

2016 Historic Adjusted Net Operating Income

Line No.	Description	Reference	Total	Minnesota	Michigan
1	Recorded Net Operating Income	IR-5 Page 3	\$ 13,951,539	\$ 13,829,481	\$ 122,057
2					
3	Tax Effect of Interest Allowed	IR-5 Page 2	\$ 17,192	\$ 17,125	\$ 67
4					
5	Adjusted Net Operating Income	Line 1 + Line 3	<u>\$ 13,968,731</u>	<u>\$ 13,846,606</u>	<u>\$ 122,125</u>

2017 Projected Adjusted Net Operating Income

	Description	Reference	Total	Minnesota	Michigan
6	Recorded Net Operating Income	IR-5 Page 3	\$ 15,475,725	\$ 15,294,825	\$ 180,900
7					
8	Tax Effect of Interest Allowed	IR-5 Page 2	\$ (80,356)	\$ (80,126)	\$ (229)
9					
10	Adjusted Net Operating Income	Line 6 + Line 8	<u>\$ 15,395,370</u>	<u>\$ 15,214,699</u>	<u>\$ 180,671</u>

2018 Proposed Adjusted Net Operating Income

	Description	Reference	Total	Minnesota	Michigan
11	Recorded Net Operating Income	IR-5 Page 3	\$ 13,294,559	\$ 13,008,154	\$ 286,405
12					
13	Tax Effect of Interest Allowed	IR-5 Page 2	\$ (103,853)	\$ (103,604)	\$ (249)
14					
15	Adjusted Net Operating Income	Line 11 + Line 13	<u>\$ 13,190,707</u>	<u>\$ 12,904,550</u>	<u>\$ 286,156</u>

2016 Historic Interest Adjustment

Line	No.	Description	Reference	Total	MERC- Minnesota	MERC-Michigan
	1					
	2	Rate Base	IR-2 Page 1	\$ 232,591,473	\$ 231,685,520	\$ 905,953
	3	Debt Portion of Capital Structure	Exhibit____(LJG-1) Page 1	48.55%	48.55%	48.55%
	4	Portion of Rate Base Funded by Debt	Line 2 * Line 3	\$ 112,923,160	\$ 112,483,320	\$ 439,840
	5					
	6	Cost of Debt	Exhibit____(LJG-1) Page 1	4.11%	4.11%	4.11%
	7	Interest Allowed	Line 4 * Line 6	\$ 4,641,142	\$ 4,623,064	\$ 18,077
	8					
	9	Interest Included in Income Tax Accruals	General Ledger	\$ 4,611,852	\$ 4,593,889	\$ 17,963
	10					
	11	Additional Interest Allowed	Line 7 - Line 9	\$ 29,290	\$ 29,176	\$ 114
	12					
	13	Tax Effect of Interest Allowed	Line 11 * Effective Tax Rate	<u>\$ 17,192</u>	<u>\$ 17,125</u>	<u>\$ 67</u>

2017 Projected Interest Adjustment

Line	Description	Reference	Total	MERC- Minnesota	MERC-Michigan
14					
15	Rate Base	IR-2 Page 1	\$ 256,138,743	\$ 255,404,305	\$ 734,438
16	Debt Portion of Capital Structure	Exhibit____(LJG-1) Page 1	48.63%	48.63%	48.63%
17	Portion of Rate Base Funded by Debt	Line 15 * Line 16	\$ 124,560,271	\$ 124,203,113	\$ 357,157
18					
19	Cost of Debt	Exhibit____(LJG-1) Page 1	3.73%	3.73%	3.73%
20	Interest Allowed	Line 17 * Line 19	\$ 4,646,098	\$ 4,632,776	\$ 13,322
21					
22	Interest Included in Income Tax Accruals	General Ledger	\$ 4,783,000	\$ 4,769,287	\$ 13,713
23					
24	Additional Interest Allowed	Line 20 - Line 22	\$ (136,902)	\$ (136,511)	\$ (391)
25					
26	Tax Effect of Interest Allowed	Line 24 * Effective Tax Rate	<u>\$ (80,356)</u>	<u>\$ (80,126)</u>	<u>\$ (229)</u>

2018 Proposed Interest Adjustment

Line	Description	Reference	Total	MERC- Minnesota	MERC-Michigan
27					
28	Rate Base	IR-2 Page 1	\$ 290,199,570	\$ 289,503,028	\$ 696,542
29	Debt Portion of Capital Structure	Exhibit____(LJG-1) Page 1	49.10%	49.10%	49.10%
30	Portion of Rate Base Funded by Debt	Line 28 * Line 29	\$ 142,488,024	\$ 142,146,021	\$ 342,002
31					
32	Cost of Debt	Exhibit____(LJG-1) Page 1	3.6200%	3.6200%	3.6200%
33	Interest Allowed	Line 30 * Line 32	\$ 5,158,066	\$ 5,145,686	\$ 12,380
34					
35	Interest Included in Income Tax Accruals	General Ledger	\$ 5,335,000	\$ 5,322,196	\$ 12,804
36					
37	Additional Interest Allowed	Line 33 - Line 35	\$ (176,934)	\$ (176,510)	\$ (424)
38					
39	Tax Effect of Interest Allowed	Line 37 * Effective Tax Rate	<u>\$ (103,853)</u>	<u>\$ (103,604)</u>	<u>\$ (249)</u>

