

Minnesota Energy Resources Corporation

Summary of Allocation Factors - Rate Base

The following is a summary of the factors used to allocate Rate Base between MERC-Minnesota and MERC-Michigan.

Distribution plant, construction work in progress, accumulated depreciation and plant deferred taxes are direct assigned to either MERC-Minnesota or MERC-Michigan.

General plant, construction work in progress, accumulated depreciation, and plant deferred taxes are first allocated to Production, Transmission, Distribution, and Customer functions using the salaries and wages allocator found on Page 4 of Information Requirement 9. Next, the Production function is allocated between MERC-Minnesota and MERC-Michigan based on system sales found on Page 1 of Information Requirement 9. The Transmission function is allocated based on total sales found on Page 1 of Information Requirement 9. The Distribution function is allocated based on distribution plant Page 2 of Information Requirement 9. Finally, the Customer function is allocated based on fixed charge count Page 1 of Information Requirement 9.

Transmission plant, construction work in progress, accumulated depreciation and plant deferred taxes are allocated based on total sales found on Page 1 of Information Requirement 9.

Customer plant, construction work in progress, accumulated depreciation and plant deferred taxes are allocated based on fixed charge count found on Page 1 of Information Requirement 9.

Materials and Supplies were allocated based on distribution plant balances. This allocation calculation can be found on Page 2 of Informational Requirement 9.

Gas Storage was allocated based on system sales. This allocation calculation can be found on Page 1 of Information Requirement 9

Working Capital, Prepayments, and Regulator Assets and Regulatory Liabilities were allocated first by allocating rate base, which functionalizes the balances between Production, Transmission, Distribution, and the Customer function. This allocation calculation can be found on Page 3 of Information Requirement 9. Next, the Production function is allocated between MERC-Minnesota and MERC-Michigan based on system sales found on Page 1 of Information Requirement 9. The Transmission function is allocated between MERC-Minnesota and MERC Michigan on total sales found on Page 1 of Information Requirement 9. The Distribution function is allocated based on

distribution plant Page 2 of Information Requirement 9. Finally, the Customer function is allocated based on fixed charge count Page 1 of Information Requirement 9.