

2021 Historic Adjusted Net Operating Income

Line No.	Description	Reference	Total	Minnesota	Michigan
1	Recorded Net Operating Income	IR-5 Page 3	\$ 24,849	\$ 24,558	\$ 291
2					
3	Tax Effect of Interest Allowed	IR-5 Page 2	\$ (159)	\$ (188)	\$ 29
4					
5	Adjusted Net Operating Income	Line 1 + Line 3	<u>\$ 24,690</u>	<u>\$ 24,370</u>	<u>\$ 320</u>

2022 Projected Adjusted Net Operating Income

Line No.	Description	Reference	Total	Minnesota	Michigan
6	Recorded Net Operating Income	IR-5 Page 3	\$ 7,067	\$ 6,625	\$ 443
7					
8	Tax Effect of Interest Allowed	IR-5 Page 2	\$ (120)	\$ (163)	\$ 43
9					
10	Adjusted Net Operating Income	Line 6 + Line 8	<u>\$ 6,948</u>	<u>\$ 6,462</u>	<u>\$ 485</u>

2023 Proposed Adjusted Net Operating Income

Line No.	Description	Reference	Total	Minnesota	Michigan
11	Recorded Net Operating Income	IR-5 Page 3	\$ 5,593	\$ 5,397	\$ 196
12					
13	Tax Effect of Interest Allowed	IR-5 Page 2	\$ (34)	\$ (34)	\$ (0)
14					
15	Adjusted Net Operating Income	Line 11 + Line 13	<u>\$ 5,559</u>	<u>\$ 5,363</u>	<u>\$ 196</u>

2021 Historic Interest Adjustment

Line				MERC- Minnesota	MERC-Michigan
No.	Description	Reference	Total		
1					
2	Rate Base	IR-2 Page 1	\$ 419,336	\$ 411,307	\$ 8,029
3	Debt Portion of Capital Structure		50.34%	50.34%	50.34%
4	Portion of Rate Base Funded by Debt	Line 2 * Line 3	\$ 211,110	\$ 207,068	\$ 4,042
5					
6	Cost of Debt		2.66%	2.66%	2.66%
7	Interest Allowed	Line 4 * Line 6	\$ 5,624	\$ 5,516	\$ 108
8					
9	Interest Included in Income Tax Accruals		\$ 6,177	\$ 6,169	\$ 8
10					
11	Additional Interest Allowed	Line 7 - Line 9	\$ (553)	\$ (653)	\$ 99
12					
13	Tax Effect of Interest Allowed	Line 11 * Effective Tax Rate	\$ (159)	\$ (188)	\$ 29

2022 Projected Interest Adjustment

	Description	Reference	Total	MERC- Minnesota	MERC-Michigan
14					
15	Rate Base	IR-2 Page 1	\$ 449,304	\$ 440,058	\$ 9,246
16	Debt Portion of Capital Structure		52.17%	52.17%	52.17%
17	Portion of Rate Base Funded by Debt	Line 15 * Line 16	\$ 234,407	\$ 229,583	\$ 4,824
18					
19	Cost of Debt		3.24%	3.24%	3.24%
20	Interest Allowed	Line 17 * Line 19	\$ 7,599	\$ 7,443	\$ 156
21					
22	Interest Included in Income Tax Accruals		\$ 8,016	\$ 8,009	\$ 7.67
23					
24	Additional Interest Allowed	Line 20 - Line 22	\$ (417)	\$ (566)	\$ 149
25					
26	Tax Effect of Interest Allowed	Line 24 * Effective Tax Rate	\$ (120)	\$ (163)	\$ 43

2023 Proposed Interest Adjustment

	Description	Reference	Total	MERC- Minnesota	MERC-Michigan
27					
28	Rate Base	IR-2 Page 1	\$ 483,003	\$ 482,450	\$ 553
29	Debt Portion of Capital Structure		47.00%	47.00%	47.00%
30	Portion of Rate Base Funded by Debt	Line 28 * Line 29	\$ 227,012	\$ 226,752	\$ 260
31					
32	Cost of Debt		3.42%	3.4217%	3.4217%
33	Interest Allowed	Line 30 * Line 32	\$ 7,768	\$ 7,759	\$ 9
34					
35	Interest Included in Income Tax Accruals		\$ 7,885	\$ 7,876	\$ 9
36					
37	Additional Interest Allowed	Line 33 - Line 35	\$ (118)	\$ (118)	\$ (0)
38					
39	Tax Effect of Interest Allowed	Line 37 * Effective Tax Rate	\$ (34)	\$ (34)	\$ (0)

