CIP tracker
4 accounts. MERC proposes to recover this unamortized balance via the CCRA.
5

6 Q. IS MERC PROPOSING THAT A CARRYING CHARGE BE APPLIED TO THE
7 CIP TRACKER BALANCES?

8 A. Yes. In Docket No. G011/M-14-369, the Commission modified the carrying
9 charges on MERC's CIP tracker account balance to the short-term cost of debt
10 set in MERC's rate case in Docket No. G011/GR-13-617. Subsequently, the
11 Commission Ordered MERC to update the carrying charge to the short-term cost
12 of debt approved in MERC's last rate case, Docket No. G011/GR-17-563. MERC
13 requests that the Commission similarly approve a carrying charge for MERC's
14 CIP tracker account balance equal to the short-term cost of debt approved in the
15 current case.
16

17 Q. HAS MERC COMPLIED WITH ORDER POINT 9 FROM THE COMMISSION'S
18 FINDINGS OF FACT, CONCLUSIONS, AND ORDER IN DOCKET NO.
19 G011/GR-13-617, WHICH ORDERS MERC TO CONTINUE THE CURRENT
20 CCRC FACTOR IN ITS BASE DISTRIBUTION RATE AND MAINTAIN ITS
21 CCRA IN ITS CURRENT FORMAT?

22 A. Yes, MERC has. As described above, MERC is not requesting any CIP tracker
23 balance to be amortized in this current docket, but instead to be flowed through

1 the CCRA as it previously has been handled. In addition, MERC's calculated
2 CCRC factor of \$0.02953 is embedded within the base distribution rate as it
3 previously has been, and is shown in the exhibits of Ms. Hoffman Malueg.

4
5 Q. ARE CIP EXPENSES "REVENUE NEUTRAL" WITH REGARD TO
6 DETERMINING THE FINAL REVENUE REQUIREMENTS IN THIS CASE?

7 A. No. For the calculation of the revenue deficiency for final rates, MERC has
8 included the updated CIP costs but has not adjusted the present revenues for the
9 updated CCRC factor. Therefore, the final revenue deficiency reflects the
10 updated CIP costs. MERC will collect the increase in CIP costs with the
11 implementation of interim and ultimately approved final rates.

12
13 Q. HOW IS THE CIP RECOVERY MECHANISM AFFECTED DURING INTERIM
14 RATES?

15 A. To be consistent with an Order point from MERC's rate case in Docket No.
16 G011/GR-13-617 and the treatment of CIP recovery in MERC's 2017 Rate Case,
17 MERC is proposing to update the CCRC factor to be used in interim rates to the
18 \$0.02953 as previously mentioned. To the extent that the final approved CCRC
19 varies from MERC's proposed CCRC, MERC recommends that a true-up
20 adjustment to the CIP tracker be used to recognize the approved expense levels
21 ultimately approved and that should have been in effect during interim rates.
22 This adjustment is similar to that proposed in Rebuttal Testimony in Docket No.
23 G011/GR-13-617, Direct Testimony in Docket No. G011/GR-15-736 sponsored

1 by MERC's witness in those proceedings, and ultimately approved by the
2 Commission in both dockets.

3
4 **V. MINNESOTA STATUTES SECTION 216B.16, SUBDIVISION 17**

5 Q. HAS MERC MET THE FILING REQUIREMENTS ADOPTED IN MINN. STAT.
6 § 216B.16, SUBD. 17?

7 A. Yes. Volume 3, Informational Requirements Document 14 includes the
8 information required by Minn. Stat. § 216B.16, subd. 17, related to travel,
9 entertainment, and related expenses for MERC. Informational Requirements
10 Document 14 also includes all itemized employee expenses for employees
11 working at MERC. Costs allocated to MERC via the WEC accounting system
12 SAP have not been included and are removed from the 2023 test year revenue
13 requirement as part of the O&M adjustment in Exhibit_(JLZ-D), Schedule 33.
14 Given the small amount of such expenses during 2021 due to the ongoing
15 pandemic, and to reduce the number of contested issues in the case, MERC has
16 not included allocated employee expenses in its revenue requirement in this
17 case.

18
19 Q. PLEASE DESCRIBE INFORMATIONAL REQUIREMENTS DOCUMENT 14.

20 A. Page 1 of Informational Requirements Document 14 identifies the salaries of
21 MERC's Board of Directors and the ten highest paid officers and employees for
22 the most recently completed fiscal year 2021. It also includes those in the
23 proposed test year 2023. Additionally, this page summarizes the travel,

1 entertainment, and related expenses charged to MERC by its Board of Directors
2 and each of the ten highest paid officers and employees, separately itemized.

3
4 Pages 2 through 5 of Informational Requirements Document 14 list individually
5 the travel, entertainment, and other related expenses, including the date of the
6 expense, the amount of the expense, the vendor name, and the business
7 purpose of the expenses included in the 2023 test year for MERC's ten highest
8 paid officers and employees.

9
10 Pages 5 through 49 of Informational Requirements Document 14 provides a
11 detailed list of the travel, entertainment, and other related expenses by date,
12 amount, vendor, and business purpose for all MERC employees, other than the
13 MERC Board of Directors and ten highest paid officers and employees.

14
15 Pages 50 through 51 of Informational Requirements Document 14 provides a
16 detailed list of the travel, entertainment, and other related expenses by date,
17 amount, vendor, and business purpose for all Non-MERC employees, other than
18 the MERC Board of Directors that were direct charged to MERC.

19
20 Page 52 of Informational Requirements Document 14 lists individually the
21 membership expenses for all MERC employees.

1 Q. WHAT DOES THE 3.4784% FOUND ON PAGE 1 OF INFORMATIONAL
2 REQUIREMENTS DOCUMENT 14 REPRESENT?

3 A. The 3.4784% represents the percentage of overall average WBS costs charged
4 to MERC in 2021. Therefore, the Board of Director salaries charged to WBS are
5 assumed to be allocated to MERC at this level.
6

7 Q. ON PAGES 2 THROUGH 51, WHY IS THE VENDOR NOT SPECIFICALLY
8 LISTED ON CERTAIN ITEMS?

9 A. When an employee enters meal expense into corporate labor or submits an
10 expense report, the vendor associated with those costs is not captured in the
11 system and therefore is not readily accessible. As authorized by Minn. Stat.
12 § 216B.16, subd. 17(b), MERC has submitted this data using the standard
13 accounting reports already utilized by the utility. Additionally, mileage
14 reimbursements are not submitted to a vendor per se, but instead are paid to the
15 employee for the use of his/her own vehicle for Company business and are
16 shown on travel reports as "Personal Car Mileage" or "Mileage."
17

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

20 A. That is correct, MERC did not have any expenses related to gifts. MERC incurs
21 labor costs for employees who engage in lobbying activity, but it did not have any
22 costs for external consultants or vendors related to lobbying activities in
23 employee expenses.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

Q. ARE THERE ANY ORGANIZATIONAL MEMBERSHIP DUES FOR WHICH
MERC IS REQUESTING RECOVERY?

A. Yes. As a gas utility, MERC is a member of the American Gas Association (“AGA”), which supports its members’ ability to safely, reliably, and affordably deliver natural gas to customers. AGA also conducts analyses on issues of relevance to the gas utility industry and supports the diversity of the workforce in the gas industry. The Company’s allocated portion of the dues totaled \$75,193 in 2021.

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

A. Yes. Minn. Stat. § 216B.16, subdivision 17 allows for the salary of one or more of the ten highest paid officers and employees, other than the five highest paid, to be treated as private data on individuals or otherwise protected as competitive data. MERC requests that the salaries of the sixth to the tenth highest paid officers and employees be kept nonpublic for competitive reasons related to the compensation of MERC’s employees. Publicly disclosing this information could give competitors an advantage in terms of hiring and retaining key employees. Additionally, MERC believes it would be inappropriate to ignore each of the listed employees’ rights to keep this information private to the greatest extent possible. Giving this information nonpublic status would not deprive the parties to this rate case of information, as this information will be available to the Commission and

1 state agencies participating in the proceeding and any other party could enter
2 into a protective agreement to obtain the data if necessary. Conversely,
3 requiring MERC to file this information as public data would make it publicly
4 available on the internet, making it accessible to the general public regardless of
5 interest in these proceedings or MERC's rates.
6

7 Q. PLEASE EXPLAIN THE PROCESS MERC USED TO SCRUTINIZE THE
8 EMPLOYEE EXPENSES.

9 A. To review the expenses, MERC first conducted word searches of the expenses
10 to identify potentially problematic entries. MERC then manually conducted a line-
11 by-line review of each employee expense identified for recovery, including those
12 that the word searches identified. Through this process, MERC identified and
13 eliminated approximately \$400 in expenses that did not appear to comply with
14 Minn. Stat. § 216B.16, subd. 17. However, those expenses were inadvertently
15 not removed from the final revenue requirement in the proceeding. MERC has
16 removed from its interim rate request and will update its final requested revenue
17 requirement in rebuttal testimony.
18

19 Q. PLEASE PROVIDE MORE INFORMATION ON THE WORD SEARCHES THAT
20 MERC CONDUCTED ON THE EMPLOYEE EXPENSES.

21 A. MERC conducted two sets of word searches on the employee expenses. First,
22 MERC performed word searches that targeted certain expenses under Minn.

Stat. § 216B.16, subd. 17. Below is a list of words that were used to search for potentially excludable expenses:

Alcohol	PAC
Drinks	Repr
Liquor	Senat
Brewery	Brand
Cocktails	Sponsorship
Beverage	International
Team Building	Golf
Retirement	Coach
Thank You	Open
Gophers	Gala
Saints	Birthday
Timberwolves	Anniv
Wolves	Farewell
Twins	Going Away
Vikings	Last Day
Wild	Wedding
Bowl	Baby
Curling	Bridal
Fish	Shower
Hockey	Bagel
Hunt	Bereavement
Tennis	Cookies
WCHA	Doughnut
Game	Donut
Concert	Flowers
Ticket	Floral
Rotary	Florist
Club	Funeral
Mall of America Field	Fruit
Social	Ham
HHH	Turkey
Event	Refreshments
Celebration	Snacks
Party	Trinkets
Hooters	New Employee
Award	First Day
Movie	Welcome
Gift	Get Together
Video	Chamber

Prize	Edison Electric
Resort	Commission
Spouse	EEL
Christmas	Contribution
XMAS	Appreciation
Holiday	Election
Political	Recreation
Spa	Legis
Retreat	Entertainment
Recognition	Lobby

Many of these terms did not show up in any expense report and we would not expect them to show up; however, MERC attempted to be inclusive in its search.

Second, MERC conducted word searches of employee expenses to ensure proper assignment or allocation of costs to MERC. These searches were conducted using words associated with other utilities within the WEC system, including locations of the affiliated utilities' facilities and words associated with the jurisdictions in which the affiliates operate. The searches focused on words within the following phrases:

North Shore Gas Company or NSG	Otter Rapids
Peoples Gas Light and Coke Company or PGL	Jersey
Wisconsin Public Service Corporation or WPS	Tomahawk
Wisconsin Valley Improvement Company	Grandfather Falls
Upper Peninsula Power Company or UPPCO	Alexander
Illinois Commerce Commission or ICC	Merrill

Public Service Commission of Wisconsin or PSCW	Wausau
Michigan Public Service Commission or MPSC	Caldron Falls
Illinois	High Falls
Michigan	Johnson Falls
Wisconsin	Sandston Rapids
Edgewater Generating Station	Potato Rapids
Pulliam Power Plant	Peshtigo
Columbia Generating Station	Grand Rapids
Weston Power Plant	Petenwell
Fox Energy Center	Castle Rock
De Pere Energy Center	Crane Creek Wind Farm
Hat Rapids	Lincoln Wind Energy Facility

1

2 Q. DID MERC FURTHER REVIEW THE EXPENSES IDENTIFIED THROUGH THE
3 WORD SEARCHES?

4 A. Yes. Any employee expense entry that contained one of the words searched
5 was highlighted for further review. The highlighted expenses that were identified
6 through the word searches helped to ensure these expenses were flagged for the
7 manual review process and received special attention.

8

9 Q. PLEASE PROVIDE INFORMATION ON THE LINE-BY-LINE REVIEW MERC
10 CONDUCTED OF THE EXPENSES.

11 A. Once the word searches were completed, MERC manually reviewed each of the
12 travel, entertainment, and related employee expenses. This manual review is a
13 labor-intensive process and involved going through the employee expenses line-
14 by-line. Those employee expenses over \$100 were then reviewed line-by-line a
15 second time to capture any higher dollar expenses that might have been missed
16 in the first manual review.

1
2 In searching for potentially excludable expenses, MERC looked for any expense
3 that might be considered a “perk” of the job. For example, expenses related to
4 meals or treats being provided at meetings were eliminated, as well as any
5 expense associated with a special event, whether it be a life event (such as a
6 retirement) or a sporting event.

7
8 MERC also identified some “hits” in the word search that brought up legitimate
9 MERC business expenses. For example, “Grand Rapids” could refer to either
10 Grand Rapids, Minnesota, or Grand Rapids, Michigan. In the manual review
11 process, MERC attempted to ensure that expenses were properly included or
12 excluded based on the Grand Rapids where the employee was working. The
13 words “Video” and “New Employee” also came up in the word search. Upon
14 review of the details of the travel expense related to these items, they were
15 determined to be appropriate. The “Video” hit was related to a training video for
16 MERC’s AMI program and the “New Employee” hit was related to new employee
17 training expense.

18
19 Q. PLEASE SUMMARIZE THE RESULTS OF MERC’S EMPLOYEE EXPENSE
20 REVIEW.

21 A. MERC’s employee expenses allocated or assigned to MERC totaled \$22,967 in
22 2021. Of this total, MERC’s review resulted in an exclusion of \$3,824 based on
23 2021 actuals inflated to 2022, which then effectively removes this amount from

1 the 2023 test year. This amount is illustrated in Exhibit_(JLZ-D), Schedule 33.
2 MERC determined that an additional \$380 of 2021 T&E expenses, inflated to
3 \$408 for 2022, are related to items with descriptions that did not clearly meet the
4 requirements to be included in base rates and is included as an interim rate
5 adjustment in Exhibit_(JLZ-D), Schedule 39.
6

7 Q. DOES MERC BELIEVE THAT IT HAS ELIMINATED EXPENSES
8 REASONABLY?

9 A. Yes. MERC attempted to be overly inclusive in its elimination of expenses while
10 recognizing that this is a manual, labor-intensive process. Because of its liberal
11 exclusion process, MERC believes it eliminated expenses for which it could have
12 sought rate recovery, to the benefit of customers.
13

14 VI. OTHER COMPLIANCE ITEMS

15 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

16 A. In this section, I address certain Commission Order Points pertaining to WEC's
17 acquisition of MERC's prior parent, Integrys, which was approved by the
18 Commission on June 25, 2015, subject to certain conditions.¹⁸ While some of the
19 requirements in that Order pertain generally to MERC's practices, several are
20 specific to future rate cases. Mr. Stasik addresses overall compliance

¹⁸ *In re Request for Approval of the Merger Agreement Between Integrys Energy Group, Inc. and Wisc. Energy Corp.*, Docket No. G011/PA-14-664, Order Approving Merger Subject to Conditions (June 25, 2015).

1 requirements in his Direct Testimony. In addition to Order Point 3, Condition 14
2 and Order Point 14 from the Merger Docket described in the cost of capital
3 segment of my Direct Testimony, in this section I address Order Point 2,
4 Conditions 4-5; Order Point 3, Condition 18; Order Point 6; and Order Point 11,
5 as well as the various order points related to merger transaction costs. As
6 described by Mr. Stasik, other witnesses address other specific merger
7 conditions.

8
9 Q. ARE THERE ANY ACQUISITION-RELATED COSTS IN MERC'S TEST YEAR
10 EXPENSES?

11 A. No. As previously noted, the 2023 Non-Fuel O&M expense was forecasted by
12 inflating 2021 actuals. In 2021, any transaction costs associated with the merger
13 of Wisconsin Energy Corporation and Integrys Energy Group were booked to the
14 holding company and not allocated to any of the utilities. Therefore, no
15 transaction costs are in MERC's accounting system, nor are any transaction
16 costs included in the historical test year expenses or the proposed test year
17 expenses.

18
19 Additionally, the acquisition premium would have been accounted for at the WEC
20 holding company level and were not recorded in or allocated to MERC's
21 accounting system. Transition costs and savings would have been included in
22 MERC's 2021 data, and MERC's 2023 proposed test year does include transition
23 costs for rate recovery. It should be noted, as discussed below, that the

1 transition savings outweigh the costs, creating a net savings to MERC's
2 customers. As a result, MERC is in compliance with the conditions designated in
3 Order Point 2, conditions 1 and 6, Order Point 3, conditions 1, 2, and 3, and
4 Order Point 6. MERC also has not deferred any transition costs, in compliance
5 with Order Point 11.

6
7 Further, there has been no push-down accounting related to the reorganization,
8 acquisition premium, or transaction costs to MERC. As a result, MERC is in
9 compliance with the conditions found in Order Point 3, conditions 4, 5, and 6.

10
11 Q. ARE THERE ANY OTHER SPECIFIC ACQUISITION-RELATED CONDITIONS
12 THAT YOU ADDRESS IN THIS RATE CASE?

13 A. Yes. I also address the following condition related to severance and early
14 termination costs for employees:

15 [Order Point 12] For severance and/or early termination
16 costs, the Petitioners shall provide detailed information in
17 any rate proceeding on each instance of severance and/or
18 early termination, including the position, the reasoning, the
19 costs and savings, etc., in sufficient detail for the
20 Commission to make a determination on whether the cost is
21 an unrecoverable transaction cost or a transition cost.

22
23 In compliance with this condition, I can confirm that the Company has not
24 incurred any severance or early termination costs in relation to the merger, nor
25 included any severance or early termination costs in MERC's 2023 test year. As

1 noted above, MERC is not seeking recovery of any transaction or transition
2 costs.

3
4 **VII. INTERIM RATES**

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

6 A. MERC's interim revenue deficiency is \$37.81M or 9.29% of revenues. MERC
7 asks for an interim rate increase of 32.82% on all fixed charges and distribution
8 charges (exclusive of the cost of gas) for all customers except Class 5 CIP
9 Exempt, Power Generation Class 2 CIP Exempt, and FLEX rate customers. The
10 calculation of the interim revenue deficiency is set forth in Exhibit_(JLZ-D),
11 Schedule 39 to my Direct Testimony. For Class 5 CIP Exempt, Power
12 Generation Class 2 CIP Exempt, and FLEX rate customers, MERC proposes to
13 increase the customer charge and the administrative fee by the same percentage
14 as the interim rate increase request for MERC, without increasing the distribution
15 charges to these customers. The adjustment results in an interim rate increase
16 of \$36,973,887 or 9.08%, as described by Ms. Hoffman Malueg.

17
18 Q. DOES THE INTERIM RATE PROPOSAL SATISFY THE COMMISSION'S
19 STATEMENT OF POLICY ON INTERIM RATES?

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

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

7

8 Regarding point one, MERC's currently authorized rate of return on common

9 equity is 9.70%, and MERC has used this return on equity to calculate the interim

10 revenue deficiency.

11

12 Regarding point two, MERC only included items of the same nature and kind as

13 those that were approved in MERC's last rate case for rate base and expense

14 recovery. MERC has also factored in adjustments related to Commission Policy

15 Statements, such as for Charitable Contributions, Advertising, and the like. As

16 discussed in the Interim Rate Petition, MERC further made certain adjustments

17 to reduce its interim rate request to reflect corrections to individual adjustments

18 the Company will make for final rates in its Rebuttal Testimony. Specifically, the

19 Company identified the following additional adjustments to its interim rate request

20 as compared to its final rate request:

- 21 • Reduce Advertising Expense by \$13, as discussed above.
- 22 • Reduce Travel & Entertainment by \$408, as discussed above.
- 23 • Reduce Investor Relations by \$59,738, as discussed above.

- Reduce Depreciation Expense for forecasted capital additions, decreasing depreciation expense by \$304,949 as discussed above.
- Increase Income Taxes related to the above income statement changes and related to using the last approved cost of equity.

MERC satisfies point three by proposing a level of rate increase that does not change the rate design of customers. MERC asks for an interim rate increase of 32.82% on all fixed charges and distribution charges (exclusive of the cost of gas) for all customers except Class 5 CIP Exempt, Power Generation Class 2 CIP Exempt, and FLEX rate customers, which are proposed to be charged a lower increase as identified in the interim rate petition. In its petition for interim rates, MERC explains why the Commission should find that exigent circumstances exist that justify the Company's request to forego the interim revenues that would result from imposing the higher interim rate increase on this class of customers. The Direct Testimony of Ms. Hoffman Malueg discusses the rate design associated with the Company's request for interim rate relief.