Line No.	Description	Reference	Historic 01/01/16 - 12/31/16	Adjustments	Projected 01/01/17 - 12/31/17	Adjustments	Proposed 01/01/18 - 12/31/18
1	Total Natural Gas Revenue	Exhibit (ASL-1) IR-5	224,910,141	19,903,807	244,813,948	5,514,802	250,328,750
2	Late Payment Revenue	Page 4	737,771	11,903	749,674	(74,674)	675,000
3	Other Revenue	IR-5 Page 4	4,376,810	(4,023,361)	353,449	6,551	360,000
4	Total Operating Revenue		230,024,722	15,892,349	245,917,071	5,446,679	251,363,750
5	Cost of Gas	IR-5 Page 5	120,759,086	18,257,214	139,016,300	3,905,553	142,921,853
6	Production	IR-5 Pages 12 -14	619,582	33,225	652,807	753,789	1,406,597
7	Gas Supply	IR-5 Pages 12 -14	745,135	21,470	766,605	10,347	776,953
8	Transmission	IR-5 Pages 12 -14	52,523	(53)	52,469	1,307	53,776
9	Distribution	IR-5 Pages 12 -14	17,617,443	165,627	17,783,070	929,636	18,712,706
10	Customer Accounts	IR-5 Pages 12 -14	10,212,669	262,737	10,475,406	(129,491)	10,345,915
11	Customer Services	IR-5 Pages 12 -14	1,104,523	26,018	1,130,541	28,723	1,159,264
12	Sales	IR-5 Pages 12 -14	-	-	-	-	-
13	Administrative & General	IR-5 Pages 12 -14	22,193,767	(5,167,233)	17,026,535	(113,774)	16,912,761
14	Depreciation	IR-5 Page 15	11,341,621	778,592	12,120,213	2,192,020	14,312,233
15	Amortization	IR-5 Page 16	14,855,437	(2,598,274)	12,257,163	1,097,888	13,355,051
16	Taxes Other Than Income Taxes	IR-5 Page 17	10,320,304	1,601,777	11,922,081	1,049,591	12,971,672
17	Other Interest Expense	IR-5 Page 18	49,205	(49,205)	-	-	-
18	Income Taxes	IR-8	6,323,946	1,095,110	7,419,056	(1,992,239)	5,426,817
19	Total Operating Expenses		216,195,241	14,427,005	230,622,246	7,733,350	238,355,596
20	Total Minnesota Operating Income		13,829,481	1,465,344	15,294,825	(2,286,671)	13,008,154

Line No.	Description	Reference	Historic 01/01/16 - 12/31/16	Adjustments	Projected 01/01/17 - 12/31/17	Adjustments	Proposed 01/01/18 - 12/31/18
1	487 Late Payment Revenues	General Ledger	737,771	11,903	749,674	(74,674)	675,000
2	488 Miscellaneous Service Revenues	General Ledger	19,553	100,959	120,512	19,492	140,004
3	493 Rent From Gas Property	General Ledger	39,215	13,722	52,937	(12,941)	39,996
4	495 Other Gas Revenue	General Ledger	6,820,804	(6,640,804)	180,000	-	180,000
5	496 Provision for Rate Refunds	General Ledger	(2,502,762)	2,502,762	-	-	-
6	Total Other Revenue		<u>5,114,581</u>	<u>(4,011,458)</u>	<u>1,103,123</u>	<u>(68,123)</u>	<u>1,035,000</u>
7	Direct Assigned to MERC-Minnesota		5,114,581	(4,011,458)	1,103,123	(68,123)	1,035,000
8	Direct Assigned to MERC-Michigan		-	-	-	-	-

