

Minnesota Energy Resources Corporation

Summary of Planning Assumptions and Approaches - Rate Base

The following is a summary of the assumptions and approaches used in determining each rate base component for the proposed test year of Minnesota Energy Resources Corporation (“MERC” or “the Company”). All assumptions made and approaches used in determining MERC’s rate base components result in projected changes from the historical test year, and were projected out using Feb. 28, 2017 ending balances as the starting point for the projections.

Rate base includes net plant, construction work in progress, accumulated deferred income taxes, working capital, storage gas, materials and supplies, prepayments, regulatory assets, and regulatory liabilities.

Each rate base component is calculated using a thirteen-month average from the December 31, 2017 forecasted balance through the forecasted December 31, 2018 ending balance. A simple average was used to calculate the 13-month.

Net plant and construction work in progress were forecasted as required to maintain a safe and reliable gas distribution system, in addition to the investment required to meet anticipated customer growth. The process used to forecast net plant is described in the Direct Testimony of Seth DeMerritt, and MERC’s forecasted projects are provided

in Exhibit_____(SSD-3). Accumulated Depreciation was calculated off of this forecast use the depreciation rates proposed in Docket No. G011/D-17-442.

Working capital was calculated using a lead/lag study that is discussed in Section III of the Direct Testimony of Seth DeMerritt, less non-utility items.

Regulatory assets, liabilities, prepayments, and materials and supplies were forecasted based on historical trends and future expectations of these accounts.

Gas Storage was forecasted based on May 15, 2017 NYMEX prices, the sales forecast as discussed in the Direct Testimony of Matt Czervionke, and is consistent with the Company's filing in Docket No. G011/MR-17-564.

Deferred taxes were calculated based on the 2018 proposed test year balance sheet and income statement.