VIII. CONCLUSION

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

2023 Test Year v Previous 2018 Test Year
Deficiency (Sufficiency) Drivers
in millions of dollars

	Revenue Req.
1 Rate Base	
2 Rate Base and Working Capital	24.2
3 GUIC and NGEP	5.2
4 Rate Base	29.4
5 Cost of Capital	
6 Change in Cost of Capital - Equity (53.00%)	2.1
7 Change in Cost of Capital - Debt	(0.4)
8 Cost of Capital	1.7
9 Revenue and Expenses	
10 Sales Margin	(5.1)
11 Regulatory Items	(0.8)
12 GUIC and NGEP	2.3
13 Day to Day O&M and other	2.3
14 Other	(0.1)
15 Revenue and Expenses	(1.3)
16 Property Tax	10.3
17 2023 Revenue Deficiency	40.1

Plant Additions (\$000)	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
Grand Total	4,060	5,290	5,507	6,077	6,729	8,776	7,503	4,784	8,089
MERC Gas MN 367.1, Gas Transmission Mains Q-4607-000005: RO-NGEP ROCHESTER PIPELINE EXP-OVHD PROJ	- -	- -	- -	- -	- -	3,227 3,227	- -	- -	- -
MERC Gas MN 376, Gas Distribution Mains MERC Gas MN 376, Gas Distribution Mains Other Q-2126-100015: MERC GO Capital Q-4605-000005: NON-REV MAINS \$50K Q-4605-000385: RO-NGEP 12 IN MAIN-SGMT 3-VLV2 TO DRS90 Q-4605-001020: GUIC MAINS-CAPITAL BUDGET ONLY Q-4605-001588: MN TGT MAT GUIC PLNG Q-4605-001589: MN LFC PRG AND COR PLNG Q-4606-000001: REVENUE MAIN \$50K Q-4606-000002: REVENUE MAIN \$50K Q-4606-000825: MN GROWTH BOS GEN PLNG	2,024 751 - 177 72 526 157 151 - 136 54	2,192 36 - 326 72 988 159 227 - 304 81	2,255 9 - 366 72 1,061 162 252 - 243 90	2,426 11 60 445 72 1,199 157 302 - 72 108	2,857 24 (160) 524 51 1,251 186 352 - 503 126	2,511 64 60 405 51 1,136 185 277 - 232 99	3,130 15 170 564 138 1,172 169 378 - 389 135	1,724 78 (200) 366 - 802 144 252 - 193 90	1,793 105 70 247 - 583 135 176 139 275 63
MERC Gas MN 378, Gas Distribution Measuring & Reg equipment MERC Gas MN 378, Gas Distribution Measuring & Reg equipment Other	16 16	12 12	12 12	12 12	- -	- -	- -	28 28	- -
MERC Gas MN 379, Gas Distribution City Gate Stations MERC Gas MN 379, Gas Distribution City Gate Stations Other Q-4605-000006: GATE STATIONS Q-4605-001934: HERMANTOWN GATE STATION REBUILD	174 40 134 -	200 - 200 -	223 - 223 -	267 - 267 -	212 - 212 -	232 - 232 -	357 - 357 -	310 88 223 -	2,100 173 156 1,771
MERC Gas MN 380, Gas Distribution Services MERC Gas MN 380, Gas Distribution Services Other Q-4605-000002: GAS SERVICES-REPLACEMENT Q-4605-001021: GUIC SERVICES-CAPITAL BUDGET ONLY Q-4606-000003: GAS SERVICE-NEW	259 9 (72) 96 225	1,397 9 55 592 741	1,733 9 83 757 884	1,941 9 122 887 923	2,247 9 166 1,002 1,069	1,636 9 100 677 850	1,873 9 189 882 793	1,309 9 222 537 541	1,024 9 154 455 404
MERC Gas MN 381, Gas Distribution Meters-Meter & Installation Q-4605-000357: GAS METERS	379 379	539 539	594 594	698 698	816 816	656 656	863 863	587 587	424 424
MERC Gas MN 381.2, Gas Distribution Meters-AMR Devices MERC Gas MN 381.2, Gas Distribution Meters-AMR Devices Other Q-6063-200089: AMI - MODULES - MERC UI-4500-000004: MERC AMI Cellular Meter Deployment	436 126 310 -	310 - 310 -	310 - 310 -	310 - 310 -	210 - 210 -	110 - 110 -	210 - 210 -	371 - 371 -	481 - 481 -
MERC Gas MN 385, Gas Distribution Industrial meas & regulating equip Q-4605-000003: METER SETS LARGE	12 12	18 18	20 20	24 24	28 28	22 22	30 30	20 20	14 14
MERC Gas MN 390, Gas General Structures and improvements-Structure Improvement MERC Gas MN 390, Gas General Structures and improvements-Structure Improvment Other Q-6205-100005: ASF CAPITAL PROJ PLANNING ORDER-4500 Q-6212-100006: AS SEC CAP PROJ PLANNING ORDER 4500	40 - 40 -	101 21 80 -	101 21 80 -	101 21 80 -	101 21 80 -	117 21 96 -	200 21 96 83	200 21 96 83	200 29 88 88

[illegible]

Plant Additions (\$000)	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
Grand Total	1,162	1,152	1,197	2,812	4,287	9,407	6,035	6,830	6,055	8,082	6,125	4,787
MERC Gas MN 367.1, Gas Transmission Mains	-	-	-	-	-	-	-	-	-	-	-	-
Q-4607-000005: RO-NGEP ROCHESTER PIPELINE EXP-OVHD PROJ	-	-	-	-	-	-	-	-	-	-	-	-
MERC Gas MN 376, Gas Distribution Mains	664	634	715	1,565	2,234	2,439	2,850	3,344	3,074	3,922	2,806	1,771
MERC Gas MN 376, Gas Distribution Mains Other	8	8	8	7	8	8	7	24	8	8	8	7
Q-2126-100015: MERC GO Capital	30	30	30	90	135	150	180	210	165	225	150	105
Q-4605-000005: NON-REV MAINS \$50K	50	52	46	148	222	249	300	348	245	347	211	162
Q-4605-000385: RO-NGEP 12 IN MAIN-SGMT 3-VLV2 TO DRS90	-	-	-	-	-	-	-	-	-	-	-	-
Q-4605-001020: GUIC MAINS-CAPITAL BUDGET ONLY	277	262	303	666	952	1,038	1,213	1,420	1,567	1,927	1,462	782
Q-4605-001588: MN TGT MAT GUIC PLNG	121	104	149	153	171	167	162	192	182	183	149	132
Q-4605-001589: MN LFC PRG AND COR PLNG	63	63	63	189	284	315	378	441	347	473	315	221
Q-4606-000001: REVENUE MAIN \$50K	16	16	16	16	16	16	16	16	16	16	16	16
Q-4606-000002: REVENUE MAIN \$50K	81	81	81	242	362	403	483	564	443	604	403	282
Q-4606-000825: MN GROWTH BOS GEN PLNG	19	19	19	56	83	93	111	130	102	139	93	65
MERC Gas MN 378, Gas Distribution Measuring & Reg equipment	-	-	-	-	-	-	-	-	8	-	-	-
MERC Gas MN 378, Gas Distribution Measuring & Reg equipment Other	-	-	-	-	-	-	-	-	8	-	-	-
MERC Gas MN 379, Gas Distribution City Gate Stations	43	43	43	128	191	213	255	298	234	319	213	149
MERC Gas MN 379, Gas Distribution City Gate Stations Other	-	-	-	-	-	-	-	-	-	-	-	-
Q-4605-000006: GATE STATIONS	43	43	43	128	191	213	255	298	234	319	213	149
Q-4605-001934: HERMANTOWN GATE STATION REBUILD	-	-	-	-	-	-	-	-	-	-	-	-
MERC Gas MN 380, Gas Distribution Services	179	101	143	642	1,092	1,214	1,456	1,732	1,351	1,848	1,390	1,001
MERC Gas MN 380, Gas Distribution Services Other	10	10	10	10	10	10	10	10	10	10	10	10
Q-4605-000002: GAS SERVICES-REPLACEMENT	2	(60)	(60)	33	163	187	234	280	211	303	233	162
Q-4605-001021: GUIC SERVICES-CAPITAL BUDGET ONLY	(25)	(25)	(25)	221	405	467	590	713	528	775	615	431
Q-4606-000003: GAS SERVICE-NEW	192	177	219	379	514	550	623	729	602	760	532	399
MERC Gas MN 381, Gas Distribution Meters-Meter & Installation	154	147	164	381	550	602	708	827	661	878	595	427
Q-4605-000357: GAS METERS	154	147	164	381	550	602	708	827	661	878	595	427
MERC Gas MN 381.2, Gas Distribution Meters-AMR Devices	-	-	-	-	-	538	125	125	125	-	-	-
MERC Gas MN 381.2, Gas Distribution Meters-AMR Devices Other	-	-	-	-	-	-	-	-	-	-	-	-
Q-6063-200089: AMI - MODULES - MERC	-	-	-	-	-	-	-	-	-	-	-	-
UI-4500-000004: MERC AMI Cellular Meter Deployment	-	-	-	-	-	538	125	125	125	-	-	-
MERC Gas MN 385, Gas Distribution Industrial meas & regulating equip	4	4	4	12	18	20	24	28	22	30	20	14
Q-4605-000003: METER SETS LARGE	4	4	4	12	18	20	24	28	22	30	20	14
MERC Gas MN 390, Gas General Structures and improvements-Structure Improvment	8	16	40	40	97	126	126	110	125	125	125	89
MERC Gas MN 390, Gas General Structures and improvements-Structure Improvment Other	-	-	-	-	-	-	-	-	-	-	-	-
Q-6205-100005: ASF CAPITAL PROJ PLANNING ORDER-4500	8	16	40	40	81	81	81	81	97	97	97	89
Q-6212-100006: AS SEC CAP PROJ PLANNING ORDER 4500	-	-	-	-	17	46	46	29	28	28	28	-

[illegible]

Plant Retirements (\$000)	Actuals						Forecast	
	2017	2018	2019	2020	2021	2022*	2022*	2023
Intangible	168	-	1,336	320	3	-	36	1,729
Transmission	-	-	-	56	643	-	10	14
Distribution	6,977	4,531	5,050	2,767	5,174	1,244	3,624	4,831
General	831	2,392	1,003	922	1,259	53	929	1,382
	7,976	6,924	7,389	4,065	7,079	1,296	4,599	7,956

* Jan - Mar 2022 are actuals, Apr - Dec 2022 is a forecast

Company	MAT (2023)	Plant Guideline	Depreciation Rate	Begin Balance	Total Depreciation Expense	End Balance
Minnesota Energy Resrcs	Jan - 2023	A0655: MERC Gas MN 302, Intangible Gas Plant Franchises and Consents-Franch & Con PNG	Individual Asset Depreciation	3,969	0	3,969
Minnesota Energy Resrcs	Jan - 2023	A0658: MERC Gas MN 365.3, Gas Transmission Land & Rights-of-way		9		9
Minnesota Energy Resrcs	Jan - 2023	A0659: MERC Gas MN 366.1, Gas Transmission Structures and Improvements	3.19%	5	0	5
Minnesota Energy Resrcs	Jan - 2023	A0660: MERC Gas MN 367.1, Gas Transmission Mains	1.69%	10,645	15,194	10,645
Minnesota Energy Resrcs	Jan - 2023	A0661: MERC Gas MN 369.3, Gas Transmission Measuring & regulating equipment	6.29%	1,408	7	1,407
Minnesota Energy Resrcs	Jan - 2023	A0662: MERC Gas MN 374, Gas Distribution Land and land rights-Land		420		420
Minnesota Energy Resrcs	Jan - 2023	A0663: MERC Gas MN 374.1, Gas Distribution Land and land rights-Land Rt/ROW Depr	4.08%	597	2	597
Minnesota Energy Resrcs	Jan - 2023	A0666: MERC Gas MN 376, Gas Distribution Mains	1.74%	349,448	507	349,974
Minnesota Energy Resrcs	Jan - 2023	A0667: MERC Gas MN 378, Gas Distribution Measuring & Reg equipment	3.69%	19,113	59	19,112
Minnesota Energy Resrcs	Jan - 2023	A0668: MERC Gas MN 379, Gas Distribution City Gate Stations	4.26%	27,487	98	27,529
Minnesota Energy Resrcs	Jan - 2023	A0669: MERC Gas MN 380, Gas Distribution Services	2.38%	208,276	413	208,320
Minnesota Energy Resrcs	Jan - 2023	A0670: MERC Gas MN 381, Gas Distribution Meters-Meter & Installation	2.95%	64,949	159	64,987
Minnesota Energy Resrcs	Jan - 2023	A0671: MERC Gas MN 381.2, Gas Distribution Meters-AMR Devices	6.64%	33,039	182	33,039
Minnesota Energy Resrcs	Jan - 2023	A0672: MERC Gas MN 383, Gas Distribution House regulators	1.48%	20,019	25	20,008
Minnesota Energy Resrcs	Jan - 2023	A0673: MERC Gas MN 385, Gas Distribution Industrial meas & regulating equip	3.14%	3,055	8	3,059
Minnesota Energy Resrcs	Jan - 2023	A0674: MERC Gas MN 389, Gas General Land and land rights		1,321		1,321
Minnesota Energy Resrcs	Jan - 2023	A0675: MERC Gas MN 390, Gas General Structures and Improvements-Structure Improvement	various	24,489	55	24,459
Minnesota Energy Resrcs	Jan - 2023	A0677: MERC Gas MN 391.00 Office Furniture and Equip - 20 Year	5.00%	1,425	6	1,425
Minnesota Energy Resrcs	Jan - 2023	A0679: MERC Gas MN 391.50 PC Equip - 5 Year	20.00%	1,473	25	1,473
Minnesota Energy Resrcs	Jan - 2023	A0680: MERC Gas MN 391.58 Server/Network Equip - 5 Year	20.00%	2,408	40	2,488
Minnesota Energy Resrcs	Jan - 2023	A0683: MERC Gas MN 393, Gas General Stores equipment	5.00%	94	0	94
Minnesota Energy Resrcs	Jan - 2023	A0684: MERC Gas MN 394, Gas General Tools, shop and garage equipment	5.00%	3,866	16	3,869
Minnesota Energy Resrcs	Jan - 2023	A0685: MERC Gas MN 395, Gas General Laboratory equipment	5.00%	829	3	829
Minnesota Energy Resrcs	Jan - 2023	A0687: MERC Gas MN 397.1, Gas General Communication equipment-Communication Equip	8.33%	5,430	38	5,430
Minnesota Energy Resrcs	Jan - 2023	A0689: MERC Gas MN 397.3, Gas General Communication equipment-Comm Eq SCADA	8.33%	1,837	13	1,837
Minnesota Energy Resrcs	Jan - 2023	A0690: MERC Gas MN 398, Gas General Miscellaneous equipment	5.00%	26	0	26
Minnesota Energy Resrcs	Feb - 2023	A0655: MERC Gas MN 302, Intangible Gas Plant Franchises and Consents-Franch & Con PNG	Individual Asset Depreciation	3,969	0	3,969
Minnesota Energy Resrcs	Feb - 2023	A0658: MERC Gas MN 365.3, Gas Transmission Land & Rights-of-way		9		9
Minnesota Energy Resrcs	Feb - 2023	A0659: MERC Gas MN 366.1, Gas Transmission Structures and Improvements	3.19%	5	0	5
Minnesota Energy Resrcs	Feb - 2023	A0660: MERC Gas MN 367.1, Gas Transmission Mains	1.69%	10,645	15	10,645
Minnesota Energy Resrcs	Feb - 2023	A0661: MERC Gas MN 369.3, Gas Transmission Measuring & regulating equipment	6.29%	1,407	7	1,406
Minnesota Energy Resrcs	Feb - 2023	A0662: MERC Gas MN 374, Gas Distribution Land and land rights-Land		420		420
Minnesota Energy Resrcs	Feb - 2023	A0663: MERC Gas MN 374.1, Gas Distribution Land and land rights-Land Rt/ROW Depr	4.08%	597	2	597
Minnesota Energy Resrcs	Feb - 2023	A0666: MERC Gas MN 376, Gas Distribution Mains	1.74%	349,974	508	350,469
Minnesota Energy Resrcs	Feb - 2023	A0667: MERC Gas MN 378, Gas Distribution Measuring & Reg equipment	3.69%	19,112	59	19,110
Minnesota Energy Resrcs	Feb - 2023	A0668: MERC Gas MN 379, Gas Distribution City Gate Stations	4.26%	27,529	98	27,571
Minnesota Energy Resrcs	Feb - 2023	A0669: MERC Gas MN 380, Gas Distribution Services	2.38%	208,320	413	208,286
Minnesota Energy Resrcs	Feb - 2023	A0670: MERC Gas MN 381, Gas Distribution Meters-Meter & Installation	2.95%	64,987	159	65,018
Minnesota Energy Resrcs	Feb - 2023	A0671: MERC Gas MN 381.2, Gas Distribution Meters-AMR Devices	6.64%	33,039	182	33,039
Minnesota Energy Resrcs	Feb - 2023	A0672: MERC Gas MN 383, Gas Distribution House regulators	1.48%	20,008	25	19,997
Minnesota Energy Resrcs	Feb - 2023	A0673: MERC Gas MN 385, Gas Distribution Industrial meas & regulating equip	3.14%	3,059	8	3,062
Minnesota Energy Resrcs	Feb - 2023	A0674: MERC Gas MN 389, Gas General Land and land rights		1,321		1,321
Minnesota Energy Resrcs	Feb - 2023	A0675: MERC Gas MN 390, Gas General Structures and Improvements-Structure Improvement	various	24,459	55	24,436
Minnesota Energy Resrcs	Feb - 2023	A0677: MERC Gas MN 391.00 Office Furniture and Equip - 20 Year	5.00%	1,425	6	1,425
Minnesota Energy Resrcs	Feb - 2023	A0679: MERC Gas MN 391.50 PC Equip - 5 Year	20.00%	1,473	25	1,474
Minnesota Energy Resrcs	Feb - 2023	A0680: MERC Gas MN 391.58 Server/Network Equip - 5 Year	20.00%	2,488	41	2,506
Minnesota Energy Resrcs	Feb - 2023	A0683: MERC Gas MN 393, Gas General Stores equipment	5.00%	94	0	94
Minnesota Energy Resrcs	Feb - 2023	A0684: MERC Gas MN 394, Gas General Tools, shop and garage equipment	5.00%	3,869	16	3,872
Minnesota Energy Resrcs	Feb - 2023	A0685: MERC Gas MN 395, Gas General Laboratory equipment	5.00%	829	3	829
Minnesota Energy Resrcs	Feb - 2023	A0687: MERC Gas MN 397.1, Gas General Communication equipment-Communication Equip	8.33%	5,430	38	5,410
Minnesota Energy Resrcs	Feb - 2023	A0689: MERC Gas MN 397.3, Gas General Communication equipment-Comm Eq SCADA	8.33%	1,837	13	1,837
Minnesota Energy Resrcs	Feb - 2023	A0690: MERC Gas MN 398, Gas General Miscellaneous equipment	5.00%	26	0	26
Minnesota Energy Resrcs	Mar - 2023	A0655: MERC Gas MN 302, Intangible Gas Plant Franchises and Consents-Franch & Con PNG	Individual Asset Depreciation	3,969	0	3,969
Minnesota Energy Resrcs	Mar - 2023	A0658: MERC Gas MN 365.3, Gas Transmission Land & Rights-of-way		9		9
Minnesota Energy Resrcs	Mar - 2023	A0659: MERC Gas MN 366.1, Gas Transmission Structures and Improvements	3.19%	5	0	5
Minnesota Energy Resrcs	Mar - 2023	A0660: MERC Gas MN 367.1, Gas Transmission Mains	1.69%	10,645	15	10,645
Minnesota Energy Resrcs	Mar - 2023	A0661: MERC Gas MN 369.3, Gas Transmission Measuring & regulating equipment	6.29%	1,406	7	1,405
Minnesota Energy Resrcs	Mar - 2023	A0662: MERC Gas MN 374, Gas Distribution Land and land rights-Land		420		420
Minnesota Energy Resrcs	Mar - 2023	A0663: MERC Gas MN 374.1, Gas Distribution Land and land rights-Land Rt/ROW Depr	4.08%	597	2	597
Minnesota Energy Resrcs	Mar - 2023	A0666: MERC Gas MN 376, Gas Distribution Mains	1.74%	350,469	509	351,046
Minnesota Energy Resrcs	Mar - 2023	A0667: MERC Gas MN 378, Gas Distribution Measuring & Reg equipment	3.69%	19,110	59	19,109
Minnesota Energy Resrcs	Mar - 2023	A0668: MERC Gas MN 379, Gas Distribution City Gate Stations	4.26%	27,571	98	27,613
Minnesota Energy Resrcs	Mar - 2023	A0669: MERC Gas MN 380, Gas Distribution Services	2.38%	208,286	413	208,294
Minnesota Energy Resrcs	Mar - 2023	A0670: MERC Gas MN 381, Gas Distribution Meters-Meter & Installation	2.95%	65,018	159	65,066
Minnesota Energy Resrcs	Mar - 2023	A0671: MERC Gas MN 381.2, Gas Distribution Meters-AMR Devices	6.64%	33,039	182	33,039
Minnesota Energy Resrcs	Mar - 2023	A0672: MERC Gas MN 383, Gas Distribution House regulators	1.48%	19,997	24	19,986
Minnesota Energy Resrcs	Mar - 2023	A0673: MERC Gas MN 385, Gas Distribution Industrial meas & regulating equip	3.14%	3,062	8	3,065
Minnesota Energy Resrcs	Mar - 2023	A0674: MERC Gas MN 389, Gas General Land and land rights		1,321		1,321
Minnesota Energy Resrcs	Mar - 2023	A0675: MERC Gas MN 390, Gas General Structures and Improvements-Structure Improvement	various	24,436	55	24,438
Minnesota Energy Resrcs	Mar - 2023	A0677: MERC Gas MN 391.00 Office Furniture and Equip - 20 Year	5.00%	1,425	6	1,425
Minnesota Energy Resrcs	Mar - 2023	A0679: MERC Gas MN 391.50 PC Equip - 5 Year	20.00%	1,474	25	1,473
Minnesota Energy Resrcs	Mar - 2023	A0680: MERC Gas MN 391.58 Server/Network Equip - 5 Year	20.00%	2,506	42	2,510
Minnesota Energy Resrcs	Mar - 2023	A0683: MERC Gas MN 393, Gas General Stores equipment	5.00%	94	0	94
Minnesota Energy Resrcs	Mar - 2023	A0684: MERC Gas MN 394, Gas General Tools, shop and garage equipment	5.00%	3,872	16	3,875
Minnesota Energy Resrcs	Mar - 2023	A0685: MERC Gas MN 395, Gas General Laboratory equipment	5.00%	829	3	829
Minnesota Energy Resrcs	Mar - 2023	A0687: MERC Gas MN 397.1, Gas General Communication equipment-Communication Equip	8.33%	5,410	38	5,411
Minnesota Energy Resrcs	Mar - 2023	A0689: MERC Gas MN 397.3, Gas General Communication equipment-Comm Eq SCADA	8.33%	1,837	13	1,837
Minnesota Energy Resrcs	Mar - 2023	A0690: MERC Gas MN 398, Gas General Miscellaneous equipment	5.00%	26	0	26
Minnesota Energy Resrcs	Apr - 2023	A0655: MERC Gas MN 302, Intangible Gas Plant Franchises and Consents-Franch & Con PNG	Individual Asset Depreciation	3,969	0	3,969
Minnesota Energy Resrcs	Apr - 2023	A0658: MERC Gas MN 365.3, Gas Transmission Land & Rights-of-way		9		9
Minnesota Energy Resrcs	Apr - 2023	A0659: MERC Gas MN 366.1, Gas Transmission Structures and Improvements	3.19%	5	0	5
Minnesota Energy Resrcs	Apr - 2023	A0660: MERC Gas MN 367.1, Gas Transmission Mains	1.69%	10,645	15	10,645
Minnesota Energy Resrcs	Apr - 2023	A0661: MERC Gas MN 369.3, Gas Transmission Measuring & regulating equipment	6.29%	1,405	7	1,403
Minnesota Energy Resrcs	Apr - 2023	A0662: MERC Gas MN 374, Gas Distribution Land and land rights-Land		420		420
Minnesota Energy Resrcs	Apr - 2023	A0663: MERC Gas MN 374.1, Gas Distribution Land and land rights-Land Rt/ROW Depr	4.08%	597	2	597
Minnesota Energy Resrcs	Apr - 2023	A0666: MERC Gas MN 376, Gas Distribution Mains	1.74%	351,046	510	352,473
Minnesota Energy Resrcs	Apr - 2023	A0667: MERC Gas MN 378, Gas Distribution Measuring & Reg equipment	3.69%	19,109	59	19,108
Minnesota Energy Resrcs	Apr - 2023	A0668: MERC Gas MN 379, Gas Distribution City Gate Stations	4.26%	27,613	98	27,741
Minnesota Energy Resrcs	Apr - 2023	A0669: MERC Gas MN 380, Gas Distribution Services	2.38%	208,294	413	208,801
Minnesota Energy Resrcs	Apr - 2023	A0670: MERC Gas MN 381, Gas Distribution Meters-Meter & Installation	2.95%	65,066	157	65,331
Minnesota Energy Resrcs	Apr - 2023	A0671: MERC Gas MN 381.2, Gas Distribution Meters-AMR Devices	6.64%	33,039	182	33,039
Minnesota Energy Resrcs	Apr - 2023	A0672: MERC Gas MN 383, Gas Distribution House regulators	1.48%	19,986	24	19,974
Minnesota Energy Resrcs	Apr - 2023	A0673: MERC Gas MN 385, Gas Distribution Industrial meas & regulating equip	3.14%	3,065	8	3,077
Minnesota Energy Resrcs	Apr - 2023	A0674: MERC Gas MN 389, Gas General Land and land rights		1,321		1,321
Minnesota Energy Resrcs	Apr - 2023	A0675: MERC Gas MN 390, Gas General Structures and Improvements-Structure Improvement	various	24,438	55	24,440
Minnesota Energy Resrcs	Apr - 2023	A0677: MERC Gas MN 391.00 Office Furniture and Equip - 20 Year	5.00%	1,425	6	1,425
Minnesota Energy Resrcs	Apr - 2023	A0679: MERC Gas MN 391.50 PC Equip - 5 Year	20.00%	1,473	25	1,482
Minnesota Energy Resrcs	Apr - 2023	A0680: MERC Gas MN 391.58 Server/Network Equip - 5 Year	20.00%	2,510	42	2,513
Minnesota Energy Resrcs	Apr - 2023	A0683: MERC Gas MN 393, Gas General Stores equipment	5.00%	94	0	94
Minnesota Energy Resrcs	Apr - 2023	A0684: MERC Gas MN 394, Gas General Tools, shop and garage equipment	5.00%	3,875	16	3,885
Minnesota Energy Resrcs	Apr - 2023	A0685: MERC Gas MN 395, Gas General Laboratory equipment	5.00%	829	3	829
Minnesota Energy Resrcs	Apr - 2023	A0687: MERC Gas MN 397.1, Gas General Communication equipment-Communication Equip	8.33%	5,411	38	5,411