Line No.	Description	Reference	Historic 01/01/16 - 12/31/16	Adjustments	Projected 01/01/17 - 12/31/17	Adjustments	Proposed 01/01/18 - 12/31/18
1	804005 Gas Sales-Profit or Loss	Docket No. G011/GR-17-564	-	-		-	
2	804070 Liab Redeliv Imbal Transp Cust	Docket No. G011/GR-17-564	(305,177)	305,177		-	
3	804210 Gas Contract Reservation Fees	Docket No. G011/GR-17-564	184,877	(184,877)		-	
4	804220 Term Gas Purchases	Docket No. G011/GR-17-564	42,131,056	96,885,244	139,016,300	3,905,553	142,921,853
5	804222 Gas Contr to Back Fin Hedges	Docket No. G011/GR-17-564	-	-		-	
6	804230 Spot Gas Purchases	Docket No. G011/GR-17-564	27,577,301	(27,577,301)		-	
7	804240 Other Purchases(incl cash out)	Docket No. G011/GR-17-564	227,848	(227,848)		-	
8	804243 Pipe Cash Outs/Imbal-CommCost	Docket No. G011/GR-17-564	116,786	(116,786)		-	
9	804244 Pipe Cash Outs/Imbal-CommCred	Docket No. G011/GR-17-564	(1,351,670)	1,351,670		-	
10	804260 Financial Instruments Expense	Docket No. G011/GR-17-564	4,149,904	(4,149,904)		-	
11	804270 Gas Purchase Misc Expense	Docket No. G011/GR-17-564	(24,237)	24,237		-	
12	804320 Purchased Gas Sold - Cr.	Docket No. G011/GR-17-564	(1,838,750)	1,838,750		-	
13	804410 Pipeline Reservation Fees	Docket No. G011/GR-17-564	25,515,780	(25,515,780)		-	
14	804420 Pipeline Transmission Fees	Docket No. G011/GR-17-564	16,227,310	(16,227,310)		-	
15	804440 Gas Transmission Fuel Expense	Docket No. G011/GR-17-564	22,634	(22,634)		-	
16	804450 No Notice Service Fees	Docket No. G011/GR-17-564	835,307	(835,307)		-	
17	804490 Penlty-Unauth Use&Ovrrun-Util	Docket No. G011/GR-17-564	247,432	(247,432)		-	
18	804520 Transport Capacity Released	Docket No. G011/GR-17-564	(3,051,367)	3,051,367		-	
19	804610 Storage Reservation Fees	Docket No. G011/GR-17-564	-	-		-	
20	804614 Storage Reservation Charges	Docket No. G011/GR-17-564	-	-		-	
21	804615 Storage Inj or Withdrawal Fees	Docket No. G011/GR-17-564	5,063,910	(5,063,910)		-	
22	804720 Storage Capac Released or Sold	Docket No. G011/GR-17-564	-	-		-	
23	804740 Option Gains/Losses	Docket No. G011/GR-17-564	-	-		-	
24	808100 Gas Withdrawn from Storage	Docket No. G011/GR-17-564	-	-		-	
25	808102 Gas Withdrawn frm Storage-Comm	Docket No. G011/GR-17-564	20,278,205	(20,278,205)		-	
26	808200 Gas Delivered to Storage	Docket No. G011/GR-17-564	-	-		-	
27	808204 Gas Delivered to Storage-Comm	Docket No. G011/GR-17-564	(15,113,091)	15,113,091		-	
28	812000 Gas Used Oth Utility Ops	Docket No. G011/GR-17-564	(134,972)	134,972		-	
29	Total Cost of Gas		<u>120,759,086</u>	<u>18,257,214</u>	<u>139,016,300</u>	<u>3,905,553</u>	<u>142,921,853</u>
30	MERC-Minnesota		120,759,086	18,257,214	139,016,300	3,905,553	142,921,853
31	MERC-Michigan		-	-	-	-	-

