Minnesota Energy Resources Corporation

Summary of Planning Assumptions and Approaches - Income Statement

The following is a summary of assumptions and approaches used by Minnesota Energy Resources Corporation (“MERC” or “the Company”) to determine the majore elements of operating income.

Sales and the associated tariff revenues were based on actual January 2007 through December 2016 weather normalized sales, with expected growth included as explained in the Direct Testimony of Mr. Matt Czervionke.

Non-Tariff Revenues were forecasted based on historical trends.

Cost of gas expense was forecasted based on the sales forecast described above with May 15, 2017 NYMEX gas prices. Cost of gas expense is consistent with the Company’s filing in Docket No. G011/MR-17-564.

Depreciation expense was calculated using Feb. 28, 2017 actual plant balances along with the forecasted plant additions for the final 10 months of 2017, and the full year plant additions for 2018. 2016 depreciation rates are based on the rates authorized in Docket No. G011/D-16-490, while the 2017 projected test year and the 2018 proposed test year use the depreciation rates proposed in Docket No. G011/D-17-442.

Amortization expense consists of Conservation Improvement Plan (“CIP”) costs, rate case expenses, and Improved Customer Experience (“ICE”) Deferral costs. The Cloquet Plant Amortization ends in 2017.

CIP expenses for 2018 are also included in amortization expense and are consistent with the expense budget extension submitted in Docket No. G007,G011/CIP-12-548. The rate case expense amortization was forecasted based on the expected costs of the rate case over a 2-year amortization period, as described in the Direct Testimony of Seth DeMerritt. The ICE amortization is comprised of the Capital component and is forecasted over a 15-year period.

Non-Fuel Operations & Maintenance (“O&M”) expense was based on the 2016 historic non-fuel O&M, increased by inflation, and adjusted for known and measurable items as explained in the Direct Testimony of Seth DeMerritt.

Taxes other than income taxes consist of two major components. The largest component is property taxes, which were forecasted based on historical trends. The second major component is payroll taxes, which were calculated based on the forecasted 2018 payroll.