Company	MAT (2023)	Plant Guideline	Depreciation Rate	Begin Balance	Total Depreciation Expense	End Balance
Minnesota Energy Resrcs	Apr - 2023	A0689: MERC Gas MN 397.3, Gas General Communication equipment-Comm Eq SCADA	8.33%	1,837	13	1,837
Minnesota Energy Resrcs	Apr - 2023	A0690: MERC Gas MN 398, Gas General Miscellaneous equipment	5.00%	26	0	26

Company	MAT (2023)	Plant Guideline	Depreciation Rate	Begin Balance	Total Depreciation Expense	End Balance
Minnesota Energy Resrcs	May - 2023	A0655: MERC Gas MN 302, Intangible Gas Plant Franchises and Consents-Franch & Con PNG	Individual Asset Depreciation	3,969	0	3,969
Minnesota Energy Resrcs	May - 2023	A0658: MERC Gas MN 365.3, Gas Transmission Land & Rights-of-way	-	9	0	9
Minnesota Energy Resrcs	May - 2023	A0659: MERC Gas MN 366.1, Gas Transmission Structures and Improvements	3.19%	5	0	5
Minnesota Energy Resrcs	May - 2023	A0660: MERC Gas MN 367.1, Gas Transmission Mains	1.69%	10,645	15	10,645
Minnesota Energy Resrcs	May - 2023	A0661: MERC Gas MN 369.3, Gas Transmission Measuring & regulating equipment	6.29%	1,403	7	1,402
Minnesota Energy Resrcs	May - 2023	A0662: MERC Gas MN 374, Gas Distribution Land and land rights-Land	-	420	0	420
Minnesota Energy Resrcs	May - 2023	A0663: MERC Gas MN 374.1, Gas Distribution Land and land rights-Land Rt/ROW Depr	4.08%	597	2	597
Minnesota Energy Resrcs	May - 2023	A0666: MERC Gas MN 376, Gas Distribution Mains	1.74%	352,473	512	354,568
Minnesota Energy Resrcs	May - 2023	A0667: MERC Gas MN 378, Gas Distribution Measuring & Reg equipment	3.69%	19,108	59	19,106
Minnesota Energy Resrcs	May - 2023	A0668: MERC Gas MN 379, Gas Distribution City Gate Stations	4.26%	27,741	99	27,932
Minnesota Energy Resrcs	May - 2023	A0669: MERC Gas MN 380, Gas Distribution Services	2.38%	208,801	414	209,758
Minnesota Energy Resrcs	May - 2023	A0670: MERC Gas MN 381, Gas Distribution Meters-Meter & Installation	2.95%	65,331	158	65,764
Minnesota Energy Resrcs	May - 2023	A0671: MERC Gas MN 381.2, Gas Distribution Meters-AMR Devices	6.64%	33,039	182	33,039
Minnesota Energy Resrcs	May - 2023	A0672: MERC Gas MN 383, Gas Distribution House regulators	1.48%	19,974	24	19,963
Minnesota Energy Resrcs	May - 2023	A0673: MERC Gas MN 385, Gas Distribution Industrial meas & regulating equip	3.14%	3,077	8	3,094
Minnesota Energy Resrcs	May - 2023	A0674: MERC Gas MN 389, Gas General Land and land rights	-	1,321	0	1,321
Minnesota Energy Resrcs	May - 2023	A0675: MERC Gas MN 390, Gas General Structures and improvements-Structure Improvement	various	24,440	55	24,499
Minnesota Energy Resrcs	May - 2023	A0677: MERC Gas MN 391.00 Office Furniture and Equip - 20 Year	5.00%	1,425	6	1,425
Minnesota Energy Resrcs	May - 2023	A0679: MERC Gas MN 391.50 PC Equip - 5 Year	20.00%	1,482	25	1,482
Minnesota Energy Resrcs	May - 2023	A0680: MERC Gas MN 391.58 Server/Network Equip - 5 Year	20.00%	2,513	42	2,549
Minnesota Energy Resrcs	May - 2023	A0683: MERC Gas MN 393, Gas General Stores equipment	5.00%	94	0	94
Minnesota Energy Resrcs	May - 2023	A0684: MERC Gas MN 394, Gas General Tools, shop and garage equipment	5.00%	3,885	16	3,899
Minnesota Energy Resrcs	May - 2023	A0685: MERC Gas MN 395, Gas General Laboratory equipment	5.00%	829	3	829
Minnesota Energy Resrcs	May - 2023	A0687: MERC Gas MN 397.1, Gas General Communication equipment-Communication Equip	8.33%	5,411	38	5,411
Minnesota Energy Resrcs	May - 2023	A0689: MERC Gas MN 397.3, Gas General Communication equipment-Comm Eq SCADA	8.33%	1,837	13	1,837
Minnesota Energy Resrcs	May - 2023	A0690: MERC Gas MN 398, Gas General Miscellaneous equipment	5.00%	26	0	26
Minnesota Energy Resrcs	Jun - 2023	A0655: MERC Gas MN 302, Intangible Gas Plant Franchises and Consents-Franch & Con PNG	Individual Asset Depreciation	3,969	0	3,969
Minnesota Energy Resrcs	Jun - 2023	A0658: MERC Gas MN 365.3, Gas Transmission Land & Rights-of-way	-	9	0	9
Minnesota Energy Resrcs	Jun - 2023	A0659: MERC Gas MN 366.1, Gas Transmission Structures and Improvements	3.19%	5	0	5
Minnesota Energy Resrcs	Jun - 2023	A0660: MERC Gas MN 367.1, Gas Transmission Mains	1.69%	10,645	15	10,645
Minnesota Energy Resrcs	Jun - 2023	A0661: MERC Gas MN 369.3, Gas Transmission Measuring & regulating equipment	6.29%	1,402	7	1,401
Minnesota Energy Resrcs	Jun - 2023	A0662: MERC Gas MN 374, Gas Distribution Land and land rights-Land	-	420	0	420
Minnesota Energy Resrcs	Jun - 2023	A0663: MERC Gas MN 374.1, Gas Distribution Land and land rights-Land Rt/ROW Depr	4.08%	597	2	597
Minnesota Energy Resrcs	Jun - 2023	A0666: MERC Gas MN 376, Gas Distribution Mains	1.74%	354,568	515	356,869
Minnesota Energy Resrcs	Jun - 2023	A0667: MERC Gas MN 378, Gas Distribution Measuring & Reg equipment	3.69%	19,106	59	19,105
Minnesota Energy Resrcs	Jun - 2023	A0668: MERC Gas MN 379, Gas Distribution City Gate Stations	4.26%	27,932	99	28,144
Minnesota Energy Resrcs	Jun - 2023	A0669: MERC Gas MN 380, Gas Distribution Services	2.38%	209,758	416	210,836
Minnesota Energy Resrcs	Jun - 2023	A0670: MERC Gas MN 381, Gas Distribution Meters-Meter & Installation	2.95%	65,764	159	66,251
Minnesota Energy Resrcs	Jun - 2023	A0671: MERC Gas MN 381.2, Gas Distribution Meters-AMR Devices	6.64%	33,039	182	33,577
Minnesota Energy Resrcs	Jun - 2023	A0672: MERC Gas MN 383, Gas Distribution House regulators	1.48%	19,963	24	19,952
Minnesota Energy Resrcs	Jun - 2023	A0673: MERC Gas MN 385, Gas Distribution Industrial meas & regulating equip	3.14%	3,094	8	3,113
Minnesota Energy Resrcs	Jun - 2023	A0674: MERC Gas MN 389, Gas General Land and land rights	-	1,321	0	1,321
Minnesota Energy Resrcs	Jun - 2023	A0675: MERC Gas MN 390, Gas General Structures and improvements-Structure Improvement	various	24,499	55	24,587
Minnesota Energy Resrcs	Jun - 2023	A0677: MERC Gas MN 391.00 Office Furniture and Equip - 20 Year	5.00%	1,425	6	1,411
Minnesota Energy Resrcs	Jun - 2023	A0679: MERC Gas MN 391.50 PC Equip - 5 Year	20.00%	1,482	25	1,574
Minnesota Energy Resrcs	Jun - 2023	A0680: MERC Gas MN 391.58 Server/Network Equip - 5 Year	20.00%	2,549	42	2,758
Minnesota Energy Resrcs	Jun - 2023	A0683: MERC Gas MN 393, Gas General Stores equipment	5.00%	94	0	94
Minnesota Energy Resrcs	Jun - 2023	A0684: MERC Gas MN 394, Gas General Tools, shop and garage equipment	5.00%	3,899	16	3,902
Minnesota Energy Resrcs	Jun - 2023	A0685: MERC Gas MN 395, Gas General Laboratory equipment	5.00%	829	3	810
Minnesota Energy Resrcs	Jun - 2023	A0687: MERC Gas MN 397.1, Gas General Communication equipment-Communication Equip	8.33%	5,411	38	5,411
Minnesota Energy Resrcs	Jun - 2023	A0689: MERC Gas MN 397.3, Gas General Communication equipment-Comm Eq SCADA	8.33%	1,837	13	1,837
Minnesota Energy Resrcs	Jun - 2023	A0690: MERC Gas MN 398, Gas General Miscellaneous equipment	5.00%	26	0	26
Minnesota Energy Resrcs	Jul - 2023	A0655: MERC Gas MN 302, Intangible Gas Plant Franchises and Consents-Franch & Con PNG	Individual Asset Depreciation	3,969	0	3,969
Minnesota Energy Resrcs	Jul - 2023	A0658: MERC Gas MN 365.3, Gas Transmission Land & Rights-of-way	-	9	0	9
Minnesota Energy Resrcs	Jul - 2023	A0659: MERC Gas MN 366.1, Gas Transmission Structures and Improvements	3.19%	5	0	5
Minnesota Energy Resrcs	Jul - 2023	A0660: MERC Gas MN 367.1, Gas Transmission Mains	1.69%	10,645	15	10,645
Minnesota Energy Resrcs	Jul - 2023	A0661: MERC Gas MN 369.3, Gas Transmission Measuring & regulating equipment	6.29%	1,401	7	1,400
Minnesota Energy Resrcs	Jul - 2023	A0662: MERC Gas MN 374, Gas Distribution Land and land rights-Land	-	420	0	420
Minnesota Energy Resrcs	Jul - 2023	A0663: MERC Gas MN 374.1, Gas Distribution Land and land rights-Land Rt/ROW Depr	4.08%	597	2	597
Minnesota Energy Resrcs	Jul - 2023	A0666: MERC Gas MN 376, Gas Distribution Mains	1.74%	356,869	518	359,580
Minnesota Energy Resrcs	Jul - 2023	A0667: MERC Gas MN 378, Gas Distribution Measuring & Reg equipment	3.69%	19,105	59	19,104
Minnesota Energy Resrcs	Jul - 2023	A0668: MERC Gas MN 379, Gas Distribution City Gate Stations	4.26%	28,144	100	28,399
Minnesota Energy Resrcs	Jul - 2023	A0669: MERC Gas MN 380, Gas Distribution Services	2.38%	210,836	418	212,157
Minnesota Energy Resrcs	Jul - 2023	A0670: MERC Gas MN 381, Gas Distribution Meters-Meter & Installation	2.95%	66,251	160	66,842
Minnesota Energy Resrcs	Jul - 2023	A0671: MERC Gas MN 381.2, Gas Distribution Meters-AMR Devices	6.64%	33,577	185	33,702
Minnesota Energy Resrcs	Jul - 2023	A0672: MERC Gas MN 383, Gas Distribution House regulators	1.48%	19,952	24	19,941
Minnesota Energy Resrcs	Jul - 2023	A0673: MERC Gas MN 385, Gas Distribution Industrial meas & regulating equip	3.14%	3,113	8	3,137
Minnesota Energy Resrcs	Jul - 2023	A0674: MERC Gas MN 389, Gas General Land and land rights	-	1,321	0	1,321
Minnesota Energy Resrcs	Jul - 2023	A0675: MERC Gas MN 390, Gas General Structures and improvements-Structure Improvement	various	24,587	56	24,675
Minnesota Energy Resrcs	Jul - 2023	A0677: MERC Gas MN 391.00 Office Furniture and Equip - 20 Year	5.00%	1,411	6	1,411
Minnesota Energy Resrcs	Jul - 2023	A0679: MERC Gas MN 391.50 PC Equip - 5 Year	20.00%	1,574	26	1,587
Minnesota Energy Resrcs	Jul - 2023	A0680: MERC Gas MN 391.58 Server/Network Equip - 5 Year	20.00%	2,758	46	2,944
Minnesota Energy Resrcs	Jul - 2023	A0683: MERC Gas MN 393, Gas General Stores equipment	5.00%	94	0	94
Minnesota Energy Resrcs	Jul - 2023	A0684: MERC Gas MN 394, Gas General Tools, shop and garage equipment	5.00%	3,902	16	3,921
Minnesota Energy Resrcs	Jul - 2023	A0685: MERC Gas MN 395, Gas General Laboratory equipment	5.00%	810	3	810
Minnesota Energy Resrcs	Jul - 2023	A0687: MERC Gas MN 397.1, Gas General Communication equipment-Communication Equip	8.33%	5,411	38	5,411
Minnesota Energy Resrcs	Jul - 2023	A0689: MERC Gas MN 397.3, Gas General Communication equipment-Comm Eq SCADA	8.33%	1,837	13	1,837
Minnesota Energy Resrcs	Jul - 2023	A0690: MERC Gas MN 398, Gas General Miscellaneous equipment	5.00%	26	0	26
Minnesota Energy Resrcs	Aug - 2023	A0655: MERC Gas MN 302, Intangible Gas Plant Franchises and Consents-Franch & Con PNG	Individual Asset Depreciation	3,969	0	3,969
Minnesota Energy Resrcs	Aug - 2023	A0658: MERC Gas MN 365.3, Gas Transmission Land & Rights-of-way	-	9	0	9
Minnesota Energy Resrcs	Aug - 2023	A0659: MERC Gas MN 366.1, Gas Transmission Structures and Improvements	3.19%	5	0	5
Minnesota Energy Resrcs	Aug - 2023	A0660: MERC Gas MN 367.1, Gas Transmission Mains	1.69%	10,645	15	10,645
Minnesota Energy Resrcs	Aug - 2023	A0661: MERC Gas MN 369.3, Gas Transmission Measuring & regulating equipment	6.29%	1,400	7	1,399
Minnesota Energy Resrcs	Aug - 2023	A0662: MERC Gas MN 374, Gas Distribution Land and land rights-Land	-	420	0	420
Minnesota Energy Resrcs	Aug - 2023	A0663: MERC Gas MN 374.1, Gas Distribution Land and land rights-Land Rt/ROW Depr	4.08%	597	2	597
Minnesota Energy Resrcs	Aug - 2023	A0666: MERC Gas MN 376, Gas Distribution Mains	1.74%	359,580	522	362,786
Minnesota Energy Resrcs	Aug - 2023	A0667: MERC Gas MN 378, Gas Distribution Measuring & Reg equipment	3.69%	19,104	59	19,103
Minnesota Energy Resrcs	Aug - 2023	A0668: MERC Gas MN 379, Gas Distribution City Gate Stations	4.26%	28,399	101	28,697
Minnesota Energy Resrcs	Aug - 2023	A0669: MERC Gas MN 380, Gas Distribution Services	2.38%	212,157	421	213,754
Minnesota Energy Resrcs	Aug - 2023	A0670: MERC Gas MN 381, Gas Distribution Meters-Meter & Installation	2.95%	66,842	161	67,553
Minnesota Energy Resrcs	Aug - 2023	A0671: MERC Gas MN 381.2, Gas Distribution Meters-AMR Devices	6.64%	33,702	185	33,826
Minnesota Energy Resrcs	Aug - 2023	A0672: MERC Gas MN 383, Gas Distribution House regulators	1.48%	19,941	24	19,930
Minnesota Energy Resrcs	Aug - 2023	A0673: MERC Gas MN 385, Gas Distribution Industrial meas & regulating equip	3.14%	3,137	8	3,164
Minnesota Energy Resrcs	Aug - 2023	A0674: MERC Gas MN 389, Gas General Land and land rights	-	1,321	0	1,321
Minnesota Energy Resrcs	Aug - 2023	A0675: MERC Gas MN 390, Gas General Structures and improvements-Structure Improvement	various	24,675	56	24,746
Minnesota Energy Resrcs	Aug - 2023	A0677: MERC Gas MN 391.00 Office Furniture and Equip - 20 Year	5.00%	1,411	6	1,411
Minnesota Energy Resrcs	Aug - 2023	A0679: MERC Gas MN 391.50 PC Equip - 5 Year	20.00%	1,587	26	1,602
Minnesota Energy Resrcs	Aug - 2023	A0680: MERC Gas MN 391.58 Server/Network Equip - 5 Year	20.00%	2,944	49	2,948
Minnesota Energy Resrcs	Aug - 2023	A0683: MERC Gas MN 393, Gas General Stores equipment	5.00%	94	0	94
Minnesota Energy Resrcs	Aug - 2023	A0684: MERC Gas MN 394, Gas General Tools, shop and garage equipment	5.00%	3,921	16	3,943
Minnesota Energy Resrcs	Aug - 2023	A0685: MERC Gas MN 395, Gas General Laboratory equipment	5.00%	810	3	810
Minnesota Energy Resrcs	Aug - 2023	A0687: MERC Gas MN 397.1, Gas General Communication equipment-Communication Equip	8.33%	5,411	38	5,412

Company	MAT (2023)	Plant Guideline	Depreciation Rate	Begin Balance	Total Depreciation Expense	End Balance
Minnesota Energy Resrcs	Aug - 2023	A0689: MERC Gas MN 397.3, Gas General Communication equipment-Comm Eq SCADA	8.33%	1,837	13	1,837
Minnesota Energy Resrcs	Aug - 2023	A0690: MERC Gas MN 398, Gas General Miscellaneous equipment	5.00%	26	0	26
Minnesota Energy Resrcs	Sep - 2023	A0655: MERC Gas MN 302, Intangible Gas Plant Franchises and Consents-Franch & Con PNG	Individual Asset Depreciation	3,969	0	3,969