Line No.	Description	Reference	Historic 01/01/16 - 12/31/16	Union Labor Inflation	Non Union Labor Inflation	Non-Labor Inflation	Benefits	FMGP	LTIP/Restricted Stock/Options	Investor Relations
51	920000 A&G Admin & General Salaries	General Ledger	3,109,525	-	81,550	9,392	-	-	(284,431)	(6,460)
52	920010 A&G Salaries-TEG Merger Costs	General Ledger	-	-	-	-	-	-	-	-
53	920015 A&G Salaries-Long Term Disab	General Ledger	-	-	-	-	-	-	-	-
54	920020 Restructuring Exp - Cororate	General Ledger	-	-	-	-	-	-	-	-
55	921000 A&G-Office Supplies and Expenses	General Ledger	6,247,170	-	10	149,987	-	-	-	(33,253)
56	921010 A&G Off Supp&Exp-TEG Merger Costs	General Ledger	-	-	-	-	-	-	-	-
57	923000 A&G-Outside Services Employed	General Ledger	827,718	-	-	19,874	-	-	-	-
58	924000 A&G Property Insurance	General Ledger	1,768	-	-	42	-	-	-	-
59	924100 Securities & Other Crime Insurance	General Ledger	3,434	-	-	82	-	-	-	-
60	924120 Property Insurance	General Ledger	31,004	-	-	744	-	-	-	-
61	925000 A&G-Injuries and Damages	General Ledger	1,256,926	-	-	30,179	-	-	-	-
62	925015 Insur Prem - Dishonesty	General Ledger	-	-	-	-	-	-	-	-
63	925100 Excess Liability	General Ledger	(280,726)	-	-	(6,740)	-	-	-	-
64	925110 Director & Officer Insurance	General Ledger	61,363	-	-	1,473	-	-	-	-
65	925130 Company Auto Liab Insurance	General Ledger	-	-	-	-	-	-	-	-
66	925160 Workers Comp Insurance	General Ledger	-	-	-	-	-	-	-	-
67	925165 Workers Comp Reserve	General Ledger	130,092	-	124	3,024	-	-	-	-
68	925170 Excess Workers Comp Insurance	General Ledger	9,538	-	-	229	-	-	-	-
69	926000 A&G-Employee Pensions and Bene	General Ledger	1,785,625	-	53,569	-	559,949	-	-	-
70	926007 Company Cash Match 401k	General Ledger	96,061	-	2,882	-	(98,943)	-	-	-
71	926015 A&G PensExp-TEG Merger Costs	General Ledger	-	-	-	-	-	-	-	-
72	926016 Commuter Transportation Benefit	General Ledger	-	-	-	-	-	-	-	-
73	926017	General Ledger	13,584	-	(13,584)	-	-	-	-	-
74	926019	General Ledger	(262)	-	262	-	-	-	-	-
75	926020 Time Away From Work	General Ledger	3,482,598	8,976	93,706	(3,581,125)	-	-	-	-
76	926025 Time Away From Work - Clearing	General Ledger	(2,330,210)	(10,229)	(57,632)	2,398,071	-	-	-	-
77	926026 IBS Billed NPT Residual	General Ledger	-	-	-	-	-	-	-	-
78	926050 Human Resources Dept Gen	General Ledger	17,138	-	514	(17,652)	-	-	-	-
79	926060 Pension Expense	General Ledger	3,139	-	94	(3,233)	-	-	-	-
80	926070 Christmas Gift Ck Exp-Retirees <D	General Ledger	-	-	-	-	-	-	-	-
81	926080 Dental Benefits-Active Empl	General Ledger	143,530	-	4,306	(7,357)	-	-	-	-
82	926090 Medical Benefits-Active Empl	General Ledger	1,515,063	-	45,452	587,339	-	-	-	-
83	926100 Benefits Exp-AWASSA Lodge	General Ledger	-	-	-	-	-	-	-	-
84	926120 Joint Plant A&G & NonUtil Ldg	General Ledger	(881,038)	-	(26,431)	12,420	-	-	-	-
85	926130 SIB/LTD Prem Exp	General Ledger	-	-	1,316	54,009	-	-	-	-
86	926135 Fully-Insured LTD Prem Exp	General Ledger	-	-	43,856	-	-	-	-	-
87	926140 ESOP	General Ledger	736,790	-	22,104	(758,894)	-	-	-	-
88	926170 Cap Pensions and Benefits	General Ledger	(647,900)	-	(19,437)	95,427	-	-	-	-
89	926180 Post Retirement Medical	General Ledger	493,715	-	14,811	16,978	-	-	-	-
90	926190 Goal Sharing	General Ledger	251,396	-	7,542	(258,938)	-	-	-	-
91	926191 IBS Billed Incentive Residual	General Ledger	-	-	-	-	-	-	-	-
92	926200 Empl Ben-Tuition Reimbursement	General Ledger	13,807	-	414	1,679	-	-	-	-
93	926210 Pension Restoration	General Ledger	811	-	24	(835)	-	-	-	-
94	926220 Supple Emp Ret Plan-SERP	General Ledger	23,574	-	707	(24,281)	-	-	-	-
95	926250 Company Prov Life Insurance	General Ledger	24,987	-	750	6,895	-	-	-	-
96	926260 Exec Del Comp-ESOP Match	General Ledger	-	-	-	-	-	-	-	-
97	926255 Defined Contribution Plan Exp	General Ledger	839,779	-	25,193	52,720	-	-	-	-
98	926300 IBS Billed Benefit - Payroll Tax	General Ledger	(140,386)	-	(4,212)	144,598	-	-	-	-
99	926305 Post Retirement Life	General Ledger	(4,481)	-	(134)	4,615	-	-	-	-
100	926315 LT Disability Benefit	General Ledger	-	-	-	-	-	-	-	-
101	926325 ST Disabil FASB 112	General Ledger	-	-	-	-	-	-	-	-
102	926330 Benefits-Wellness	General Ledger	-	-	-	-	-	-	-	-
103	926510 Profit Sharing Expense	General Ledger	-	-	-	-	-	-	-	-
104	928000 A&G-Regulatory Commission Exp	General Ledger	565,632	-	14,749	1,776	-	-	-	-
105	92800F A&G-Related to FERC	General Ledger	-	-	-	-	-	-	-	-
106	930100 A&G-General Advertising Exp	General Ledger	219	-	-	5	-	-	-	-
107	930200 A&G-Assoc & Club Dues & Exp	General Ledger	413,858	-	1,212	8,967	-	-	-	-
108	930204 Misc General Expense	General Ledger	8,413	-	3	200	-	-	-	-
109	930209 Payroll Taxes Credited	General Ledger	-	-	-	-	-	-	-	-
110	930210	General Ledger	53,760	-	-	1,291	-	-	-	-
111	930220 A&G-IBS Billed CC and Deprec	General Ledger	3,176,829	-	-	76,276	-	-	-	-
112	930240	General Ledger	21,256	-	33	484	-	-	-	-
113	930228	General Ledger	50,646	-	-	1,216	-	-	-	-
114	931000 A&G-Rents	General Ledger	964,116	-	-	23,148	-	-	-	-
115	931010 A&G - IBS Billed Facilities Overhead	General Ledger	-	-	-	-	-	-	-	-
116	935000 A&G-Maint of General Plant	General Ledger	63,491	-	1,539	292	-	-	-	-
117	Administrative and General		22,197,208	(1,252)	251,436	321,943	(816,558)	-	(284,431)	(39,713)
118	Non-Fuel O&M		52,557,546	63,625	637,743	677,625	(816,558)	18,349	(284,431)	(39,713)