Company	MAT (2023)	Plant Guideline	Depreciation Rate	Begin Balance	Total Depreciation Expense	End Balance
Minnesota Energy Resrcs	Sep - 2023	A0658: MERC Gas MN 365.3, Gas Transmission Land & Rights-of-way	-	9		9
Minnesota Energy Resrcs	Sep - 2023	A0659: MERC Gas MN 366.1, Gas Transmission Structures and improvements	3.19%	5	0	5
Minnesota Energy Resrcs	Sep - 2023	A0660: MERC Gas MN 367.1, Gas Transmission Mains	1.69%	10,645	15	10,645
Minnesota Energy Resrcs	Sep - 2023	A0661: MERC Gas MN 369.3, Gas Transmission Measuring & regulating equipment	6.29%	1,399	7	1,398
Minnesota Energy Resrcs	Sep - 2023	A0662: MERC Gas MN 374, Gas Distribution Land and land rights-Land	-	420		420
Minnesota Energy Resrcs	Sep - 2023	A0663: MERC Gas MN 374.1, Gas Distribution Land and land rights-Land Rt/ROW Depr	4.08%	597	2	597
Minnesota Energy Resrcs	Sep - 2023	A0666: MERC Gas MN 376, Gas Distribution Mains	1.74%	362,786	527	365,721
Minnesota Energy Resrcs	Sep - 2023	A0667: MERC Gas MN 378, Gas Distribution Measuring & Reg equipment	3.69%	19,103	59	19,109
Minnesota Energy Resrcs	Sep - 2023	A0668: MERC Gas MN 379, Gas Distribution City Gate Stations	4.26%	28,697	102	28,930
Minnesota Energy Resrcs	Sep - 2023	A0669: MERC Gas MN 380, Gas Distribution Services	2.38%	213,754	424	214,970
Minnesota Energy Resrcs	Sep - 2023	A0670: MERC Gas MN 381, Gas Distribution Meters-Meter & Installation	2.95%	67,553	163	68,099
Minnesota Energy Resrcs	Sep - 2023	A0671: MERC Gas MN 381.2, Gas Distribution Meters-AMR Devices	6.64%	33,826	186	33,951
Minnesota Energy Resrcs	Sep - 2023	A0672: MERC Gas MN 383, Gas Distribution House regulators	1.48%	19,930	24	19,919
Minnesota Energy Resrcs	Sep - 2023	A0673: MERC Gas MN 385, Gas Distribution Industrial meas & regulating equip	3.14%	3,164	8	3,186
Minnesota Energy Resrcs	Sep - 2023	A0674: MERC Gas MN 389, Gas General Land and land rights	-	1,321		1,321
Minnesota Energy Resrcs	Sep - 2023	A0675: MERC Gas MN 390, Gas General Structures and improvements-Structure Improvement	various	24,746	56	24,832
Minnesota Energy Resrcs	Sep - 2023	A0677: MERC Gas MN 391.00 Office Furniture and Equip - 20 Year	5.00%	1,411	6	1,411
Minnesota Energy Resrcs	Sep - 2023	A0679: MERC Gas MN 391.50 PC Equip - 5 Year	20.00%	1,602	27	1,617
Minnesota Energy Resrcs	Sep - 2023	A0680: MERC Gas MN 391.58 Server/Network Equip - 5 Year	20.00%	2,948	49	2,948
Minnesota Energy Resrcs	Sep - 2023	A0683: MERC Gas MN 393, Gas General Stores equipment	5.00%	94	0	94
Minnesota Energy Resrcs	Sep - 2023	A0684: MERC Gas MN 394, Gas General Tools, shop and garage equipment	5.00%	3,943	16	3,961
Minnesota Energy Resrcs	Sep - 2023	A0685: MERC Gas MN 395, Gas General Laboratory equipment	5.00%	810	3	810
Minnesota Energy Resrcs	Sep - 2023	A0687: MERC Gas MN 397.1, Gas General Communication equipment-Communication Equip	8.33%	5,412	38	5,412
Minnesota Energy Resrcs	Sep - 2023	A0689: MERC Gas MN 397.3, Gas General Communication equipment-Comm Eq SCADA	8.33%	1,837	13	1,837
Minnesota Energy Resrcs	Sep - 2023	A0690: MERC Gas MN 398, Gas General Miscellaneous equipment	5.00%	26	0	26
Minnesota Energy Resrcs	Oct - 2023	A0655: MERC Gas MN 302, Intangible Gas Plant Franchises and Consents-Franch & Con PNG	Individual Asset Depreciation	3,969	0	3,969
Minnesota Energy Resrcs	Oct - 2023	A0658: MERC Gas MN 365.3, Gas Transmission Land & Rights-of-way	-	9		9
Minnesota Energy Resrcs	Oct - 2023	A0659: MERC Gas MN 366.1, Gas Transmission Structures and Improvements	3.19%	5	0	5
Minnesota Energy Resrcs	Oct - 2023	A0660: MERC Gas MN 367.1, Gas Transmission Mains	1.69%	10,645	14	10,645
Minnesota Energy Resrcs	Oct - 2023	A0661: MERC Gas MN 369.3, Gas Transmission Measuring & regulating equipment	6.29%	1,398	(7)	1,396
Minnesota Energy Resrcs	Oct - 2023	A0662: MERC Gas MN 374, Gas Distribution Land and land rights-Land	-	420		420
Minnesota Energy Resrcs	Oct - 2023	A0663: MERC Gas MN 374.1, Gas Distribution Land and land rights-Land Rt/ROW Depr	4.08%	597	2	597
Minnesota Energy Resrcs	Oct - 2023	A0665: MERC Gas MN 375, Gas Distribution Structures and improvements	-		(2)	
Minnesota Energy Resrcs	Oct - 2023	A0666: MERC Gas MN 376, Gas Distribution Mains	1.74%	365,721	721	369,505
Minnesota Energy Resrcs	Oct - 2023	A0667: MERC Gas MN 378, Gas Distribution Measuring & Reg equipment	3.69%	19,109	12	19,108
Minnesota Energy Resrcs	Oct - 2023	A0668: MERC Gas MN 379, Gas Distribution City Gate Stations	4.26%	28,930	37	29,249
Minnesota Energy Resrcs	Oct - 2023	A0669: MERC Gas MN 380, Gas Distribution Services	2.38%	214,970	584	216,683
Minnesota Energy Resrcs	Oct - 2023	A0670: MERC Gas MN 381, Gas Distribution Meters-Meter & Installation	2.95%	68,099	223	68,860
Minnesota Energy Resrcs	Oct - 2023	A0671: MERC Gas MN 381.2, Gas Distribution Meters-AMR Devices	6.64%	33,951	186	33,951
Minnesota Energy Resrcs	Oct - 2023	A0672: MERC Gas MN 383, Gas Distribution House regulators	1.48%	19,919	39	19,908
Minnesota Energy Resrcs	Oct - 2023	A0673: MERC Gas MN 385, Gas Distribution Industrial meas & regulating equip	3.14%	3,186	6	3,215
Minnesota Energy Resrcs	Oct - 2023	A0674: MERC Gas MN 389, Gas General Land and land rights	-	1,321		1,321
Minnesota Energy Resrcs	Oct - 2023	A0675: MERC Gas MN 390, Gas General Structures and improvements-Structure Improvement	various	24,832	40	24,918
Minnesota Energy Resrcs	Oct - 2023	A0677: MERC Gas MN 391.00 Office Furniture and Equip - 20 Year	5.00%	1,411	6	1,411
Minnesota Energy Resrcs	Oct - 2023	A0679: MERC Gas MN 391.50 PC Equip - 5 Year	20.00%	1,617	27	1,633
Minnesota Energy Resrcs	Oct - 2023	A0680: MERC Gas MN 391.58 Server/Network Equip - 5 Year	20.00%	2,948	49	2,824
Minnesota Energy Resrcs	Oct - 2023	A0683: MERC Gas MN 393, Gas General Stores equipment	5.00%	94	0	94
Minnesota Energy Resrcs	Oct - 2023	A0684: MERC Gas MN 394, Gas General Tools, shop and garage equipment	5.00%	3,961	17	3,985
Minnesota Energy Resrcs	Oct - 2023	A0685: MERC Gas MN 395, Gas General Laboratory equipment	5.00%	810	3	810
Minnesota Energy Resrcs	Oct - 2023	A0687: MERC Gas MN 397.1, Gas General Communication equipment-Communication Equip	8.33%	5,412	38	5,413
Minnesota Energy Resrcs	Oct - 2023	A0689: MERC Gas MN 397.3, Gas General Communication equipment-Comm Eq SCADA	8.33%	1,837	13	1,837
Minnesota Energy Resrcs	Oct - 2023	A0690: MERC Gas MN 398, Gas General Miscellaneous equipment	5.00%	26	0	26
Minnesota Energy Resrcs	Nov - 2023	A0655: MERC Gas MN 302, Intangible Gas Plant Franchises and Consents-Franch & Con PNG	Individual Asset Depreciation	3,969		3,969
Minnesota Energy Resrcs	Nov - 2023	A0658: MERC Gas MN 365.3, Gas Transmission Land & Rights-of-way	-	9		9
Minnesota Energy Resrcs	Nov - 2023	A0659: MERC Gas MN 366.1, Gas Transmission Structures and improvements	3.19%	5	0	5
Minnesota Energy Resrcs	Nov - 2023	A0660: MERC Gas MN 367.1, Gas Transmission Mains	1.69%	10,645	15	10,645
Minnesota Energy Resrcs	Nov - 2023	A0661: MERC Gas MN 369.3, Gas Transmission Measuring & regulating equipment	6.29%	1,396	7	1,395
Minnesota Energy Resrcs	Nov - 2023	A0662: MERC Gas MN 374, Gas Distribution Land and land rights-Land	-	420		420
Minnesota Energy Resrcs	Nov - 2023	A0663: MERC Gas MN 374.1, Gas Distribution Land and land rights-Land Rt/ROW Depr	4.08%	597	2	597
Minnesota Energy Resrcs	Nov - 2023	A0666: MERC Gas MN 376, Gas Distribution Mains	1.74%	369,505	537	372,173
Minnesota Energy Resrcs	Nov - 2023	A0667: MERC Gas MN 378, Gas Distribution Measuring & Reg equipment	3.69%	19,108	59	19,106
Minnesota Energy Resrcs	Nov - 2023	A0668: MERC Gas MN 379, Gas Distribution City Gate Stations	4.26%	29,249	104	29,461
Minnesota Energy Resrcs	Nov - 2023	A0669: MERC Gas MN 380, Gas Distribution Services	2.38%	216,683	430	217,938
Minnesota Energy Resrcs	Nov - 2023	A0670: MERC Gas MN 381, Gas Distribution Meters-Meter & Installation	2.95%	68,860	166	69,340
Minnesota Energy Resrcs	Nov - 2023	A0671: MERC Gas MN 381.2, Gas Distribution Meters-AMR Devices	6.64%	33,951	187	33,951
Minnesota Energy Resrcs	Nov - 2023	A0672: MERC Gas MN 383, Gas Distribution House regulators	1.48%	19,908	24	19,897
Minnesota Energy Resrcs	Nov - 2023	A0673: MERC Gas MN 385, Gas Distribution Industrial meas & regulating equip	3.14%	3,215	8	3,235
Minnesota Energy Resrcs	Nov - 2023	A0674: MERC Gas MN 389, Gas General Land and land rights	-	1,321		1,321
Minnesota Energy Resrcs	Nov - 2023	A0675: MERC Gas MN 390, Gas General Structures and improvements-Structure Improvement	various	24,918	56	25,005
Minnesota Energy Resrcs	Nov - 2023	A0677: MERC Gas MN 391.00 Office Furniture and Equip - 20 Year	5.00%	1,411	6	1,411
Minnesota Energy Resrcs	Nov - 2023	A0679: MERC Gas MN 391.50 PC Equip - 5 Year	20.00%	1,633	27	1,870
Minnesota Energy Resrcs	Nov - 2023	A0680: MERC Gas MN 391.58 Server/Network Equip - 5 Year	20.00%	2,824	47	2,826
Minnesota Energy Resrcs	Nov - 2023	A0683: MERC Gas MN 393, Gas General Stores equipment	5.00%	94	0	94
Minnesota Energy Resrcs	Nov - 2023	A0684: MERC Gas MN 394, Gas General Tools, shop and garage equipment	5.00%	3,985	17	4,001
Minnesota Energy Resrcs	Nov - 2023	A0685: MERC Gas MN 395, Gas General Laboratory equipment	5.00%	810	3	810
Minnesota Energy Resrcs	Nov - 2023	A0687: MERC Gas MN 397.1, Gas General Communication equipment-Communication Equip	8.33%	5,413	38	5,413
Minnesota Energy Resrcs	Nov - 2023	A0689: MERC Gas MN 397.3, Gas General Communication equipment-Comm Eq SCADA	8.33%	1,837	13	1,837
Minnesota Energy Resrcs	Nov - 2023	A0690: MERC Gas MN 398, Gas General Miscellaneous equipment	5.00%	26	0	26
Minnesota Energy Resrcs	Dec - 2023	A0655: MERC Gas MN 302, Intangible Gas Plant Franchises and Consents-Franch & Con PNG	Individual Asset Depreciation	3,969		3,969
Minnesota Energy Resrcs	Dec - 2023	A0658: MERC Gas MN 365.3, Gas Transmission Land & Rights-of-way	-	9		9
Minnesota Energy Resrcs	Dec - 2023	A0659: MERC Gas MN 366.1, Gas Transmission Structures and improvements	3.19%	5	0	5
Minnesota Energy Resrcs	Dec - 2023	A0660: MERC Gas MN 367.1, Gas Transmission Mains	1.69%	10,645	15	10,645
Minnesota Energy Resrcs	Dec - 2023	A0661: MERC Gas MN 369.3, Gas Transmission Measuring & regulating equipment	6.29%	1,395	7	1,394
Minnesota Energy Resrcs	Dec - 2023	A0662: MERC Gas MN 374, Gas Distribution Land and land rights-Land	-	420		420
Minnesota Energy Resrcs	Dec - 2023	A0663: MERC Gas MN 374.1, Gas Distribution Land and land rights-Land Rt/ROW Depr	4.08%	597	2	597
Minnesota Energy Resrcs	Dec - 2023	A0666: MERC Gas MN 376, Gas Distribution Mains	1.74%	372,173	541	373,806
Minnesota Energy Resrcs	Dec - 2023	A0667: MERC Gas MN 378, Gas Distribution Measuring & Reg equipment	3.69%	19,106	59	19,105
Minnesota Energy Resrcs	Dec - 2023	A0668: MERC Gas MN 379, Gas Distribution City Gate Stations	4.26%	29,461	105	29,610
Minnesota Energy Resrcs	Dec - 2023	A0669: MERC Gas MN 380, Gas Distribution Services	2.38%	217,938	432	218,805
Minnesota Energy Resrcs	Dec - 2023	A0670: MERC Gas MN 381, Gas Distribution Meters-Meter & Installation	2.95%	69,340	167	69,651
Minnesota Energy Resrcs	Dec - 2023	A0671: MERC Gas MN 381.2, Gas Distribution Meters-AMR Devices	6.64%	33,951	187	33,951
Minnesota Energy Resrcs	Dec - 2023	A0672: MERC Gas MN 383, Gas Distribution House regulators	1.48%	19,897	24	19,886
Minnesota Energy Resrcs	Dec - 2023	A0673: MERC Gas MN 385, Gas Distribution Industrial meas & regulating equip	3.14%	3,235	8	3,248
Minnesota Energy Resrcs	Dec - 2023	A0674: MERC Gas MN 389, Gas General Land and land rights	-	1,321		1,321
Minnesota Energy Resrcs	Dec - 2023	A0675: MERC Gas MN 390, Gas General Structures and improvements-Structure Improvement	various	25,005	56	25,055
Minnesota Energy Resrcs	Dec - 2023	A0677: MERC Gas MN 391.00 Office Furniture and Equip - 20 Year	5.00%	1,411	6	1,411
Minnesota Energy Resrcs	Dec - 2023	A0679: MERC Gas MN 391.50 PC Equip - 5 Year	20.00%	1,870	31	1,883
Minnesota Energy Resrcs	Dec - 2023	A0680: MERC Gas MN 391.58 Server/Network Equip - 5 Year	20.00%	2,826	47	2,663
Minnesota Energy Resrcs	Dec - 2023	A0683: MERC Gas MN 393, Gas General Stores equipment	5.00%	94	0	94
Minnesota Energy Resrcs	Dec - 2023	A0684: MERC Gas MN 394, Gas General Tools, shop and garage equipment	5.00%	4,001	17	4,012
Minnesota Energy Resrcs	Dec - 2023	A0685: MERC Gas MN 395, Gas General Laboratory equipment	5.00%	810	3	810
Minnesota Energy Resrcs	Dec - 2023	A0687: MERC Gas MN 397.1, Gas General Communication equipment-Communication Equip	8.33%	5,413	38	5,413

Company	MAT (2023)	Plant Guideline	Depreciation Rate	Begin Balance	Total Depreciation Expense	End Balance
Minnesota Energy Resrcs	Dec - 2023	A0689: MERC Gas MN 397.3, Gas General Communication equipment-Comm Eq SCADA	8.33%	1,837	13	1,837
Minnesota Energy Resrcs	Dec - 2023	A0690: MERC Gas MN 398, Gas General Miscellaneous equipment	5.00%	26	0	26

Minnesota Energy Resources Corporation
2023 Rate Case Expense Amortization

Line No.	Description	in thousands	
		<u>2023 Rate Case Amount</u>	
1	Cost of Capital Expert		135
2	Legal Expenses		1,200
3	3rd Party Requests (Itron, etc...)		50
4	Newspapers		200
5	Total		<u>1,585</u>
6	State Agency/ALJ Fees		850
7	Allocation to Utility Business (87.7%)		<u>745</u>
8	Total Allocated to Utility		<u><u>2,330</u></u>
9	Amortization over 2 years		1,165

Gas Operating Revenue by FERC account (1)
in dollars

<u>FERC Acct.</u>	<u>Description</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
480.00	Residential	\$ 154,877,005	\$ 144,217,325	\$ 168,615,995	\$ 174,671,345	\$ 137,539,051
481.00	Commercial and Industrial	96,895,792	85,455,565	111,611,891	105,621,314	91,424,222
489.00	Transportation	<u>11,506,388</u>	<u>10,469,198</u>	<u>11,551,197</u>	<u>12,170,387</u>	<u>10,132,648</u>
	Total	<u>\$ 263,279,185</u>	<u>\$ 240,142,088</u>	<u>\$ 291,779,083</u>	<u>\$ 292,463,046</u>	<u>\$ 239,095,921</u>

(1) The revenues in this schedule represent total MERC revenues per the company's general ledger.

FERC Acct.	Description	2021	2020	2019	2018	2017	2023 Test Year	Explanation of why revenue is excluded from the TY
487000	Late Payment charges	169,824	767,461	945,105	917,621	998,853	949,992	
	Subtotal 487000	169,824	767,461	945,105	917,621	998,853	949,992	
488000	Misc Service Revenue	35,470	16,521	116,905	64,443	38,120	30,000	
488000	Misc Service Revenue-ICE accrual	-	-	(500,000)	(500,000)	(500,000)	-	MERC is no longer required to reserve for this item
488000	Misc Service Revenue-Reverse PY ICE accrual	500,000	-	1,000,000	-	-	-	MERC is no longer required to reserve for this item
488000	NSF Charges	51,810	37,395	41,955	30,525	-	-	Included in Misc. Service Revenues
	Subtotal 488000	587,280	53,916	658,860	(405,032)	(461,880)	30,000	
493000	Property Rent	-	-	33,936	-	39,969	39,996	
	Subtotal 493000	-	-	33,936	-	39,969	39,996	
495000	Gas Revenue True Up	86,867,627	7,353,496	(30,301,565)	(6,208,154)	10,132,649	-	No gas cost true is no included in test year revenue requirement calculation as forecasted gas costs are a passthrough
495000	GUIC Revenue Accrued	3,355,790	4,509,309	2,089,753	-	-	-	No GUIC revenues will be assumed in the test year
495000	NGEP Revenue Accrued	879,782	718,090	-	-	-	-	No NGEP revenues will be assumed in the test year
495000	GUIC Revenue Billed	(4,459,388)	(3,032,056)	(1,497,598)	-	-	-	GUIC billings would not affect test year revenue requirement
495000	NGEP Revenue Billed	(669,391)	(463,065)	(141,520)	-	-	-	NGEP billings would not affect test year revenue requirements
495000	GUIC True Up Amortization	-	-	-	-	-	6,259	
495000	NGEP True Up Amortization	-	-	-	-	-	(468,085)	
495000	2018 Rate case expense writeoff	(192)	317,364	-	-	-	-	
495000	2018 Rate case revenue deferral	(1,087,332)	(1,087,338)	-	-	-	815,500	
495000	SWCR billed revenues	(5,251,759)	-	-	-	-	-	This is the recovery of SWCR undercollection, not included in revenue requirement calculation
495000	Decoupling PY (billed)/refunded	2,299,648	3,849,242	443,680	(3,657,941)			No Prior year decoupling billings/refunds assumed in test year
495000	Decoupling CY revenue	3,310,610	16,826	(3,994,174)	(3,110,561)	2,315,445	-	Decoupling will reset in rate case, no assumption of decoupling revenues in test year.
495000	CIP Incentive CY accrual	1,272,468	1,671,381	1,192,566	1,850,401	2,439,088		CIP incentive does not affect test year revenue requirements
495000	CIP Incentive PY billed	(1,300,000)	(1,300,000)	(1,694,487)	(3,245,000)		-	CIP CCRA billings which include prior year CIP incentive amounts would not be included in test year revenue requirement
495000	Tax reform	3,692	6,781	5,370,237	(4,925,091)	-	-	No longer applicable and would not be in test year revenue requirement
495000	Other Gas Revenues	-	-	-	-	-	-	
	Subtotal 495000	85,221,555	12,560,030	(28,533,108)	(19,296,346)	14,887,182	353,674	
496000	Provision for rate refunds	-	-	-	-	2,481,341	-	No longer applicable and would not be in test year revenue requirement
	Subtotal 496000	-	-	-	-	2,481,341	-	
Total		85,978,659	13,381,407	(26,895,207)	(18,783,757)	17,945,465	1,373,662	

Dollars in 000's

Company / Description	Utility	Inc Stmt Account	Bal Sheet Account	Amortization Term (years)	12/2020 Ending Balance	2021 Deferral	2021 Amortization	12/2021 Ending Balance	2022 Deferral	2022 Amortization	12/2022 Ending Balance	2023 Deferral	2023 Amortization	12/2023 Ending Balance
Minnesota Energy Resources Corporation														
GUIC True Up Amortization	Gas	495	254	2	2,069	3,356	(4,459)	966	6,693	(7,672)	(13)	-	6	(6)
NGEP True Up Amortization	Gas	495	182	2	114	880	(669)	324	1,440	(828)	936	-	(468)	468
2018 Rate case revenue deferral	Gas	495	254	4	(1,087)	-	(1,087)	(2,175)	-	(1,087)	(3,262)	-	816	(2,447)
Total					1,096	4,236	(6,216)	(885)	8,134	(9,587)	(2,338)	-	354	(1,985)

MERC Labor

Amounts are in thousands

Line No.	K&M Description	2021 Actual	2022 Inflation Rate	2022 Inflated	2022 K&M	2022 Inflated + K&M	2023 Inflation Rate	2023 Inflated	2023 K&M	2023 Inflated + K&M
1	735.00: Miscellaneous Production Expenses	-	1.0313	-	-	-	1.0431	-	-	-
2	756.00: Field Measuring & Regulating Station Expenses	0	1.0313	0	-	0	1.0431	0	(0)	0
3	Natural Gas Production	0		0	-	0		0	(0)	0
4										
5	804.10: Liquefied Natural Gas Purchases	350	1.0313	361	-	361	1.0431	376	(8)	369
6	813.00: Other Gas Supply Expenses	18	1.0313	19	-	19	1.0431	20	(0)	19
7	Gas Purchases	368		380	-	380		396	(8)	388
8										
9	856.00: Mains Expenses	1	1.0313	1	-	1	1.0431	1	(0)	1
10	857.00: Measuring & Regulating Station Expenses	0	1.0313	0	-	0	1.0431	0	(0)	0
11	863.00: Maintenance Of Mains	1	1.0313	1	-	1	1.0431	1	(0)	1
12	865.00: Maintenance Of Meas & Reg Stat Equip	0	1.0313	0	-	0	1.0431	1	(0)	1
13	871.00: Distribution Load Dispatching	395	1.0313	407	-	407	1.0431	425	(4)	421
14	872.00: Compressor Station Labor & Expenses	-	1.0313	-	-	-	1.0431	-	-	-
15	874.00: Mains & Services Expenses	2,276	1.0313	2,347	-	2,347	1.0431	2,448	(19)	2,429
16	875.00: Measuring & Regulating Station Expenses-General	263	1.0313	271	-	271	1.0431	283	(3)	279
17	878.00: Meter & House Regulator Expenses	418	1.0313	431	-	431	1.0431	449	(4)	445
18	879.00: Customer Installations Expenses	68	1.0313	70	-	70	1.0431	73	(0)	73
19	880.00: Other Expenses	3,089	1.0313	3,186	-	3,186	1.0431	3,323	367	3,690
20	881.00: Rents	-	1.0313	-	-	-	1.0431	-	-	-
21	885.00: Maintenance Supervision & Engineering	-	1.0313	-	-	-	1.0431	-	-	-
22	887.00: Maintenance Of Mains	694	1.0313	715	-	715	1.0431	746	(8)	738
23	889.00: Maintenance Of Meas & Reg Stat Equip-General	179	1.0313	185	-	185	1.0431	192	(2)	191
24	891.00: Maintenance Of Meas & Reg Stat Equip-City Gate	135	1.0313	140	-	140	1.0431	146	(1)	144
25	892.00: Maintenance Of Services	988	1.0313	1,019	-	1,019	1.0431	1,063	(12)	1,050
26	893.00: Maintenance Of Meters & House Regulators	547	1.0313	564	-	564	1.0431	588	(5)	583
27	894.00: Maintenance Of Other Equipment	1	1.0313	1	-	1	1.0431	1	(0)	1
28	Distribution, Transmission, and Storage Expense	9,054		9,337	-	9,337		9,740	308	10,047
29										
30	901.00: Supervision	221	1.0313	227	-	227	1.0431	237	(5)	232
31	902.00: Meter Reading Expenses	381	1.0313	392	-	392	1.0431	409	(4)	406
32	903.00: Customer Records & Collection Expenses	929	1.0313	959	-	959	1.0431	1,000	34	1,034
33	904.00: Uncollectible Accounts	-	1.0313	-	-	-	1.0431	-	-	-
34	905.00: Miscellaneous Customer Accounts Expenses	49	1.0313	50	-	50	1.0431	52	(1)	51
35	907.00: Supervision	22	1.0313	23	-	23	1.0431	24	(6)	18
36	908.00: Customer Assistance Expenses	458	1.0313	472	-	472	1.0431	492	(9)	483
37	909.00: Informational & Instructional Advertising Expenses	-	1.0313	-	-	-	1.0431	-	-	-
38	Customer Accounts	2,059		2,123	-	2,123		2,215	9	2,224
39										
40	920.00: Administrative & General Salaries	4,146	1.0313	4,275	(39)	4,236	1.0431	4,419	(202)	4,217
41	921.00: Office Supplies & Expenses	-	1.0313	-	-	-	1.0431	-	-	-
42	923.00: Outside Services Employed	-	1.0313	-	-	-	1.0431	-	-	-
43	A&G-Labor, Non-Labor, and Contractor	4,146		4,275	(39)	4,236		4,419	(202)	4,217
44										
45	924.00: Property Insurance	-	1.0313	-	-	-	1.0431	-	-	-
46	925.00: Injuries & Damages	50	1.0313	51	-	51	1.0431	54	(0)	53
47	Insurance	50		51	-	51		54	(0)	53
48										
49	926.00: Employee Pensions & Benefits	-	1.0313	-	-	-	1.0431	-	-	-
50	Benefits	-		-	-	-		-	-	-
51										
52	928.00: Regulatory Commission Expenses	-	1.0313	-	-	-	1.0431	-	-	-
53	930.10: General Advertising Expense	-	1.0313	-	-	-	1.0431	-	-	-
54	930.20: Miscellaneous General Expenses	39	1.0313	40	-	40	1.0431	42	(5)	37
55	931.00: Rents	5	1.0313	5	-	5	1.0431	5	(0)	5
56	A&G Rents, Facilities, Carrying Costs, and Depreciation	44		45	-	45		47	(5)	42
57										
58	Non-Fuel O&M	15,721		16,212	(39)	16,173		16,870	101	16,971

Amounts are in thousands

Line No.		2021 Incentives Inflated	2023 Incentives	2023 less 2021 Incentives
1	735.00: Miscellaneous Production Expenses	-	-	-
2	756.00: Field Measuring & Regulating Station Expenses	0	0	-
3	Natural Gas Production	0	0	-
4				
5	804.10: Liquefied Natural Gas Purchases	37	37	-
6	813.00: Other Gas Supply Expenses	2	2	-
7	Gas Purchases	39	39	-
8				
9	856.00: Mains Expenses	0	0	-
10	857.00: Measuring & Regulating Station Expenses	0	0	-
11	863.00: Maintenance Of Mains	0	0	-
12	865.00: Maintenance Of Meas & Reg Stat Equip	0	0	-
13	871.00: Distribution Load Dispatching	21	21	-
14	872.00: Compressor Station Labor & Expenses	-	-	-
15	874.00: Mains & Services Expenses	76	76	-
16	875.00: Measuring & Regulating Station Expenses-General	13	13	-
17	878.00: Meter & House Regulator Expenses	16	16	-
18	879.00: Customer Installations Expenses	1	1	-
19	880.00: Other Expenses	189	189	-
20	881.00: Rents	-	-	-
21	885.00: Maintenance Supervision & Engineering	-	-	-
22	887.00: Maintenance Of Mains	31	31	-
23	889.00: Maintenance Of Meas & Reg Stat Equip-General	6	6	-
24	891.00: Maintenance Of Meas & Reg Stat Equip-City Gate	5	5	-
25	892.00: Maintenance Of Services	49	49	-
26	893.00: Maintenance Of Meters & House Regulators	22	22	-
27	894.00: Maintenance Of Other Equipment	0	0	-
28	Distribution, Transmission, and Storage Expense	429	429	-
29				
30	901.00: Supervision	24	24	-
31	902.00: Meter Reading Expenses	15	15	-
32	903.00: Customer Records & Collection Expenses	69	69	-
33	904.00: Uncollectible Accounts	-	-	-
34	905.00: Miscellaneous Customer Accounts Expenses	4	4	-
35	907.00: Supervision	7	7	-
36	908.00: Customer Assistance Expenses	35	35	-
37	909.00: Informational & Instructional Advertising Expenses	-	-	-
38	Customer Accounts	154	154	-
39				
40	920.00: Administrative & General Salaries	1,034	1,034	-
41	921.00: Office Supplies & Expenses	-	-	-
42	923.00: Outside Services Employed	-	-	-
43	A&G-Labor, Non-Labor, and Contractor	1,034	1,034	-
44				
45	924.00: Property Insurance	-	-	-
46	925.00: Injuries & Damages	1	1	-
47	Insurance	1	1	-
48				
49	926.00: Employee Pensions & Benefits	-	-	-
50	Benefits	-	-	-
51				
52	928.00: Regulatory Commission Expenses	-	-	-
53	930.10: General Advertising Expense	-	-	-
54	930.20: Miscellaneous General Expenses	8	8	-
55	931.00: Rents	1	1	-
56	A&G Rents, Facilities, Carrying Costs, and Depreciation	8	8	-
57				
58	Non-Fuel O&M	1,666	1,666	-

MERC_Non-Labor

Amounts are in thousands

Line No.	K&M Description	2021 Actual	2022 Inflation Rate	2022 Inflated	2022 K&M	2022 Inflated + K&M	2023 Inflation Rate	2023 Inflated	2023 K&M	2023 Inflated + K&M
1	735.00: Miscellaneous Production Expenses	1,310	1.07500	1,409	(98)	1,310	1.03200	1,352	(1,102)	250
2	756.00: Field Measuring & Regulating Station Expenses	72	1.07500	77	-	77	1.03200	79	-	79
3	Natural Gas Production	1,382		1,486	(98)	1,387		1,432	(1,102)	330
4										
5	804.10: Liquefied Natural Gas Purchases	21	1.07500	22	-	22	1.03200	23	-	23
6	813.00: Other Gas Supply Expenses	40	1.07500	43	-	43	1.03200	45	-	45
7	Gas Purchases	61		66	-	66		68	-	68
8										
9	856.00: Mains Expenses	2	1.07500	2	-	2	1.03200	3	500	503
10	857.00: Measuring & Regulating Station Expenses	0	1.07500	0	-	0	1.03200	0	-	0
11	863.00: Maintenance Of Mains	0	1.07500	0	-	0	1.03200	0	425	425
12	865.00: Maintenance Of Meas & Reg Stat Equip	1	1.07500	1	-	1	1.03200	2	-	2
13	871.00: Distribution Load Dispatching	5	1.07500	5	-	5	1.03200	5	-	5
14	872.00: Compressor Station Labor & Expenses	-	1.07500	-	-	-	1.03200	-	-	-
15	874.00: Mains & Services Expenses	2,053	1.07500	2,207	327	2,534	1.03200	2,615	70	2,685
16	875.00: Measuring & Regulating Station Expenses-General	74	1.07500	79	-	79	1.03200	82	-	82
17	878.00: Meter & House Regulator Expenses	73	1.07500	78	-	78	1.03200	81	80	161
18	879.00: Customer Installations Expenses	10	1.07500	10	-	10	1.03200	11	-	11
19	880.00: Other Expenses									
20	881.00: Rents	968	1.07500	1,041	44	1,085	1.03200	1,120	495	1,615
21	885.00: Maintenance Supervision & Engineering	27	1.07500	29	-	29	1.03200	29	-	29
22	887.00: Maintenance Of Mains	23	1.07500	25	-	25	1.03200	26	-	26
23	889.00: Maintenance Of Meas & Reg Stat Equip-General	391	1.07500	420	200	620	1.03200	640	-	640
24	891.00: Maintenance Of Meas & Reg Stat Equip-City Gate	207	1.07500	223	-	223	1.03200	230	490	720
25	892.00: Maintenance Of Services	117	1.07500	126	173	299	1.03200	309	-	309
26	893.00: Maintenance Of Meters & House Regulators	445	1.07500	478	-	478	1.03200	493	3,025	3,518
27	894.00: Maintenance Of Other Equipment	439	1.07500	472	10	482	1.03200	497	700	1,197
28	Distribution, Transmission, and Storage Expense	99	1.07500	107	-	107	1.03200	110	-	110
29		4,934		5,305	754	6,059		6,252	5,785	12,037
30	901.00: Supervision	2	1.07500	2	-	2	1.03200	2	-	2
31	902.00: Meter Reading Expenses	152	1.07500	164	678	842	1.03200	869	(448)	421
32	903.00: Customer Records & Collection Expenses	3,522	1.07500	3,787	-	3,787	1.03200	3,908	2,106	6,014
33	904.00: Uncollectible Accounts	1,065	1.07500	1,144	1,024	2,168.56	1.03200	2,238	758	2,996
34	905.00: Miscellaneous Customer Accounts Expenses	20	1.07500	22	-	22	1.03200	23	-	23
35	907.00: Supervision	0	1.07500	0	-	0	1.03200	0	-	0
36	908.00: Customer Assistance Expenses	126	1.07500	136	-	136	1.03200	140	75	215
37	909.00: Informational & Instructional Advertising Expenses	100	1.07500	108	-	108	1.03200	111	(1)	110
38	Customer Accounts	4,988		5,362	1,702	7,064		7,290	2,490	9,780
39										
40	920.00: Administrative & General Salaries	-	1.07500	-	-	-	1.03200	-	-	-
41	921.00: Office Supplies & Expenses	5,317	1.07500	5,715	(3,515)	2,201	1.03200	2,271	474	2,745
42	923.00: Outside Services Employed	1,010	1.07500	1,086	-	1,086	1.03200	1,120	190	1,310
43	A&G-Labor, Non-Labor, and Contractor	6,327		6,801	(3,515)	3,286		3,391	664	4,055
44										
45	924.00: Property Insurance	47	1.07500	50	-	50	1.03200	52	10	62
46	925.00: Injuries & Damages	1,712	1.07500	1,840	-	1,840	1.03200	1,899	202	2,101
47	Insurance	1,759		1,890	-	1,890		1,951	212	2,163
48										
49	926.00: Employee Pensions & Benefits	3,905	1.07500	4,198	-	4,198	1.03200	4,332	22	4,353
50	Benefits	3,905		4,198	-	4,198		4,332	22	4,353
51										
52	928.00: Regulatory Commission Expenses	424	1.07500	456	-	456	1.03200	470	-	470
53	930.10: General Advertising Expense	3	1.07500	3	-	3	1.03200	3	-	3
54	930.20: Miscellaneous General Expenses	1,032	1.07500	1,109	(233)	876	1.03200	912	(18)	894
55	931.00: Rents	492	1.07500	529	-	529	1.03200	546	-	546
56	A&G Rents, Facilities, Carrying Costs, and Depreciation	1,950		2,097	(233)	1,864		1,931	(18)	1,913
57										
58	Non-Fuel O&M	25,306		27,203	(1,390)	25,814		26,647	8,053	34,700

MERC_Summary

Amounts are in thousands

Line No.		2021 Actual	2022 Inflated	2022 K&M	2022 Inflated + K&M	2023 Inflated	2023 K&M	2023 Incentive Adjustment	2023 Inflated + K&M
1	735.00: Miscellaneous Production Expenses	1,310	1,409	(98)	1,310	1,352	(1,102)	-	250
2	756.00: Field Measuring & Regulating Station Expenses	72	77	-	77	80	(0)	-	80
3	Natural Gas Production	1,382	1,486	(98)	1,388	1,432	(1,102)	-	330
4									
5	804.10: Liquefied Natural Gas Purchases	371	383	-	383	400	(8)	-	392
6	813.00: Other Gas Supply Expenses	58	62	-	62	64	(0)	-	64
7	Gas Purchases	429	445	-	445	464	(8)	-	456
8									
9	856.00: Mains Expenses	3	3	-	3	3	500	-	503
10	857.00: Measuring & Regulating Station Expenses	0	0	-	0	0	(0)	-	0
11	863.00: Maintenance Of Mains	1	1	-	1	1	425	-	426
12	865.00: Maintenance Of Meas & Reg Stat Equip	2	2	-	2	2	(0)	-	2
13	871.00: Distribution Load Dispatching	400	412	-	412	430	(4)	-	426
14	872.00: Compressor Station Labor & Expenses	-	-	-	-	-	-	-	-
15	874.00: Mains & Services Expenses	4,329	4,554	327	4,881	5,063	51	-	5,114
16	875.00: Measuring & Regulating Station Expenses-General	336	350	-	350	364	(3)	-	361
17	878.00: Meter & House Regulator Expenses	491	509	-	509	530	76	-	606
18	879.00: Customer Installations Expenses	78	81	-	81	84	(0)	-	84
19	880.00: Other Expenses	4,057	4,227	44	4,271	4,443	862	-	5,304
20	881.00: Rents	27	29	-	29	29	-	-	29
21	885.00: Maintenance Supervision & Engineering	23	25	-	25	26	-	-	26
22	887.00: Maintenance Of Mains	1,085	1,136	200	1,336	1,386	(8)	-	1,378
23	889.00: Maintenance Of Meas & Reg Stat Equip-General	386	407	-	407	422	488	-	911
24	891.00: Maintenance Of Meas & Reg Stat Equip-City Gate	253	266	173	439	454	(1)	-	453
25	892.00: Maintenance Of Services	1,433	1,497	-	1,497	1,556	3,013	-	4,569
26	893.00: Maintenance Of Meters & House Regulators	986	1,036	10	1,046	1,085	695	-	1,780
27	894.00: Maintenance Of Other Equipment	101	108	-	108	112	(0)	-	112
28	Distribution, Transmission, and Storage Expense	13,989	14,642	754	15,396	15,992	6,093	-	22,084
29									
30	901.00: Supervision	222	229	-	229	239	(5)	-	234
31	902.00: Meter Reading Expenses	533	556	678	1,234	1,278	(451)	-	827
32	903.00: Customer Records & Collection Expenses	4,452	4,745	-	4,745	4,908	2,140	-	7,047
33	904.00: Uncollectible Accounts	1,065	1,144	1,024	2,169	2,238	758	-	2,996
34	905.00: Miscellaneous Customer Accounts Expenses	69	72	-	72	75	(1)	-	74
35	907.00: Supervision	22	23	-	23	24	(6)	-	18
36	908.00: Customer Assistance Expenses	584	607	-	607	632	66	-	698
37	909.00: Informational & Instructional Advertising Expenses	100	108	-	108	111	(1)	-	110
38	Customer Accounts	7,047	7,485	1,702	9,188	9,505	2,499	-	12,004
39									
40	920.00: Administrative & General Salaries	4,146	4,275	(39)	4,236	4,419	(202)	-	4,217
41	921.00: Office Supplies & Expenses	5,317	5,715	(3,515)	2,201	2,271	474	-	2,745
42	923.00: Outside Services Employed	1,010	1,086	-	1,086	1,120	190	-	1,310
43	A&G-Labor, Non-Labor, and Contractor	10,472	11,076	(3,554)	7,522	7,810	462	-	8,272
44									
45	924.00: Property Insurance	47	50	-	50	52	10	-	62
46	925.00: Injuries & Damages	1,762	1,892	-	1,892	1,953	202	-	2,155
47	Insurance	1,808	1,942	-	1,942	2,005	212	-	2,217
48									
49	926.00: Employee Pensions & Benefits	3,905	4,198	-	4,198	4,332	22	-	4,353
50	Benefits	3,905	4,198	-	4,198	4,332	22	-	4,353
51									
52	928.00: Regulatory Commission Expenses	424	456	-	456	470	-	-	470
53	930.10: General Advertising Expense	3	3	-	3	3	-	-	3
54	930.20: Miscellaneous General Expenses	1,071	1,149	(233)	916	954	(23)	-	931
55	931.00: Rents	497	534	-	534	551	(0)	-	551
56	A&G Rents, Facilities, Carrying Costs, and Depreciation	1,994	2,142	(233)	1,909	1,978	(23)	-	1,955
57									
58	Non-Fuel O&M	41,026	43,415	(1,428)	41,987	43,517	8,154	-	51,672

2018 Rate Case Approved Non-Fuel O&M	49,219
Increase/(Decrease)	2,452
Percentage Annual Increase	2.46%

Minnesota Energy Resources Corporation
Mains Expenses
Known and Measurable Adjustment
Account 856
in thousands

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2021 Costs		\$ 1	\$ 2
2	2022 Inflation Rate		3.125%	7.5000%
3	2022 Costs Inflated	Line 1 * Line 2	\$ 1	\$ 2
4	2022 Known and Measurable		\$ -	\$ -
5	2022 Costs	Line 3 + Line 4	\$ 1	\$ 2
6	2023 Inflation Rate		4.308%	3.200%
7	2023 Costs Inflated	Line 5 * Line 6	\$ 1	\$ 3
8	2023 Known and Measurable		\$ -	\$ 500
	Casing Vent Replacements			\$ 250
	Farm Tap Replacements			\$ 250
9	2023 Costs	Line 7 + Line 8	\$ 1	\$ 503
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ -</u>	<u>\$ 500</u>

Minnesota Energy Resources Corporation
Maintenance of Mains
Known and Measurable Adjustment
Account 863
in thousands

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2021 Costs		\$ 1	\$ 0
2	2022 Inflation Rate		3.125%	7.5000%
3	2022 Costs Inflated	Line 1 * Line 2	\$ 1	\$ 0
4	2022 Known and Measurable		\$ -	\$ -
5	2022 Costs	Line 3 + Line 4	\$ 1	\$ 0
6	2023 Inflation Rate		4.308%	3.200%
7	2023 Costs Inflated	Line 5 * Line 6	\$ 1	\$ 0
8	2023 Known and Measurable		\$ -	\$ 425
	Bridge Inspections			\$ 125
	ROW Clearings			\$ 300
9	2023 Costs	Line 7 + Line 8	\$ 1	\$ 425
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ -</u>	<u>\$ 425</u>