Line No.	Description	Sewer Lateral	Mapping Project	50% of Econ Develop	Memberships	Advertising	ICE	Pension	Charitable Contributions	Travel & Entertainment	ERP	Projected 01/01/17 - 12/31/17
51	920000 A&G Admin & General Salaries			(63,314)								2,846,263
52	920010 A&G Salaries-TEG Merger Costs											-
53	920015 A&G Salaries-Long Term Disab											-
54	920020 Restructuring Exp - Cororate											-
55	921000 A&G-Office Supplies and Expenses			(59,952)	(2,065)		(3,327,811)	(544,861)	(38,385)	(168,682)	(394,235)	1,827,922
56	921010 A&G Off Supp&Exp-TEG Merger Costs											-
57	923000 A&G-Outside Services Employed											847,592
58	924000 A&G Property Insurance											1,810
59	924100 Securities & Other Crime Insurance											3,516
60	924120 Property Insurance											31,748
61	925000 A&G-Injuries and Damages											1,287,105
62	925015 Insur Prem - Dishonesty											-
63	925100 Excess Liability											(287,466)
64	925110 Director & Officer Insurance											62,836
65	925130 Company Auto Liab Insurance											-
66	925160 Workers Comp Insurance											-
67	925165 Workers Comp Reserve											133,240
68	925170 Excess Workers Comp Insurance											9,767
69	926000 A&G-Employee Pensions and Bene											2,399,143
70	926007 Company Cash Match 401k											(0)
71	926015 A&G PensExp-TEG Merger Costs											-
72	926016 Commuter Transportation Benefit											-
73	926017											-
74	926019											-
75	926020 Time Away From Work											4,156
76	926025 Time Away From Work - Clearing											0
77	926026 IBS Billed NPT Residual											-
78	926050 Human Resources Dept Gen											0
79	926060 Pension Expense											0
80	926070 Christmas Gift Ck Exp-Retirees <D											-
81	926080 Dental Benefits-Active Empl											140,479
82	926090 Medical Benefits-Active Empl											2,147,854
83	926100 Benefits Exp-AWASSA Lodge											-
84	926120 Joint Plant A&G & NonUtil Ldg											(895,049)
85	926130 SIB/LTD Prem Exp											-
86	926135 Fully-Insured LTD Prem Exp											99,181
87	926140 ESOP											(0)
88	926170 Cap Pensions and Benefits											(571,910)
89	926180 Post Retirement Medical											525,504
90	926190 Goal Sharing											(0)
91	926191 IBS Billed Incentive Residual											-
92	926200 Empl Ben-Tuition Reimbursement											15,900
93	926210 Pension Restoration											0
94	926220 Supple Emp Ret Plan-SERP											0
95	926250 Company Prov Life Insurance											32,632
96	926260 Exec Def Comp-ESOP Match											-
97	926255 Defined Contribution Plan Exp											917,692
98	926300 IBS Billed Benefit - Payroll Tax											0
99	926305 Post Retirement Life											(0)
100	926315 LT Disability Benefit											-
101	926325 ST Disabil FASB 112											-
102	926330 Benefits-Wellness											-
103	926510 Profit Sharing Expense											-
104	928000 A&G-Regulatory Commission Exp											582,157
105	92800F A&G-Related to FERC											-
106	930100 A&G-General Advertising Exp											224
107	930200 A&G-Assoc & Club Dues & Exp											424,037
108	930204 Misc General Expense											8,616
109	930209 Payroll Taxes Credited											-
110	930210											55,051
111	930220 A&G-IBS Billed CC and Deprec											3,253,105
112	930240											21,773
113	930228											51,862
114	931000 A&G-Rents											987,264
115	931010 A&G - IBS Billed Facilities Overhead											-
116	935000 A&G-Maint of General Plant											65,322
117	Administrative and General	-	-	(123,266)	(2,065)	-	(3,327,811)	(544,861)	(38,385)	(168,682)	(394,235)	17,029,327
118	Non-Fuel O&M	(69,177)	-	(123,266)	(2,065)	(4,676)	(3,327,811)	(544,861)	(38,385)	(168,682)	(394,235)	47,898,485