Minnesota Energy Resources Corporation
Mains & Services Expenses
Known and Measurable Adjustment
Account 874
in thousands

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2021 Costs		\$ 2,276	\$ 2,053
2	2022 Inflation Rate		3.125%	7.5000%
3	2022 Costs Inflated	Line 1 * Line 2	\$ 2,347	\$ 2,207
4	2022 Known and Measurable		\$ -	\$ 327
	Line Locating			\$ 200
	Odorizer Parts			\$ 91
	Odorant			\$ 36
5	2022 Costs	Line 3 + Line 4	\$ 2,347	\$ 2,534
6	2023 Inflation Rate		4.308%	3.200%
7	2023 Costs Inflated	Line 5 * Line 6	\$ 2,448	\$ 2,615
8	2023 Known and Measurable		\$ -	\$ 70
	Line Locating			\$ 70
9	2023 Costs	Line 7 + Line 8	\$ 2,448	\$ 2,685
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ -</u>	<u>\$ 397</u>

**Minnesota Energy Resources Corporation
Meter & House Regulator Expenses
Known and Measurable Adjustment
Account 878
in thousands**

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2021 Costs		\$ 418	\$ 73
2	2022 Inflation Rate		3.125%	7.5000%
3	2022 Costs Inflated	Line 1 * Line 2	\$ 431	\$ 78
4	2022 Known and Measurable		\$ -	\$ -
5	2022 Costs	Line 3 + Line 4	\$ 431	\$ 78
6	2023 Inflation Rate		4.308%	3.200%
7	2023 Costs Inflated	Line 5 * Line 6	\$ 449	\$ 81
8	2023 Known and Measurable		\$ -	\$ 80
	Regulator Station Database Implementation			\$ 80
9	2023 Costs	Line 7 + Line 8	\$ 449	\$ 161
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ -</u>	<u>\$ 80</u>

**Minnesota Energy Resources Corporation
Other Expenses
Known and Measurable Adjustment
Account 880
in thousands**

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2021 Costs		\$ 3,089	\$ 968
2	2022 Inflation Rate		3.125%	7.5000%
3	2022 Costs Inflated	Line 1 * Line 2	\$ 3,186	\$ 1,041
4	2022 Known and Measurable		\$ -	\$ 44
	O&M Tools			\$ 19
	New Entrance to Bemidji Warehouse			\$ 25
5	2022 Costs	Line 3 + Line 4	\$ 3,186	\$ 1,085
6	2023 Inflation Rate		4.308%	3.200%
7	2023 Costs Inflated	Line 5 * Line 6	\$ 3,323	\$ 1,120
8	2023 Known and Measurable		\$ 415	\$ 495
	Damage Prevention & Community Awareness		\$ -	\$ 150
	Deferred Maintenance of Facilities		\$ -	\$ 230
	One FTE to take over AMI Duties & Manage T/I Techs		\$ 130	\$ -
	Damage Prevention Coordinator		\$ 173	\$ -
	Fleet Fuel Costs		\$ -	\$ 115
	Gas Engineering Employee		\$ 112	\$ -
9	2023 Costs	Line 7 + Line 8	\$ 3,737	\$ 1,615
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ 415</u>	<u>\$ 539</u>

**Minnesota Energy Resources Corporation
Maintenance of Mains
Known and Measurable Adjustment
Account 887
in thousands**

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2021 Costs		\$ 694	\$ 391
2	2022 Inflation Rate		3.125%	7.5000%
3	2022 Costs Inflated	Line 1 * Line 2	\$ 715	\$ 420
4	2022 Known and Measurable Mains Expense		\$ -	\$ 200 \$ 200
5	2022 Costs	Line 3 + Line 4	\$ 715	\$ 620
6	2023 Inflation Rate		4.308%	3.200%
7	2023 Costs Inflated	Line 5 * Line 6	\$ 746	\$ 640
8	2023 Known and Measurable		\$ -	\$ -
9	2023 Costs	Line 7 + Line 8	\$ 746	\$ 640
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ -</u>	<u>\$ 200</u>

Minnesota Energy Resources Corporation
Maintenance of Measures & Regulator Station Equipment-General
Known and Measurable Adjustment
Account 889
in thousands

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2021 Costs		\$ 179	\$ 207
2	2022 Inflation Rate		3.125%	7.5000%
3	2022 Costs Inflated	Line 1 * Line 2	\$ 185	\$ 223
4	2022 Known and Measurable		\$ -	\$ -
5	2022 Costs	Line 3 + Line 4	\$ 185	\$ 223
6	2023 Inflation Rate		4.308%	3.200%
7	2023 Costs Inflated	Line 5 * Line 6	\$ 192	\$ 230
8	2023 Known and Measurable		\$ -	\$ 490
	Line Heater Maintenance			\$ 225
	Structure Painting/Up-Keep			\$ 125
	Station Painting			\$ 80
	Station Fencing			\$ 10
	Approach for new DRS			\$ 50
9	2023 Costs	Line 7 + Line 8	\$ 192	\$ 720
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ -</u>	<u>\$ 490</u>

Minnesota Energy Resources Corporation
Maintenance of Measures & Regulator Station Equipment-City Gate
Known and Measurable Adjustment
Account 891
in thousands

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2021 Costs		\$ 135	\$ 117
2	2022 Inflation Rate		3.125%	7.5000%
3	2022 Costs Inflated	Line 1 * Line 2	\$ 140	\$ 126
4	2022 Known and Measurable DRS & LVM Sets Painting DRS Clean-Up (Rock/Landscape)			\$ 173 \$ 140 \$ 33
5	2022 Costs	Line 3 + Line 4	\$ 140	\$ 299
6	2023 Inflation Rate		4.308%	3.200%
7	2023 Costs Inflated	Line 5 * Line 6	\$ 146	\$ 309
8	2023 Known and Measurable		\$ -	\$ -
9	2023 Costs	Line 7 + Line 8	\$ 146	\$ 309
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ -</u>	<u>\$ 173</u>

**Minnesota Energy Resources Corporation
Maintenance of Services
Known and Measurable Adjustment
Account 892
in thousands**

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2021 Costs		\$ 988	\$ 445
2	2022 Inflation Rate		3.125%	7.5000%
3	2022 Costs Inflated	Line 1 * Line 2	\$ 1,019	\$ 478
4	2022 Known and Measurable			\$ -
5	2022 Costs	Line 3 + Line 4	\$ 1,019	\$ 478
6	2023 Inflation Rate		4.308%	3.200%
7	2023 Costs Inflated	Line 5 * Line 6	\$ 1,063	\$ 493
8	2023 Known and Measurable		\$ -	\$ 3,025
	Cross Bores/Sewer Lateral			\$ 1,750
	Service Card Digitization/Mapping			\$ 1,000
	Leak Survey			\$ 275
9	2023 Costs	Line 7 + Line 8	\$ 1,063	\$ 3,518
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ -</u>	<u>\$ 3,025</u>

**Minnesota Energy Resources Corporation
Maintenance of Meters & House Regulators
Known and Measurable Adjustment
Account 893
in thousands**

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2021 Costs		\$ 547	\$ 439
2	2022 Inflation Rate		3.125%	7.5000%
3	2022 Costs Inflated	Line 1 * Line 2	\$ 564	\$ 472
4	2022 Known and Measurable Abandon Meterless Risers			\$ 10 \$ 10
5	2022 Costs	Line 3 + Line 4	\$ 564	\$ 482
6	2023 Inflation Rate		4.308%	3.200%
7	2023 Costs Inflated	Line 5 * Line 6	\$ 588	\$ 497
8	2023 Known and Measurable Atmospheric Corrosion Survey Painting and Maintenance of Residential Meters Painting and Maintenance of Large Meter Sets Meter Set Deficiencies		\$ -	\$ 700 \$ 100 \$ 200 \$ 200 \$ 200
9	2023 Costs	Line 7 + Line 8	\$ 588	\$ 1,197
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ -</u>	<u>\$ 710</u>

**Minnesota Energy Resources Corporation
Meter Reading Expenses
Known and Measurable Adjustment
Account 902
in thousands**

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2021 Costs		\$ 381	\$ 152
2	2022 Inflation Rate		3.125%	7.5000%
3	2022 Costs Inflated	Line 1 * Line 2	\$ 392	\$ 164
4	2022 Known and Measurable AMI Itron Managed Service Costs		\$ -	\$ 678 \$ 678
5	2022 Costs	Line 3 + Line 4	\$ 392	\$ 842
6	2023 Inflation Rate		4.308%	3.200%
7	2023 Costs Inflated	Line 5 * Line 6	\$ 409	\$ 869
8	2023 Known and Measurable Reduction of Meter Reading Expenses due to AMI		\$ -	\$ (448) \$ (448)
9	2023 Costs	Line 7 + Line 8	\$ 409	\$ 421
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ -</u>	<u>\$ 231</u>

**Minnesota Energy Resources Corporation
Customer Records & Collection Expenses
Known and Measurable Adjustment
Account 903
in thousands**

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2021 Costs		\$ 929	\$ 3,522
2	2022 Inflation Rate		3.125%	7.5000%
3	2022 Costs Inflated	Line 1 * Line 2	\$ 959	\$ 3,787
4	2022 Known and Measurable		\$ -	\$ -
5	2022 Costs	Line 3 + Line 4	\$ 959	\$ 3,787
6	2023 Inflation Rate		4.308%	3.200%
7	2023 Costs Inflated	Line 5 * Line 6	\$ 1,000	\$ 3,908
8	2023 Known and Measurable		\$ 50	\$ 2,106
	OT Related to Collections			\$ 211
	M2B Postage and Bill Print			\$ 150
	Care Center Outsourcing Costs			\$ 1,200
	Bring Dispatch In House		\$ 50	\$ 545
9	2023 Costs	Line 7 + Line 8	\$ 1,050	\$ 6,014
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ 50</u>	<u>\$ 2,106</u>

**Minnesota Energy Resources Corporation
Customer Assistance Expenses
Known and Measurable Adjustment
Account 908
in thousands**

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2021 Costs		\$ 458	\$ 126
2	2022 Inflation Rate		3.125%	7.5000%
3	2022 Costs Inflated	Line 1 * Line 2	\$ 472	\$ 136
4	2022 Known and Measurable		\$ -	\$ -
5	2022 Costs	Line 3 + Line 4	\$ 472	\$ 136
6	2023 Inflation Rate		4.308%	3.200%
7	2023 Costs Inflated	Line 5 * Line 6	\$ 492	\$ 140
8	2023 Known and Measurable Mobile App Support		\$ -	\$ 75 \$ 75
9	2023 Costs	Line 7 + Line 8	\$ 492	\$ 215
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ -</u>	<u>\$ 75</u>

**Minnesota Energy Resources Corporation
Administrative & General Salaries
Known and Measurable Adjustment
Account 920
in thousands**

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2021 Costs		\$ 4,146	\$ -
2	2022 Inflation Rate		3.125%	7.5000%
3	2022 Costs Inflated	Line 1 * Line 2	\$ 4,275	\$ -
4	2022 Known and Measurable Reserve Adjustment		\$ (39)	\$ -
			\$ (39)	\$ -
5	2022 Costs	Line 3 + Line 4	\$ 4,236	\$ -
6	2023 Inflation Rate		4.308%	3.200%
7	2023 Costs Inflated	Line 5 * Line 6	\$ 4,419	\$ -
8	2023 Known and Measurable Administrative Assistant Add One FTE - T&I		\$ 250	\$ -
			\$ 125	\$ -
			\$ 125	\$ -
9	2023 Costs	Line 7 + Line 8	\$ 4,668	\$ -
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ 211</u>	<u>\$ -</u>

**Minnesota Energy Resources Corporation
Office Supplies & Expenses
Known and Measurable Adjustment
Account 921
in thousands**

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2021 Costs		\$ -	\$ 5,151
2	2022 Inflation Rate		3.125%	7.500%
3	2022 Costs Inflated	Line 1 * Line 2	\$ -	\$ 5,537
4	2022 Known and Measurable		\$ -	\$ (3,751)
	Storm Gas Recovery Reserve/COVID Reserve			\$ (3,931)
	Settlement Accounting			\$ 129
	Office Supplies			\$ 51
5	2022 Costs	Line 3 + Line 4	\$ -	\$ 1,786
6	2023 Inflation Rate		4.308%	3.200%
7	2023 Costs Inflated	Line 5 * Line 6	\$ -	\$ 1,843
8	2023 Known and Measurable		\$ -	\$ 550
	Software/Maintenance Costs		\$ -	\$ 550
9	2023 Costs	Line 7 + Line 8	\$ -	\$ 2,393
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ -</u>	<u>\$ (3,201)</u>

**Minnesota Energy Resources Corporation
Outside Services Employed
Known and Measurable Adjustment
Account 923
in thousands**

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2021 Costs		\$ -	\$ 1,010
2	2022 Inflation Rate		3.125%	7.5000%
3	2022 Costs Inflated	Line 1 * Line 2	\$ -	\$ 1,086
4	2022 Known and Measurable		\$ -	\$ -
5	2022 Costs	Line 3 + Line 4	\$ -	\$ 1,086
6	2023 Inflation Rate		4.308%	3.200%
7	2023 Costs Inflated	Line 5 * Line 6	\$ -	\$ 1,120
8	2023 Known and Measurable Property Tax Litigation		\$ - \$ -	\$ 190 \$ 190
9	2023 Costs	Line 7 + Line 8	\$ -	\$ 1,310
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ -</u>	<u>\$ 190</u>

**Minnesota Energy Resources Corporation
Property Insurance
Known and Measurable Adjustment
Account 924
in thousands**

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2021 Costs		\$ -	\$ 47
2	2022 Inflation Rate		3.125%	7.5000%
3	2022 Costs Inflated	Line 1 * Line 2	\$ -	\$ 50
4	2022 Known and Measurable		\$ -	\$ -
5	2022 Costs	Line 3 + Line 4	\$ -	\$ 50
6	2023 Inflation Rate		4.308%	3.200%
7	2023 Costs Inflated	Line 5 * Line 6	\$ -	\$ 52
8	2023 Known and Measurable Property Tax Litigation		\$ - \$ -	\$ 10 \$ 10
9	2023 Costs	Line 7 + Line 8	\$ -	\$ 62
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ -</u>	<u>\$ 10</u>

**Minnesota Energy Resources Corporation
Injuries & Damages
Known and Measurable Adjustment
Account 925
in thousands**

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2021 Costs		\$ 50	\$ 1,712
2	2022 Inflation Rate		3.125%	7.5000%
3	2022 Costs Inflated	Line 1 * Line 2	\$ 51	\$ 1,840
4	2022 Known and Measurable		\$ -	\$ -
5	2022 Costs	Line 3 + Line 4	\$ 51	\$ 1,840
6	2023 Inflation Rate		4.308%	3.200%
7	2023 Costs Inflated	Line 5 * Line 6	\$ 54	\$ 1,899
8	2023 Known and Measurable Injuries & Damages		\$ - \$ -	\$ 202 \$ 202
9	2023 Costs	Line 7 + Line 8	\$ 54	\$ 2,101
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ -</u>	<u>\$ 202</u>

Minnesota Energy Resources Corporation
Calculation of Manufactured Gas Plant Remediation Amortization
Known and Measurable Adjustment
Account 735
in thousands

Line

1	2023 Manufactured Gas Plant Remediation Amortization		\$	250
2	2021 Manufactured Gas Plant Remediation Amortization		\$	1,310
3	2022 Inflation	7.500%		
4	2023 Inflation	3.200%		
5	Composite Inflation	10.94%		
6	Inflation on 2021 Manufactured Gas Plant Remediation Amortization		\$	143
7	2021 Manufactured Gas Plant Remediation Amortization Inflated to 2023		\$	1,454
8	Known and Measurable Increase (Decrease) in 2022 and 2023		\$	<u>(1,203)</u>

	<u>Year</u>	<u>Annual Spend</u>	<u>2020 YE Balance</u>	<u>2021 Amortization</u>	<u>2021 YE Balance</u>	<u>2022 Amortization</u>	<u>2022 YE Balance</u>	<u>2023 Amortization</u>
182123073	2016	126,666.07	25,333.26	25,333.26	-	-	-	
182123074	2017	291,645.81	116,658.43	58,329.12	58,329.31	58,329.31	-	
182123075	2018	3,281,826.88	1,181,851.08	699,991.92	481,859.16	481,859.16	-	
182123076	2019	1,903,419.04	1,903,419.04	526,745.76	1,376,673.28	770,211.59	606,461.69	202,153.90
182123077	2020	119,726.91	119,726.91		119,726.91		119,726.91	23,945.38
182123078	2021	70,367.68			70,367.68		70,367.68	14,073.54
Forecast	2022	50,500.00					50,500.00	10,100.00
Forecast	2023	50,500.00						
			3,346,988.72	1,310,400.06	2,106,956.34	1,310,400.06	847,056.28	250,272.81

**Minnesota Energy Resources Corporation
Employee Pensions & Benefits
Known and Measurable Adjustment
Account 926
in thousands**

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2021 Costs		\$ -	\$ 3,905
2	2022 Inflation Rate		3.125%	7.5000%
3	2022 Costs Inflated	Line 1 * Line 2	\$ -	\$ 4,198
4	2022 Known and Measurable			\$ -
5	2022 Costs	Line 3 + Line 4	\$ -	\$ 4,198
6	2023 Inflation Rate		4.308%	3.200%
7	2023 Costs Inflated	Line 5 * Line 6	\$ -	\$ 4,332
8	2023 Known and Measurable Benefits		\$ - \$ -	\$ 22
9	2023 Costs	Line 7 + Line 8	\$ -	\$ 4,354
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ -</u>	<u>\$ 22</u>

MINNESOTA ENERGY RESOURCES CORPORATION
Known and Measurable Adjustment, Account 926
Summary of Employee Benefit Costs

Test Year Ended December 31, 2023

Line No.	Description	2021 Actual \$	2023 Forecast \$	Increase \$	Increase %	Forecast Method
1	Medical Benefits	\$ 2,131,568	\$ 2,803,783	\$ 672,215	31.5%	MERC Estimate
2	Dental Benefits	\$ 117,877	\$ 140,794	\$ 22,917	19.4%	MERC Estimate
3	401(k)	\$ 1,859,011	\$ 1,929,360	\$ 70,349	3.8%	MERC Estimate
4	Long Term Disability	\$ 51,867	\$ 57,698	\$ 5,831	11.2%	MERC Estimate
5	Life Insurance	\$ 31,248	\$ 49,126	\$ 17,878	57.2%	MERC Estimate
6	Tuition Reimbursement and Other	\$ 6,765	\$ 10,500	\$ 3,735	55.2%	MERC Estimate
7	Executive Benefits	\$ 6,365	\$ 6,000	\$ (365)	-5.7%	MERC Estimate
8	Benefits Administration	\$ 51,401	\$ 54,668	\$ 3,267	6.4%	MERC Estimate
9	Qualified Pension Amortization (M-15-992)	\$ 536,845	\$ 536,845	\$ -	0.0%	Approved Amortization
10	Qualified Pension Amortization (M-06-1287)	\$ 474,223	\$ 474,223	\$ -	0.0%	Approved Amortization
11	NonQualified Pension Amortization (M-06-1287)	\$ 7,874	\$ 7,874	\$ -	0.0%	Approved Amortization
12	OPEB Amortization (M-15-992)	\$ 176,604	\$ 176,604	\$ -	0.0%	Approved Amortization
13	OPEB Amortization (M-06-1287)	\$ 113,567	\$ 113,567	\$ -	0.0%	Approved Amortization
14	Benefits Billed from Affiliates	\$ 162,578	\$ 122,314	\$ (40,264)	-24.8%	MERC Estimate
15	Benefits Billed to Affiliates (MERC non-utility)	\$ (977,423)	\$ (1,014,267)	\$ (36,844)	3.8%	MERC Estimate
16	Capitalized Benefits	\$ (1,231,757)	\$ (1,393,484)	\$ (161,727)	13.1%	MERC Estimate
17	Subtotal - MERC Estimate	\$ 3,518,613	\$ 4,075,605	\$ 556,992	15.8%	
18	Qualified Pension	\$ (1,604,009)	\$ (1,096,408)	\$ 507,601	-31.6%	Actuarial Analysis
19	Qualified Pension Settlement	\$ 130,786	\$ 145,213	\$ 14,427	11.0%	Actuarial Analysis
20	OPEB	\$ 36,902	\$ 168,551	\$ 131,649	356.8%	Actuarial Analysis
21	Subtotal - Actuarial Analysis	\$ (1,436,321)	\$ (782,644)	\$ 653,677	-45.5%	
22	Restricted Stock	\$ 14,399	\$ -	\$ (14,399)	-100.0%	Not requested for recovery
23	Stock Options	\$ 33,424	\$ -	\$ (33,424)	-100.0%	Not requested for recovery
24	Performance Units	\$ 24,387	\$ -	\$ (24,387)	-100.0%	Not requested for recovery
25	NonQualified Pension	\$ 4,632	\$ -	\$ (4,632)	-100.0%	Not requested for recovery
26	Subtotal - Not Requested for Recovery	\$ 76,842	\$ -	\$ (76,842)	-100.0%	
27	Benefits Billed from WEC Business Services	\$ 1,745,710	\$ 1,060,630	\$ (685,080)	-39.2%	See Page 2
28	TOTAL EMPLOYEE BENEFIT COSTS	\$ 3,904,844	\$ 4,353,591	\$ 448,747	11.5%	
29	Composite non-labor inflation rate	10.94%				
30	2021 Costs Inflated to 2023	\$ 4,332,034				
31	Known and Measurable Increase (Decrease) in 2023	\$ 21,557				

Non-labor Inflation Rates:

2022	7.500%	1.075
2023	3.200%	1.032

Labor Inflation Rates

2022	3.125%	1.031
2023	4.308%	1.043

MINNESOTA ENERGY RESOURCES CORPORATION
Known and Measurable Adjustment, Account 926
Summary of Employee Benefit Costs - WEC Business Services

Case No.:
Exhibit No.:
Schedule:
Page: 1 of 2
Witness:

Test Year Ended December 31, 2023

Line No.	Description	2021 Actual \$	2023 Forecast \$	Increase \$	Increase %	Forecast Method
1	Medical Benefits	\$ 12,863,677	\$ 17,632,294	\$ 4,768,617	37.1%	MERC Estimate
2	Dental Benefits	\$ 711,372	\$ 885,553	\$ 174,181	24.5%	MERC Estimate
3	401(k)	\$ 12,542,587	\$ 13,446,204	\$ 903,617	7.2%	MERC Estimate
4	Long Term Disability	\$ 493,652	\$ 608,029	\$ 114,377	23.2%	MERC Estimate
5	Life Insurance	\$ 266,098	\$ 442,048	\$ 175,950	66.1%	MERC Estimate
6	Tuition Reimbursement and Other	\$ 190,552	\$ 259,320	\$ 68,768	36.1%	MERC Estimate
7	Executive Benefits	\$ 12,495,301	\$ 6,981,667	\$ (5,513,634)	-44.1%	MERC Estimate
8	Benefits Administration	\$ 315,014	\$ 355,846	\$ 40,832	13.0%	MERC Estimate
9	Subtotal - MERC Estimate	\$ 39,878,253	\$ 40,610,961	\$ 732,708	1.8%	
10	Qualified Pension	\$ (7,764,906)	\$ (5,301,434)	\$ 2,463,472	-31.7%	Actuarial Analysis
11	OPEB	\$ (2,449,144)	\$ (1,095,645)	\$ 1,353,499	-55.3%	Actuarial Analysis
12	Postemployment	\$ 261,119	\$ -	\$ (261,119)	-100.0%	Actuarial Analysis
13	Subtotal - Actuarial Analysis	\$ (9,952,931)	\$ (6,397,079)	\$ 3,555,852	-35.7%	
14	Restricted Stock	\$ 3,884,518	\$ -	\$ (3,884,518)	-100.0%	Not requested for recovery
15	Stock Options	\$ 5,000,787	\$ -	\$ (5,000,787)	-100.0%	Not requested for recovery
16	Performance Units	\$ 2,272,706	\$ -	\$ (2,272,706)	-100.0%	Not requested for recovery
17	NonQualified Pension	\$ 15,617,671	\$ -	\$ (15,617,671)	-100.0%	Not requested for recovery
18	Subtotal - Not Requested for Recovery	\$ 26,775,682	\$ -	\$ (26,775,682)	-100.0%	
19	TOTAL EMPLOYEE BENEFIT COSTS	\$ 56,701,004	\$ 34,213,882	\$ (22,487,122)	-39.7%	
20	Allocation Percentage from WBS to MERC	3.1%	3.1%			
21	Allocation Dollars from WBS to MERC	\$ 1,745,710	\$ 1,060,630			

**Minnesota Energy Resources Corporation
Incentives
Known and Measurable Adjustment
Various Accounts
in thousands**

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2021 Costs		\$ 1,549	\$ -
2	2022 Inflation Rate		3.125%	7.5000%
3	2022 Costs Inflated	Line 1 * Line 2	\$ 1,598	\$ -
4	2022 Known and Measurable			\$ -
5	2022 Costs	Line 3 + Line 4	\$ 1,598	\$ -
6	2023 Inflation Rate		4.308%	3.200%
7	2023 Costs Inflated	Line 5 * Line 6	\$ 1,666	\$ -
8	2023 Known and Measurable		\$ (557)	
9	2023 Costs	Line 7 + Line 8	\$ 1,109	\$ -
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ (557)</u>	<u>\$ -</u>

Minnesota Energy Resources Corporation
Incentives
Known and Measurable Adjustment
Various Accounts
in dollars

<u>Line</u>		MERC Exec	MERC Non Exec	Other Exec	Other Non Exec
1	Bonus in 2021 Actuals	27,663	878,922	221,011	421,616
2	Payout %	133.292%	133.292%	198.40%	126.27%
3	Amount at Target	Line 1 / Line 2	20,753	659,396	111,397
4	Average Target % of Base	30.0%	6.2%	60.5%	10.4%
5	Base	Line 3 / Line 4	69,178	184,126	
6	Maximum Allowed Percent	15%		15%	
7	2021 Actuals at Target Capped	10,377	659,396	27,619	333,900
8	2022 Calculated Allowed	Line 7 * (1+ Line 15)	10,701	680,004	28,482
9	2023 Calculated Allowed	Line 8 * (1+ Line 16)	11,162	709,300	29,709
10	2022 Amount Currently in Base	Line 1 * (1+ Line 15)	28,527	906,391	227,918
11	2023 Amount Currently in Base	Line 10 * (1+ Line 16)	29,756	945,441	237,737
12	2023 Adjustment	Line 9 - Line 11	(18,594)	(236,140)	(208,028)
13	2023 Final	Line 11 + Line 12	11,162	709,300	29,709
14	Labor Inflation Rates				
15	2022	3.125%			
16	2023	4.308%			

Minnesota Energy Resources Corporation
Incentives
Known and Measurable Adjustment
2021 Actual Incentives by FERC
in dollars

	MERC Exec	MERC Non Exec	Other Exec	Other Non Exec	Total
756.00		11			11
804.11				34,793	34,793
813.00				1,806	1,806
856.00		30			30
857.00		8			8
863.00		28			28
865.00		23			23
871.00				19,234	19,234
874.00		70,198			70,198
875.00		11,933			11,933
878.00		14,701			14,701
879.00		1,361			1,361
880.00	1,816	165,456		8,621	175,893
887.00	242	28,811			29,053
889.00		5,983			5,983
891.00		4,208			4,208
892.00	64	45,847			45,910
893.00	64	19,914		203	20,181
894.00		129			129
901.00				21,927	21,927
902.00		12,845		910	13,755
903.00	3,363	3,396		57,357	64,115
905.00				4,175	4,175
907.00			6,866		6,866
908.00		32,277		94	32,371
920.00	22,114	461,299	209,495	268,606	961,515
925.00				1,227	1,227
930.20		466	4,649	2,198	7,313
931.00				466	466
Total	27,663	878,922	221,011	421,616	1,549,211

Minnesota Energy Resources Corporation
Incentives
Known and Measurable Adjustment
2023 Adjustment by FERC
in dollars

	MERC Exec	MERC Non Exec	Other Exec	Other Non Exec	Total
756.00	-	(3)	-	-	(3)
804.11	-	-	-	(7,786)	(7,786)
813.00	-	-	-	(404)	(404)
856.00	-	(8)	-	-	(8)
857.00	-	(2)	-	-	(2)
863.00	-	(7)	-	-	(7)
865.00	-	(6)	-	-	(6)
871.00	-	-	-	(4,304)	(4,304)
874.00	-	(18,860)	-	-	(18,860)
875.00	-	(3,206)	-	-	(3,206)
878.00	-	(3,950)	-	-	(3,950)
879.00	-	(366)	-	-	(366)
880.00	(1,221)	(44,453)	-	(1,929)	(47,603)
887.00	(163)	(7,741)	-	-	(7,904)
889.00	-	(1,607)	-	-	(1,607)
891.00	-	(1,130)	-	-	(1,130)
892.00	(43)	(12,318)	-	-	(12,360)
893.00	(43)	(5,350)	-	(46)	(5,439)
894.00	-	(35)	-	-	(35)
901.00	-	-	-	(4,907)	(4,907)
902.00	-	(3,451)	-	(204)	(3,655)
903.00	(2,260)	(912)	-	(12,836)	(16,009)
905.00	-	-	-	(934)	(934)
907.00	-	-	(6,463)	-	(6,463)
908.00	-	(8,672)	-	(21)	(8,693)
920.00	(14,865)	(123,937)	(197,189)	(60,112)	(396,103)
925.00	-	-	-	(275)	(275)
930.20	-	(125)	(4,376)	(492)	(4,993)
931.00	-	-	-	(104)	(104)
Total	(18,594)	(236,140)	(208,028)	(94,354)	(557,117)

Minnesota Energy Resources Corporation
Memberships
Known and Measurable Adjustment
Non-Labor Account 921
in thousands

<u>Line</u>			<u>Non-Labor</u>
1	2021 Costs		\$ 1
2	2022 Inflation Rate		7.5000%
3	2022 Costs Inflated	Line 1 * Line 2	\$ 1
4	2022 Known and Measurable		\$ -
5	2022 Costs	Line 3 + Line 4	\$ 1
6	2023 Inflation Rate		3.200%
7	2023 Costs Inflated	Line 5 * Line 6	\$ 1
8	2023 Known and Measurable		\$ (0)
9	2023 Costs	Line 7 + Line 8	\$ 1
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ (0)</u>

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

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2021 Costs		\$ -	\$ 100
2	2022 Inflation Rate		3.125%	7.500%
3	2022 Costs Inflated	Line 1 * Line 2	\$ -	\$ 108
4	2022 Known and Measurable		\$ -	\$ -
5	2022 Costs	Line 3 + Line 4	\$ -	\$ 108
6	2023 Inflation Rate		4.308%	3.200%
7	2023 Costs Inflated	Line 5 * Line 6	\$ -	\$ 111
8	2023 Known and Measurable		\$ -	\$ (1)
9	2023 Costs	Line 7 + Line 8	\$ -	\$ 110
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ -</u>	<u>\$ (1)</u>

**Minnesota Energy Resources Corporation
Charitable Contributions
Known and Measurable Adjustment
Account 921
in thousands**

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2021 Costs		\$ -	\$ 64
2	2022 Inflation Rate		3.125%	7.5000%
3	2022 Costs Inflated	Line 1 * Line 2	\$ -	\$ 68
4	2022 Known and Measurable		\$ -	
5	2022 Costs	Line 3 + Line 4	\$ -	\$ 68
6	2023 Inflation Rate		4.308%	3.200%
7	2023 Costs Inflated	Line 5 * Line 6	\$ -	\$ 71
8	2023 Known and Measurable		\$ -	\$ (34)
9	2023 Costs	Line 7 + Line 8	\$ -	\$ 36
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ -</u>	<u>\$ (34)</u>

**Minnesota Energy Resources Corporation
Travel and Entertainment
Known and Measurable Adjustment
Account 921
in thousands**

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2021 Costs		\$ -	\$ 23
2	2022 Inflation Rate		3.125%	7.500%
3	2022 Costs Inflated	Line 1 * Line 2	\$ -	\$ 25
4	2022 Known and Measurable		\$ -	(4)
5	2022 Costs	Line 3 + Line 4	\$ -	\$ 21
6	2023 Inflation Rate		4.308%	3.200%
7	2023 Costs Inflated	Line 5 * Line 6	\$ -	\$ 22
8	2023 Known and Measurable		\$ -	\$ -
9	2023 Costs	Line 7 + Line 8	\$ -	\$ 22
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ -</u>	<u>\$ (4)</u>

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

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2021 Costs		\$ 108	\$ 78
2	2022 Inflation Rate		3.125%	7.5000%
3	2022 Costs Inflated	Line 1 * Line 2	\$ 111	\$ 83
4	2022 Known and Measurable		\$ -	\$ -
5	2022 Costs	Line 3 + Line 4	\$ 111	\$ 83
6	2023 Inflation Rate		4.308%	3.200%
7	2023 Costs Inflated	Line 5 * Line 6	\$ 116	\$ 86
8	2023 Known and Measurable		\$ (56)	\$ (42)
9	2023 Costs	Line 7 + Line 8	\$ 60	\$ 44
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ (56)</u>	<u>\$ (42)</u>

Minnesota Energy Resources Corporation
Investor Relations
Known and Measurable Adjustment
in thousands

Account 921

<u>Line</u>			<u>Labor</u>	<u>Non-Labor</u>
1	2021 Costs		\$ 19	\$ 93
2	2022 Inflation Rate		3.125%	7.5000%
3	2022 Costs Inflated	Line 1 * Line 2	\$ 19	\$ 100
4	2022 Known and Measurable		\$ (10)	\$ (50)
5	2022 Costs	Line 3 + Line 4	\$ 10	\$ 50
6	2023 Inflation Rate		4.308%	3.200%
7	2023 Costs Inflated	Line 5 * Line 6	\$ 10	\$ 52
8	2023 Known and Measurable		\$ -	\$ -
9	2023 Costs	Line 7 + Line 8	\$ 10	\$ 52
10	Total Known and Measurable	Line 4 + Line 8	<u>\$ (10)</u>	<u>\$ (50)</u>

Minnesota Energy Resources Corporation
2023 Uncollectible Expense
in (000s)

Line No.		2018 Actual	2019 Actual	2020 Actual	2021 Actual	2018-2021 Average
1	Uncollectible Expense	\$ 2,100	\$ 2,056	\$ 1,932	\$ 1,065	\$ 1,788
2	Tariffed Revenues	\$ 273,000	\$ 291,779	\$ 240,142	\$ 263,279	\$ 267,050
3	% of Tariffed Revenues	0.769%	0.705%	0.804%	0.404%	0.670%
4	Test Year Tariffed Revenues					\$ 407,390
5	Proposed Increase					\$ 40,102
6	Total Revenues					\$ 447,491
7	Test Year Uncollectible Expense					\$ 2,996
8	2021 Uncollectible Expense					\$ 1,065
9	2022 Inflation	7.50%				\$ 80
10	2022 K&M Adj					\$ 1,024
11	2022 Uncollectible Expense					\$ 2,169
12	2023 Inflation	3.20%				\$ 69
13	2023 K&M Expenses					\$ 758
14	2023 Uncollectible Expense					\$ 2,996
15	Validate (should be zero)					\$ -

MERC
ServiceChoice Allocation (using direct cost as common allocation factor)

2021 Actual Data

	Utility	Service-Choice	Total		
Total O&M	39,214,791	2,147,487	41,362,278	}	45,059,852 Total costs
Plus: Service Choice Direct Labor in COGS	-	3,697,574	3,697,574		
Less: Utility Bldg costs included in total O&M	(522,250)	(73,110)	(595,360)	}	3,399,556 7.5% General Allocator
Less: Utility Fleet costs included in total O&M	(1,068,051)		(1,068,051)		
Less: Common Allocation included in total O&M	(1,385,262)	(194,284)	(1,579,546)	}	3,516,135 7.8% Known Factors
Less: ICE depreciation allocation to Service Choice	-	(156,599)	(156,599)		
Less: Customer Service costs Allocation included in total O&M	(2,663,590)	(852,545)	(3,516,135)		
Direct Costs	<u>33,575,638</u>	<u>4,568,523</u>	<u>38,144,161</u>		38,144,161 84.7% Direct Charge
Allocation percent of common expenses using direct cost allocation factor	88.0%	12.0%	100.0%		
MERC allocation percent	87.7%	12.3%	100.0%		

	Utility	Service-Choice	Total
Total Direct Costs	\$ 33,575,638	\$ 4,568,523	\$ 38,144,161
General Allocator %	<u>88.0%</u>	<u>12.0%</u>	<u>100.0%</u>
Allocation of shared costs between ServiceChoice and Utility using commission hierarchical method			
Step 1 - Allocated by Tariff	0	0	0
Step 2 - Allocated by Direct Cost Causation			
Customer Service Costs - Allocated by call volumes and customer counts	2,663,590	852,545	3,516,135
Step 3 - Allocated by General Allocator			
Building costs	524,054	71,306	595,360
Common Expenses	<u>1,390,364</u>	<u>189,182</u>	<u>1,579,546</u>
Allocation of shared costs between ServiceChoice and Utility using commission hierarchical method	<u>\$ 4,578,008</u>	<u>\$ 1,113,033</u>	<u>\$ 5,691,041</u>
Actual Shared Expense allocation using MERC Method	<u>\$ 4,571,102</u>	<u>1,119,939</u>	<u>5,691,041</u>
Additional Costs Allocated to Service Choice using MERC method vs. commission method		<u>\$ 6,906</u>	

Minnesota Energy Resources Corporation
Calculation of Proposed CCRC Factor for 2023 Test Year
Base CIP Expense is Collected via the CCRC

Line No.	Description	Source	2023
1	CIP Expense	G011/CIP-20-479	\$ 12,737,748
2	Sales (Minnesota only)	Sales Direct Testimony & Exhibits	875,588,723
3	Opt-out customers	Sales Direct Testimony & Exhibits	440,692,086
4	CCRC applicable Sales	Line 2 - Line 3	434,896,637
5	Requested CCRC Factor (\$/therm) for Interim and Final Rates	Line 1 / Line 4	\$ 0.02929
6	Currently Approved CCRC Factor (\$/therm) used in Present Rates	G011/GR-17-563	\$ 0.02953
7	Change In CCRC Factor (\$/therm)	Line 5 - Line 6	\$ (0.00024)
8	Increase/(Decrease) in Costs due to Factor for Interim and Final Rates	Line 4 * Line 7	\$ (104,375)

2023 Interim Revenue Deficiency			Amounts In Thousands
	Description	Reference	MERC-Minnesota
1			
2	Rate Base	Page 4	\$ 482,450
3			
4	Adjusted Net Operating Income	Page 2	\$ 5,618
5			
6	Overall Rate of Return	Line 4 ÷ Line 2	1.16%
7			
8	Rate of Return	Page 3	6.75%
9			
10	Income Requirements	Line 2 x Line 8	\$ 32,561
11			
12	Income Deficiency (Sufficiency)	Line 10 - Line 4	\$ 26,944
13			
14	Revenue Conversion Factor	IR-1 Page 2	1.403
15			
16	Revenue Deficiency (Sufficiency)	Line 12 x Line 14	\$ 37,811
17			
18	Rate Increase/(Decrease) %		9.29%
19	Margin Increase/(Decrease)%		32.82%

Amounts In Thousands

2023 Interim Revenue Deficiency

	Description	Reference	MERC-Minnesota
1			
2	Rate Base	Page 4	\$ 482,450
3	Debt Portion of Capital Structure	Page 3	47.00%
4	Portion of Rate Base Funded by Debt	Line 2 * Line 3	\$ 226,752
5			
6	Cost of Debt	Page 3	3.4217%
7	Interest Allowed	Line 4 * Line 6	\$ 7,759
8			
9	Interest Included in Income Tax Accruals		\$ 7,876
10			
11	Additional Interest Allowed	Line 7 - Line 9	\$ (118)
12			
13	Tax Effect of Interest Allowed	Line 11 * Effective Tax Rate	\$ (34)
14			
15	Recorded Net Operating Income	Page 5	\$ 5,652
16			
17	Adjusted Net Operating Income	Line 13 + Line 15	<u>\$ 5,618</u>

Amounts In Thousands

2023 Interim Capital Structure

	Description	Reference	Amount	Percent Capital	Cost Rate %	Weighted Cost	Weighted Cost
						Capital	Debt
1							
2	Long-Term Debt	Exhibit_(JLZ-D), Schedule 40	\$ 209,099	42.64%	3.14%	1.34%	2.85%
3							
4	Short-Term Debt	Exhibit_(JLZ-D), Schedule 40	\$ 21,356	4.36%	6.16%	0.27%	0.57%
5							
6	Adjusted Common Equity	Exhibit_(JLZ-D), Schedule 40	\$ 259,875	53.00%	9.70% *	5.14%	
7							
8	Total Capital		<u>\$ 490,330</u>	<u>100.00%</u>		<u>6.75%</u>	<u>3.42%</u>

*Return on Equity was adjusted to match what was authorized in G011/GR-17-563

Amounts In Thousands

2023 Interim Rate Base

Line No.	Description	Reference	Proposed 01/01/23 - 12/31/23	Interim 01/01/23 - 12/31/23
1	Gross Plant	IR-2 Page 2	851,493	851,493
2	Accumulated Depreciation	IR-2 Page 2	(261,284)	(261,284)
3	Plant Deferred Tax	IR-2 Page 2	(120,919)	(120,919)
4	CWIP	IR-2 Page 2	8,108	8,108
5	Customer Advances	IR-2 Page 2	-	-
6	Net Utility Plant		477,397	477,397
7	Materials and Supplies	IR-2 Page 2	268	268
8	Gas Storage	IR-2 Page 2	23,004	23,004
9	Prepayments	IR-2 Page 2	921	921
10	Deferred Taxes Other than Plant, M&S	IR-2 Page 2	24,705	24,705
11	Regulatory Assets & Liabilities	IR-2 Page 2	(34,657)	(34,657)
	Cash Working Capital (Lead Lag)	IR-2 Page 2	(9,187)	(9,187)
12	Sub-Total		5,053	5,053
13	Minnesota Rate Base		482,450	482,450

Amounts In Thousands

2023 Interim Operating Income

Line No.	Description	Reference	Proposed 01/01/23 - 12/31/23	Advertising	Travel & Entertainment	Investor Relations	Depreciation Expense	Income Taxes	Interim 01/01/23 - 12/31/23
1	Total Natural Gas Revenue	Exhibit_(JCHM-D), Schedule 2	406,984						406,984
2	Late Payment Revenue	IR-5 Page 2	950						950
3	Other Revenue	IR-5 Page 2	424						424
4	Total Operating Revenue		408,358	-	-	-		-	408,358
5	Cost of Gas	IR-5 Page 5	291,792						291,792
6	Production	IR-5 Pages 6 - 8	330						330
7	Gas Supply	IR-5 Pages 6 - 8	456						456
8	Transmission	IR-5 Pages 6 - 8	845						845
9	Distribution	IR-5 Pages 6 - 8	21,153						21,153
10	Customer Accounts	IR-5 Pages 6 - 8	11,178						11,178
11	Customer Services	IR-5 Pages 6 - 8	826	(0)					826
12	Sales	IR-5 Pages 6 - 8	-						-
13	Administrative & General	IR-5 Pages 6 - 8	16,797		(0)	(60)			16,737
14	Depreciation	IR-5 Page 9	24,694				(305)		24,389
15	Amortization	IR-5 Page 10	14,468						14,468
16	Taxes Other Than Income Taxes	IR-5 Page 11	22,534						22,534
17	Other Interest Expense	IR-5 Page 12	-						-
18	Income Taxes	IR-8	(2,111)					110	(2,000)
19	Total Operating Expenses		402,961	(0)	(0)	(60)	(305)	110	402,706
20	Total MERC Operating Income		5,397	0	0	60	305	(110)	5,652