Line No.	Description	Union Labor Inflation	Non_Union Labor Inflation	Non-Labor Inflation	FMGP	Benefits	Incentives	Bad Debt Expense	MERC Add Positions	ERP	Rosemount Building	Proposed 01/01/18 - 12/31/18
51	920000 A&G Admin & General Salaries		73,370	10,335			(343,146)		192,000			2,778,822
52	920010 A&G Salaries-TEG Merger Costs		-	-			-					-
53	920015 A&G Salaries-Long Term Disab		-	-			-					-
54	920020 Restructuring Exp - Cororate		-	-			-					-
55	921000 A&G-Office Supplies and Expenses		10	47,152						(122,569)		1,752,515
56	921010 A&G Off Supp&Exp-TEG Merger Costs		-	-			-					-
57	923000 A&G-Outside Services Employed		-	21,868			-					869,459
58	924000 A&G Property Insurance		-	47			-					1,857
59	924100 Securities & Other Crime Insurance		-	91			-					3,607
60	924120 Property Insurance		-	819			-					32,568
61	925000 A&G-Injuries and Damages		-	33,207			-					1,320,312
62	925015 Insur Prem - Dishonesty		-	-			-					-
63	925100 Excess Liability		-	(7,417)			-					(294,883)
64	925110 Director & Officer Insurance		-	1,621			-					64,458
65	925130 Company Auto Liab Insurance		-	-			-					-
66	925160 Workers Comp Insurance		-	-			-					-
67	925165 Workers Comp Reserve		128	3,328			429					137,125
68	925170 Excess Workers Comp Insurance		-	252			-					10,019
69	926000 A&G-Employee Pensions and Bene		71,974	-		(147,215)	-					2,323,902
70	926007 Company Cash Match 401k		(0)	-		-	-					(0)
71	926015 A&G PensExp-TEG Merger Costs		-	-		-	-					-
72	926016 Commuter Transportation Benefit		-	-		-	-					-
73	926017		-	-		-	-					-
74	926019		-	-		-	-					-
75	926020 Time Away From Work		125	-		12	-					4,292
76	926025 Time Away From Work - Clearing		(0)	-		-	-					0
77	926026 IBS Billed NPT Residual		-	-		-	-					-
78	926050 Human Resources Dept Gen		0	-		-	-					0
79	926060 Pension Expense		0	-		-	-					0
80	926070 Christmas Gift Ck Exp-Retirees <D		-	-		-	-					-
81	926080 Dental Benefits-Active Empl		4,214	-		3,411	-					148,104
82	926090 Medical Benefits-Active Empl		64,436	-		88,752	-					2,301,042
83	926100 Benefits Exp-AWASSA Lodge		-	-		-	-					-
84	926120 Joint Plant A&G & NonUtil Ldg		(26,851)	-		26,852	-					(895,049)
85	926130 SIB/LTD Prem Exp		-	-		-	-					-
86	926135 Fully-Insured LTD Prem Exp		2,975	-		337	-					102,493
87	926140 ESOP		(0)	-		-	-					(0)
88	926170 Cap Pensions and Benefits		(17,157)	-		(13,716)	-					(602,783)
89	926180 Post Retirement Medical		15,765	-		11,760	-					553,030
90	926190 Goal Sharing		(0)	-		-	-					(0)
91	926191 IBS Billed Incentive Residual		-	-		-	-					-
92	926200 Empl Ben-Tuition Reimbursement		477	-		(477)	-					15,900
93	926210 Pension Restoration		0	-		-	-					0
94	926220 Supple Emp Ret Plan-SERP		0	-		-	-					0
95	926250 Company Prov Life Insurance		979	-		127	-					33,738
96	926260 Exec Def Comp-ESOP Match		-	-		-	-					-
97	926255 Defined Contribution Plan Exp		27,531	-		(254,172)	-					691,051
98	926300 IBS Billed Benefit - Payroll Tax		0	-		-	-					0
99	926305 Post Retirement Life		(0)	-		-	-					(0)
100	926315 LT Disability Benefit		-	-		-	-					-
101	926325 ST Disabil FASB 112		-	-		-	-					-
102	926330 Benefits-Wellness		-	-		-	-					-
103	926510 Profit Sharing Expense		-	-		-	-					-
104	928000 A&G-Regulatory Commission Exp		15,192	1,955			(18,387)					580,917
105	92800F A&G-Related to FERC		-	-		-	-					-
106	930100 A&G-General Advertising Exp		-	6		-	-					230
107	930200 A&G-Assoc & Club Dues & Exp		1,249	9,866			(6,710)					428,441
108	930204 Misc General Expense		3	220			23					8,862
109	930209 Payroll Taxes Credited		-	-		-	-					-
110	930210		-	1,420		-	-					56,471
111	930220 A&G-IBS Billed CC and Deprec		-	83,930		-	-					3,337,035
112	930240		34	533		-	-					22,339
113	930228		-	1,338		-	-					53,200
114	931000 A&G-Rents		-	25,471		-	-					1,012,736
115	931010 A&G - IBS Billed Facilities Overhead		-	-		-	-					-
116	935000 A&G-Maint of General Plant		1,586	322			(3,413)					63,817
117	Administrative and General		236,038	236,364		(284,329)	(371,204)		192,000	(122,569)		16,915,627
118	Non-Fuel O&M		63,839	621,971	736,947	(284,329)	(12,028)	(527,789)	494,163	(122,569)	(122,985)	49,379,639

Line No.	Description	Reference	Historic 01/01/16 - 12/31/16	Union Labor Inflation	Non_Union Labor Inflation	Non-Labor Inflation	Benefits	FMGP	LTIP/Restricted Stock/Options	Investor Relations
119	MERC-Minnesota Allocation Percentages									
120	Production (System Sales)	IR-9 Page 1	1,0000							
121	Gas Supply (System Sales)	IR-9 Page 1	1,0000							
122	Transmission (Total Sales)	IR-9 Page 1	0.8627							
123	Distribution (Distribution Plant)	IR-9 Page 2	1,0000							
124	Customer Accounts (Fixed Charge Counts)	IR-9 Page 1	1,0000							
125	Customer Services (Fixed Charge Counts)	IR-9 Page 1	1,0000							
126	Sales (Fixed Charge Counts)	IR-9 Page 1	1,0000							
127	Administrative and General (Salaries and Wages)	IR-9 Page 4	0.9998							
128	MERC-Minnesota Allocation Dollars									
129	Production (System Sales)	Line 3 x Line 112	619,582							
130	Gas Supply (System Sales)	Line 8 x Line 113	745,135							
131	Transmission (Total Sales)	Line 17 x Line 114	52,523							
132	Distribution (Distribution Plant)	Line 34 x Line 115	17,617,443							
133	Customer Accounts (Fixed Charge Counts)	Line 41 x Line 116	10,212,669							
134	Customer Services (Fixed Charge Counts)	Line 46 x Line 117	1,104,523							
135	Sales (Fixed Charge Counts)	Line 48 x Line 118	-							
136	Administrative and General (Salaries and Wages)	Line 109 x Line 119	22,193,767							
137	Total MERC-Minnesota		52,545,642							
138	MERC-Michigan Allocation Dollars									
139	Production (System Sales)	Line 3 - Line 121	-							
140	Gas Supply (System Sales)	Line 8 - Line 122	-							
141	Transmission (System Sales)	Line 17 - Line 123	8,361							
142	Distribution (Distribution Plant)	Line 34 - Line 124	-							
143	Customer Accounts (Fixed Charge Counts)	Line 41 - Line 125	92							
144	Customer Services (Fixed Charge Counts)	Line 46 - Line 126	10							
145	Sales (Fixed Charge Counts)	Line 48 - Line 127	-							
146	Administrative and General (Salaries and Wages)	Line 109 - Line 128	3,441							
147	Total MERC-Michigan		11,904							

Line No.	Description	Reference	Historic 01/01/16 - 12/31/16	Adjustments	Projected 01/01/17 - 12/31/17	Adjustments	Proposed 01/01/18 - 12/31/18
1	Minnesota Production Depreciation Expense	General Ledger	34,895	(1,955)	32,940	50,142	83,082
2	Minnesota Transmission Depreciation Expense	General Ledger	280,636	(43,466)	237,170	(6,153)	231,017
3	Minnesota Distribution Depreciation Expense	General Ledger	10,786,154	830,330	11,616,484	1,792,411	13,408,895
4	Minnesota Customer Depreciation Expense	General Ledger	239,936	(6,317)	233,619	355,620	589,239
5	Minnesota Total Depreciation Expense		11,341,621	778,592	12,120,213	2,192,020	14,312,233
6	Michigan Production Depreciation Expense	General Ledger	-	-	-	-	-
7	Michigan Transmission Depreciation Expense	General Ledger	44,677	(7,816)	36,861	581	37,442
8	Michigan Distribution Depreciation Expense	General Ledger	-	-	-	-	-
9	Michigan Customer Depreciation Expense	General Ledger	2	-	2	2	4
10	Michigan Total Depreciation Expense		44,679	(7,816)	36,863	583	37,446
11	Production Depreciation Expense	General Ledger	34,895	(1,955)	32,940	50,142	83,082
12	Transmission Depreciation Expense	General Ledger	325,313	(51,282)	274,031	(5,572)	268,459
13	Distribution Depreciation Expense	General Ledger	10,786,154	830,330	11,616,484	1,792,411	13,408,895
14	Customer Depreciation Expense	General Ledger	239,938	(6,317)	233,621	355,622	589,243
15	Total Depreciation Expense		11,386,300	770,776	12,157,076	2,192,603	14,349,679

Line No.	Description	Reference	Historic 01/01/16 - 12/31/16	Adjustments	Projected 01/01/17 - 12/31/17	Adjustments	Proposed 01/01/18 - 12/31/18	
1	407003 GAP Carry Cost	General Ledger	15,373	(15,373)		-		
2	407090 CIP Reg Asset Amort	General Ledger		-				
3	407401 MERC Rate Case	General Ledger	1,198,688	(458,938)	739,750	347,588	1,087,338	
4	407710 CIP Expense	General Ledger	13,230,552	(2,123,096)	11,107,456	1,126,318	12,233,774	996,778
5	407712 ICE Amortization	General Ledger	405,641	-	405,641	(371,702)	33,939	
6	407901 Cloquet Plant Amortization Direct Assigned to NMU	General Ledger	5,183	(864)	4,319	(4,319)		
7	Total Amortization		<u>14,855,437</u>	<u>(2,598,271)</u>	<u>12,257,166</u>	<u>1,097,885</u>	<u>13,355,051</u>	
8	MERC-Minnesota		14,855,437	(2,598,271)	12,257,163	1,097,885	13,355,051	
9	MERC-Michigan		-	-	3	-	0	