2023 Interim Taxes

Amounts In Thousands
2023-Interim
MERC-Minnesota

<u>Line</u>	<u>Line Description</u>	<u>Reference</u>	
1	Federal Tax Calculation		
2	Pre-tax Operating Income	Page 5 Line 4 - Page 5 Sum (Line 5-17)	3,651
3	Interest Expense	IR-5 Page 2 Line 35	7,876
4	Additions and Deductions	Page 7	8,904
5		Line 2 - Line 3 - Line 4	<u>4,679</u>
6			
7	Tax Rate	IR-8	21.0000%
8			
9	Total Current Taxes	Line 10 * Line 12	983
10	Total Deferred Taxes	Page 7	(2,764)
11			
12	Taxes Allowable	Line 9 + Line 10	<u><u>(1,782)</u></u>
13			
14			
15	Minnesota State Tax Calculation		
16	Pre-tax Operating Income	Line 2	3,651
17	Interest Expense	Line 3	7,876
18	Additions and Deductions	Page 7	9,385
19		Line 16 - Line 17 - Line 18	<u>5,160</u>
20			
21	Tax Rate	IR-8	9.8000%
22			
23	Total Current Taxes	Line 19 * Line 21	506
24	Total Deferred Taxes	Page 7	(725)
25			
26	Taxes Allowable	Line 23 + Line 24	<u><u>(219)</u></u>

Amounts in Thousands

1	Federal	
2	Net Income Additions/Deductions	
3	State Tax Liability	(481)
4	Production	200
5	Transmission	(301)
6	Distribution Plant	(21,042)
7	Customer	(1,434)
8	General & Common	31,963
9	Total Additions/Deductions	<u>8,904</u>
10		
11		
12	Deferred Expense	
13	Production	(42)
14	Transmission	53
15	Distribution Plant	3,725
16	Customer	254
17	General & Common	(6,754)
18	Total Deferreds	<u>(2,764)</u>
19		
20	State	
21	Net Income Additions/Deductions	
22	Production	200
23	Transmission	(301)
24	Distribution Plant	(21,042)
25	Customer	(1,434)
26	General & Common	31,963
27	Total Additions/Deductions	<u>9,385</u>
28		
29		
30	Deferred Expense	
31	Production	(15)
32	Transmission	23
33	Distribution Plant	1,629
34	Customer	111
35	General & Common	(2,472)
36	Total Deferreds	<u>(725)</u>

Amounts In Thousands

Line No.	Description	Reference	2021 Historic Capital Structure			Weighted Cost	Weighted Cost
			Amount	Percent Capital	Cost Rate %	Capital	Debt
1							
2	Long-Term Debt	Page 2	\$ 175,155	37.96%	3.31%	1.26%	2.49%
3							
4	Short-Term Debt	Page 3	\$ 57,112	12.38%	0.69%	0.09%	0.17%
5							
6	Adjusted Common Equity	Page 4	\$ 229,093	49.66%	9.70%	4.82%	
7							
8	Total Capital		\$ 461,359	100.00%		6.17%	2.66%
9							
10							
11							
12							
13	Description	Reference	Amount	Percent Capital	Cost Rate %	Capital	Debt
14							
15	Long-Term Debt	Page 2	\$ 208,917	44.08%	3.14%	1.39%	2.66%
16							
17	Short-Term Debt	Page 3	\$ 38,370	8.10%	3.77%	0.31%	0.59%
18							
19	Adjusted Common Equity	Page 4	\$ 226,706	47.83%	9.70%	4.64%	
20							
21	Total Capital		\$ 473,993	100.00%		6.34%	3.25%
22							
23							
24							
25							
26	Description	Reference	Amount	Percent Capital	Cost Rate %	Capital	Debt
27							
28	Long-Term Debt	Page 2	\$ 209,099	42.64%	3.14%	1.34%	2.85%
29							
30	Short-Term Debt	Page 3	\$ 21,356	4.36%	6.16%	0.27%	0.57%
31							
32	Adjusted Common Equity	Page 4	\$ 259,875	53.00%	10.30%	5.46%	
33							
34	Total Capital		\$ 490,330	100.00%		7.07%	3.42%

Minnesota Energy Resources Corporation**Long-Term Debt**

Amounts in thousands

Line No.	Description	Reference	Historic 2021	Additional Borrowings	Projected 2022	Additional Borrowings	Proposed 2023
1							
2	December	General Ledger	\$ 170,000	\$ 40,000	\$ 210,000	\$ -	\$ 210,000
3	January	General Ledger	\$ 170,000	40,000	\$ 210,000	-	\$ 210,000
4	February	General Ledger	\$ 170,000	40,000	\$ 210,000	-	\$ 210,000
5	March	General Ledger	\$ 170,000	40,000	\$ 210,000	-	\$ 210,000
6	April	General Ledger	\$ 170,000	40,000	\$ 210,000	-	\$ 210,000
7	May	General Ledger	\$ 170,000	40,000	\$ 210,000	-	\$ 210,000
8	June	General Ledger	\$ 170,000	40,000	\$ 210,000	-	\$ 210,000
9	July	General Ledger	\$ 170,000	40,000	\$ 210,000	-	\$ 210,000
10	August	General Ledger	\$ 170,000	40,000	\$ 210,000	-	\$ 210,000
11	September	General Ledger	\$ 170,000	40,000	\$ 210,000	-	\$ 210,000
12	October	General Ledger	\$ 170,000	40,000	\$ 210,000	-	\$ 210,000
13	November	General Ledger	\$ 210,000	-	\$ 210,000	-	\$ 210,000
14	December	General Ledger	\$ 210,000	-	\$ 210,000	-	\$ 210,000
15							
16	Average Long-Term Debt	13 Month Average of Lines 2 - 14	\$ 176,154		\$ 210,000		\$ 210,000
17	Unamortized Debt Expense	13 Month Average	\$ (999)		\$ (1,083)		\$ (901)
18	Average Net Long-Term Debt		<u>\$ 175,155</u>		<u>\$ 208,917</u>		<u>\$ 209,099</u>
19							
20	Annual Interest Expense		\$ 5,645		\$ 6,385		\$ 6,385
21	Amortization of Debt Expense		\$ 149		\$ 184		\$ 184
22	Total Interest Expense	General Ledger	<u>\$ 5,793</u>		<u>\$ 6,569</u>		<u>\$ 6,569</u>
23							
24	Interest Rate on Interest Expense	Line 20 ÷ Line 18	3.22%		3.06%		3.05%
25	Interest Rate on Amortization	Line 21 ÷ Line 18	0.08%		0.09%		0.09%
26	Total Interest Rate on Long-Term Debt	Sum of Lines 24 - 25	<u>3.31%</u>		<u>3.14%</u>		<u>3.14%</u>

Minnesota Energy Resources Corporation**Short-Term Debt**

Amounts in thousands

Line No.	Description	Reference	Historic 2021	Additional Borrowings	Projected 2022	Additional Borrowings	Proposed 2023	Annual Interest Rate
1								
2	December	General Ledger	\$ 38,200	\$ 13,300	\$ 51,500	\$ 14,069	\$ 65,569	
3	January	General Ledger	\$ 37,900	17,850	\$ 55,750	(33,096)	\$ 22,654	5.00%
4	February	General Ledger	\$ 10,900	29,850	\$ 40,750	(40,750)	\$ 0	5.00%
5	March	General Ledger	\$ 73,000	(60,500)	\$ 12,500	(12,500)	\$ 0	5.00%
6	April	General Ledger	\$ 59,000	(59,000)	\$ -	0	\$ 0	5.00%
7	May	General Ledger	\$ 64,500	(64,500)	\$ -	0	\$ 0	5.00%
8	June	General Ledger	\$ 55,700	(50,337)	\$ 5,363	(5,363)	\$ 0	5.00%
9	July	General Ledger	\$ 64,300	(40,994)	\$ 23,306	(23,306)	\$ 0	5.25%
10	August	General Ledger	\$ 73,150	(29,032)	\$ 44,118	(20,682)	\$ 23,436	5.25%
11	September	General Ledger	\$ 77,000	(14,869)	\$ 62,131	(17,793)	\$ 44,338	5.25%
12	October	General Ledger	\$ 82,400	(14,392)	\$ 68,008	(16,245)	\$ 51,764	5.25%
13	November	General Ledger	\$ 54,900	14,921	\$ 69,821	(24,175)	\$ 45,646	5.25%
14	December	General Ledger	\$ 51,500	14,069	\$ 65,569	(41,354)	\$ 24,215	5.25%
15								
16	Average	13 Month Average of Lines 2 - 14	<u>\$ 57,112</u>	<u>\$ (18,741)</u>	<u>\$ 38,370</u>	<u>\$ (17,015)</u>	<u>\$ 21,356</u>	5.12%
17								
18	Annual Interest on Debt Balance	General Ledger	\$ 114		\$ 1,138		\$ 1,007	
19								
20	Credit Facility Fees*	General Ledger	\$ 221		\$ 229		\$ 229	
21	Guarantee Fees	General Ledger	\$ 57		\$ 81		\$ 81	
22	Total Other Short-Term Interest	Sum of Lines 19-21	<u>\$ 278</u>		<u>\$ 310</u>		<u>\$ 310</u>	
23								
24	Total Short-Term Interest Expense	General Ledger	<u>\$ 392</u>		<u>\$ 1,448</u>		<u>\$ 1,316</u>	
25								
26	Interest Rate on Short-Term Debt	Line 18 ÷ Line 16	0.20%		2.97%		4.71%	
27	Other Short-Term Interest	Line 23 ÷ Line 16	0.49%		0.81%		1.45%	
28	Total Interest Rate on Short-Term Debt	Sum of Lines 27 - 28	<u>0.69%</u>		<u>3.77%</u>		<u>6.16%</u>	

Minnesota Energy Resources Corporation
Average Common Equity
Amounts in thousands

Line No.	Description	Reference	Historic 2021	Additional Paid In Capital	Retained Earnings	Projected 2022	Additional Paid In Capital	Retained Earnings	Proposed 2023
1									
2	Common Stock								
3	December	General Ledger	286,048	24,033	21,415	331,496	44	(25,776)	305,764
4	January	General Ledger	292,518	24,053	11,693	328,264	13,649	11,484	353,397
5	February	General Ledger	322,915	55	10,950	333,919	13,647	34,379	381,944
6	March	General Ledger	325,955	57	12,535	338,547	13,643	45,938	398,128
7	April	General Ledger	328,274	55	11,220	339,549	13,643	45,670	398,863
8	May	General Ledger	328,512	54	10,903	339,469	13,643	35,832	388,944
9	June	General Ledger	327,068	53	203	327,324	13,643	28,013	368,980
10	July	General Ledger	326,341	51	(13,093)	313,299	13,643	21,069	348,011
11	August	General Ledger	325,541	50	(25,831)	299,759	13,643	14,894	328,297
12	September	General Ledger	324,707	48	(34,099)	290,657	13,643	9,699	313,999
13	October	General Ledger	325,337	47	(34,820)	290,564	13,643	5,965	310,173
14	November	General Ledger	328,786	46	(31,995)	296,836	13,643	13,484	323,963
15	December	General Ledger	331,496	44	(25,776)	305,764	13,643	26,767	346,175
16									
17	Average	13 Month Average of Lines 3 - 15	321,038	3,742	(6,669)	318,111	12,598	20,571	351,280
18									
19	Equity Adjustments			Goodwill re Deferred Tax			Goodwill re Deferred Tax		
20									
21	December	General Ledger	(92,828)	1,423		(91,405)	-		(91,405)
22	January	General Ledger	(92,457)	1,052		(91,405)	-		(91,405)
23	February	General Ledger	(92,088)	683		(91,405)	-		(91,405)
24	March	General Ledger	(91,917)	512		(91,405)	-		(91,405)
25	April	General Ledger	(91,743)	338		(91,405)	-		(91,405)
26	May	General Ledger	(91,727)	321		(91,405)	-		(91,405)
27	June	General Ledger	(91,814)	409		(91,405)	-		(91,405)
28	July	General Ledger	(91,857)	452		(91,405)	-		(91,405)
29	August	General Ledger	(91,904)	499		(91,405)	-		(91,405)
30	September	General Ledger	(91,953)	548		(91,405)	-		(91,405)
31	October	General Ledger	(91,903)	498		(91,405)	-		(91,405)
32	November	General Ledger	(91,696)	290		(91,405)	-		(91,405)
33	December	General Ledger	(91,405)	-		(91,405)	-		(91,405)
34									
35	Average	13 Month Average of Lines 20 - 32	(91,945)	540		(91,405)	-		(91,405)
36									
37	Adjusted Common Equity								
38									
39	December	General Ledger	193,220			240,091			214,359
40	January	General Ledger	200,061			236,859			261,992
41	February	General Ledger	230,826			242,514			290,539
42	March	General Ledger	234,038			247,141			306,723
43	April	General Ledger	236,531			248,144			307,457
44	May	General Ledger	236,785			248,064			297,539
45	June	General Ledger	235,254			235,919			277,575
46	July	General Ledger	234,483			221,894			256,606
47	August	General Ledger	233,637			208,354			236,892
48	September	General Ledger	232,754			199,252			222,594
49	October	General Ledger	233,434			199,159			218,768
50	November	General Ledger	237,090			205,431			232,558
51	December	General Ledger	240,091			214,359			254,770
52									
53	Average	13 Month Average of Lines 37 - 49	229,093			226,706			259,875
54									
55	Return on Equity		9.70%			9.70%			10.30%

Annual Labor Inflation Rate Calculation

<u>June-2022 FTE's by Employee Group</u>	EE count	[TRADE SECRET BEGINS...		Weighted	
		<u>2022</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>
Executive	1				
Local 31	36	3.60%	3.50%	0.68%	0.66%
Local 49	2	3.60%	3.60%	0.04%	0.04%
Management	151				
Mgmt Student	2				
Grand Total / Weighted Average Rate	192			3.125%	4.308%

...TRADE SECRET ENDS]

WEC Energy Group

PUBLIC DOCUMENT

- TRADE SECRET DATA HAS BEEN EXCISED

Payroll Planning**Summary of Union Information**

Union / Employee Group	Expiration Date	Effective Date	Wage Adjustment	Comments	Notes
					With Additional Position Changes & Factors
Local 49 (MERC)	12/31/2024	1/1/2022	3.00%	Contract	0.60%
		1/1/2023	2.90%	Contract	3.60%
					3.50%
Local 31 (MERC)	5/31/2025	6/1/2022	3.00%	Contract	3.60%
		6/1/2023	3.00%	Contract	3.60%
MA / BWNR (ALL)		1/1/2022	3.00%	Actual	
[TRADE SECRET BEGINS... [REDACTED] ...TRADE SECRET ENDS]					
EXEC (ALL)		1/1/2022	4.25%	Actual	
[TRADE SECRET BEGINS... [REDACTED] ...TRADE SECRET ENDS]					

Settlement Accounting Deferral and Reserve Amortization
(\$000)

FERC 921 (Settlement Acct'g)	2021	inflation	2022
Q-6970-100108: 4500-CY SETTLEMENT ACCTG	14	7.50%	15
Q-6970-100122: 4500-2017 SETTLEMENT ACCTG AMORT	(10)	7.50%	(10)
Q-6970-100129: 4500-2018 SETTLEMENT ACCTG AMORT	(42)	7.50%	(45)
Q-6970-100136: 4500-2019 SETTLEMENT ACCTG AMORT	(72)	7.50%	(77)
Q-6970-100140: 4500-2020 SETTLEMENT ACCTG AMORT	(10)	7.50%	(11)
Total	<u>(120)</u>		<u>(129)</u>

Known & Measurable Adjustment 129

Minnesota Energy Resources Corporation
Docket No. G011/GR-22-504
Exhibit___ (JLZ-D), Schedule 43
Page 1 of 1

Minnesota Public Service Commission
Minnesota Energy Resources Corporation
Order Point 33.c
Rate Base
Beginning, Ending and Average 13-Month Period Ending, December 31, 2023
Amounts In Thousands

Line No.	Description	Source	January 2022	December 2022	January 2023	February 2023	March 2023	April 2023	May 2023	June 2023	July 2023	August 2023	September 2023	October 2023	November 2023	December 2023	13-mo Average
1																	
2	Plant in Service		\$ 778,733	\$ 833,368	\$ 833,261	\$ 833,905	\$ 834,611	\$ 836,908	\$ 840,706	\$ 849,576	\$ 855,122	\$ 861,463	\$ 867,027	\$ 874,495	\$ 880,131	\$ 883,343	\$ 852,609
3	Plant Held for Future Use		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4	Construction Work in Progress		\$ 6,463	\$ 5,993	\$ 6,768	\$ 7,697	\$ 8,671	\$ 9,677	\$ 10,600	\$ 6,832	\$ 7,378	\$ 7,951	\$ 8,487	\$ 8,510	\$ 8,573	\$ 8,270	\$ 8,108
5	Total Utility Plant		\$ 785,197	\$ 839,361	\$ 840,030	\$ 841,602	\$ 843,283	\$ 846,585	\$ 851,307	\$ 856,408	\$ 862,500	\$ 869,414	\$ 875,514	\$ 883,005	\$ 888,704	\$ 891,612	\$ 860,717
6																	
7	Accumulated Depreciation		\$ 236,470	\$ 252,930	\$ 253,723	\$ 255,264	\$ 256,837	\$ 258,385	\$ 259,950	\$ 261,475	\$ 263,096	\$ 264,733	\$ 266,382	\$ 268,221	\$ 269,903	\$ 270,518	\$ 261,647
8	Accumulated Deferred Income Taxes (Plant)	(1)	\$ 113,742	\$ 116,786	\$ 118,666	\$ 119,107	\$ 119,503	\$ 119,856	\$ 120,165	\$ 120,431	\$ 120,652	\$ 120,829	\$ 120,962	\$ 121,051	\$ 121,097	\$ 121,099	\$ 121,099
9	Less: Depreciation Reserve		\$ 350,212	\$ 369,716	\$ 372,389	\$ 374,371	\$ 376,340	\$ 378,241	\$ 380,115	\$ 381,905	\$ 383,748	\$ 385,561	\$ 387,344	\$ 389,272	\$ 391,000	\$ 391,616	\$ 382,746
10																	
11	Net Utility Plant	Line 5 - Line 9	\$ 434,985	\$ 469,645	\$ 467,641	\$ 467,231	\$ 466,943	\$ 468,344	\$ 471,191	\$ 474,502	\$ 478,752	\$ 483,852	\$ 488,171	\$ 493,733	\$ 497,704	\$ 499,996	\$ 477,971
12																	
13	Net Capital Lease Property		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14																	
15	Total Utility Property and Plant	Line 11 + Line 13	\$ 434,985	\$ 469,645	\$ 467,641	\$ 467,231	\$ 466,943	\$ 468,344	\$ 471,191	\$ 474,502	\$ 478,752	\$ 483,852	\$ 488,171	\$ 493,733	\$ 497,704	\$ 499,996	\$ 477,971
16																	
17	Less: Capital Lease Obligations		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
18																	
19	Net Plant	Line 15 + Line 17	\$ 434,985	\$ 469,645	\$ 467,641	\$ 467,231	\$ 466,943	\$ 468,344	\$ 471,191	\$ 474,502	\$ 478,752	\$ 483,852	\$ 488,171	\$ 493,733	\$ 497,704	\$ 499,996	\$ 477,971
20																	
21	Materials and Supplies		\$ 264	\$ 268	\$ 268	\$ 268	\$ 268	\$ 268	\$ 268	\$ 268	\$ 268	\$ 268	\$ 268	\$ 268	\$ 268	\$ 268	\$ 268
22	Gas Storage		\$ 14,221	\$ 31,973	\$ 24,000	\$ 15,217	\$ 9,990	\$ 6,619	\$ 7,424	\$ 13,000	\$ 20,000	\$ 27,000	\$ 37,648	\$ 37,160	\$ 36,908	\$ 32,110	\$ 23,004
23	Prepayments (Insurance)		\$ 1,230	\$ 922	\$ 922	\$ 922	\$ 922	\$ 922	\$ 922	\$ 922	\$ 922	\$ 922	\$ 922	\$ 922	\$ 922	\$ 922	\$ 922
24	Deferred Taxes Other than Plant, M&S		\$ 14,871	\$ 20,718	\$ 20,744	\$ 21,454	\$ 22,210	\$ 23,009	\$ 23,826	\$ 24,652	\$ 25,481	\$ 26,308	\$ 27,128	\$ 27,928	\$ 28,700	\$ 29,367	\$ 24,733
25	Regulatory Assets & Liabilities		\$ (34,476)	\$ (35,172)	\$ (35,093)	\$ (35,014)	\$ (34,934)	\$ (34,855)	\$ (34,776)	\$ (34,696)	\$ (34,617)	\$ (34,538)	\$ (34,458)	\$ (34,379)	\$ (34,300)	\$ (34,221)	\$ (34,696)
26	Cash Working Capital (Lead Lag)	Lead Lag IR (2)	\$ -	\$ -	\$ (9,198)	\$ (9,198)	\$ (9,198)	\$ (9,198)	\$ (9,198)	\$ (9,198)	\$ (9,198)	\$ (9,198)	\$ (9,198)	\$ (9,198)	\$ (9,198)	\$ (9,198)	\$ (9,198)
27	Total Working Capital		\$ (3,889)	\$ 18,708	\$ 1,643	\$ (6,351)	\$ (10,742)	\$ (13,235)	\$ (11,534)	\$ (5,052)	\$ 2,856	\$ 10,763	\$ 22,310	\$ 22,701	\$ 23,300	\$ 19,249	\$ 5,740
28																	
29	Total Rate Base	Line 19 + Line 27	\$ 431,095	\$ 488,353	\$ 469,284	\$ 460,881	\$ 456,201	\$ 455,109	\$ 459,658	\$ 469,451	\$ 481,608	\$ 494,615	\$ 510,480	\$ 516,434	\$ 521,004	\$ 519,245	\$ 484,794

(1) 13 mo avg is the daily average

(2) Please refer to the lead lag study for the calculation on cash working capital.