Line No.	Description	Reference	Historic 01/01/16 - 12/31/16	Adjustments	Projected 01/01/17 - 12/31/17	Adjustments	Proposed 01/01/18 - 12/31/18
1	408010 Gross Receipts Tax	General Ledger		-		-	
2	408021 PAYROLL TAXES - FICA	General Ledger	867,358	74,218	941,576	28,247	969,823
3	408022 PAYROLL TAXES - FUTA	General Ledger	7,805	668	8,473	254	8,727
4	408023 PAYROLL TAXES - SUTA	General Ledger	19,471	1,666	21,137	634	21,771
5	408029 Payroll Taxes Credited	General Ledger		-		-	
6	408040 Property Tax - Operating	General Ledger	8,925,613	1,534,387	10,460,000	1,004,000	11,464,000
7	408065 Federal Excise Tax	General Ledger	2,275	(2,275)		-	
8	408080 Use Tax	General Ledger		-		-	
9	408082 Unauthorized Insurance Tax	General Ledger	64,701	(25,701)	39,000	(696)	38,304
10	408115 IBS Billed Payroll Tax	General Ledger	469,766	13,392	483,158	14,495	497,653
11	408120 State Unitary Fees	General Ledger		-		-	
12	Total Taxes Other Than Income Tax		<u>10,356,989</u>	<u>1,596,355</u>	<u>11,953,344</u>	<u>1,046,934</u>	<u>13,000,278</u>
13	Taxes Other Than Income Taxes Groupings						
14	Salaries	Lines 2, 3, 4, 5, 10	1,364,400		1,454,344		1,497,974
15	Rate base	Lines 6, 7, 8, 9, 11	8,992,589		10,499,000		11,502,304
16	Direct Minnesota	Line 1	-		-		-
17	MERC-Minnestoa Allocation Percentages						
18	Salaries	IR-9 Page 4	99.9845%		99.9836%		99.9831%
19	Net Plant	IR-9 Page 3	99.5944%		99.7045%		99.7535%
20	Direct Minnesota		100.0000%		100.0000%		100.0000%
21	MERC-Minnesota Allocation Dollars						
22	Salaries	Line 14 x Line 18	1,364,189		1,454,105		1,497,721
23	Rate base	Line 15 x Line 19	8,956,115		10,467,975		11,473,951
24	Direct Minnesota	Line 16 x Line 20	-		-		-
25	Total MERC-Minnesota		<u>10,320,304</u>		<u>11,922,081</u>		<u>12,971,672</u>
26	Total MERC-Michigan	Line 11- Line 24	<u>36,685</u>		<u>31,263</u>		<u>28,606</u>

Line No.	Description	Reference	Historic 01/01/16 - 12/31/16	Adjustments	Projected 01/01/17 - 12/31/17	Adjustments	Proposed 01/01/18 - 12/31/18
1	419020 Other Interest Revenues	General Ledger	-	-	-	-	-
2	419030 Interest Rev on Temp Cash Inv	General Ledger	-	-	-	-	-
3	431010 Other Interest Expense	General Ledger	49,397	(49,397)	-	-	-
4	431070 Customer Deposits	General Ledger	-	-	-	-	-
5	431080 Tax Adjustments	General Ledger	-	-	-	-	-
6	431310 Def Comp Reserv-Allow Ratemaking	General Ledger	-	-	-	-	-
7	Total Other Interest		<u>49,397</u>	<u>(49,397)</u>	<u>-</u>	<u>-</u>	<u>-</u>
8	MERC-Minnesota Allocation Percentages						
9	Rate base	IR-9 Page 3	99.61%		99.71%		99.76%
10	MERC-Minnesota Allocation Dollars						
11	Total MERC-Minnesota		<u>49,205</u>		<u>-</u>		<u>-</u>
12	Total MERC-Michigan	Line 7 - Line 11	<u>192</u>		<u>-</u>		<u>-</u>

**Minnesota Energy Resources Corporation
Income Statement Variance Explanations**

	2018 Proposed Less 2016 Historical	
Present Rate Revenue	21,339,028	The increase in tariff revenues is significantly effected by the increase in the cost of gas expense as described below.
Cost of Gas	22,162,767	The cost of gas is calculated based off of the sales forecast described in the Direct Testimony and Exhibits of Mr. Matt Czervionke, and a NYMEX strip based on May 15, 2017 prices as seen in Docket No. G011/MR-17-564.
Non-Fuel O&M Expense	(3,177,907)	Non-Fuel O&M is forecasted to decrease due to the Known and Measurable items as described in the testimony of Mr. Seth S. DeMerritt.
Depreciation Expense	2,963,379	Depreciation expense was calculated based off of the forecasted plant expenditures as described in the testimonies of Mrs. Mary Wolter and Seth S. DeMerritt. These forecasted plant balances were then applied to the depreciation rates as described in the testimony of Mr. Seth S. DeMerritt
Amortization	(1,500,386)	Amortization expense is projected to decrease no amortization expenses related to the CIP tracker is forecasted in this current docket, and a reduction in the ICE amortization as described in the testimony of Seth S. DeMerritt
Taxes Other Than Income Taxes	2,643,289	Payroll and Property taxes are expected to increase as described in the testimony of Mr. Seth S. DeMerritt and Mark Kissinger respectively.