MERC - Minnesota Operating Income

Line No.	Description	Reference	Historic 01/01/21 - 12/31/21	Adjustments	Projected 01/01/22 - 12/31/22	Adjustments	Proposed 01/01/23 - 12/31/23
1	Total Natural Gas Revenue	Exhibit_(JCHM-D), Schedule 2	262,863	155,501	418,365	(11,381)	406,984
2	Late Payment Revenue	IR-5 Page 4	170	555	725	225	950
3	Other Revenue	IR-5 Page 4	85,809	(117,488)	(31,679)	32,103	424
4	Total Operating Revenue		348,842	38,568	387,410	20,947	408,358
5	Cost of Gas	IR-5 Page 5	231,503	60,456	291,960	(168)	291,792
6	Production	IR-5 Pages 6 -8	1,382	5	1,388	(1,058)	330
7	Gas Supply	IR-5 Pages 6 -8	429	16	445	10	456
8	Transmission	IR-5 Pages 6 -8	5	0	6	840	845
9	Distribution	IR-5 Pages 6 -8	13,983	1,407	15,390	5,763	21,153
10	Customer Accounts	IR-5 Pages 6 -8	6,340	2,109	8,449	2,729	11,178
11	Customer Services	IR-5 Pages 6 -8	706	32	738	88	826
12	Sales	IR-5 Pages 6 -8	-	-	-	-	-
13	Administrative & General	IR-5 Pages 6 -8	18,179	(2,609)	15,570	1,226	16,797
14	Depreciation	IR-5 Page 9	20,920	1,849	22,769	1,925	24,694
15	Amortization	IR-5 Page 10	11,833	718	12,551	1,916	14,468
16	Taxes Other Than Income Taxes	IR-5 Page 11	12,613	297	12,909	9,624	22,534
17	Other Interest Expense	IR-5 Page 12	(8)	8	(1)	1	-
18	Income Taxes	IR-8	6,398	(7,788)	(1,389)	(721)	(2,111)
19	Total Operating Expenses		324,284	56,501	380,786	22,175	402,961
20	Total Minnesota Operating Income		24,558	(17,933)	6,625	(1,228)	5,397

Line No.	Description	Reference	Historic 01/01/21 - 12/31/21	Adjustments	Projected 01/01/22 - 12/31/22	Adjustments	Proposed 01/01/23 - 12/31/23
1	487 Late Payment Revenues	General Ledger	170	555	725	225	950
2	488 Miscellaneous Service Revenues	General Ledger	587	(533)	54	(24)	30
3	493 Rent From Gas Property	General Ledger	-	30	30	10	40
4	495 Other Gas Revenue	General Ledger	85,221,555	(116,985)	(31,764)	32,117	354
5	Total Other Revenue		<u>85,979</u>	<u>(116,933)</u>	<u>(30,954)</u>	<u>32,328</u>	<u>1,374</u>
6	MERC-Minnesota		85,979	(116,933)	(30,954)	32,328	1,374
7	MERC-Michigan		-	-	-	-	-

Line No.	Description	Reference	Historic 01/01/21 - 12/31/21	Adjustments	Projected 01/01/22 - 12/31/22	Adjustments	Proposed 01/01/23 - 12/31/23
1	Cost of Gas	General Ledger	231,503	60,456	291,960	(168)	291,792
2	Total Cost of Gas		<u>231,503</u>	<u>60,456</u>	<u>291,960</u>	<u>(168)</u>	<u>291,792</u>
3	MERC-Minnesota		231,503	60,456	291,960	(168)	291,792
4	MERC-Michigan		-	-	-	-	-

Line No.	Description	Service Co		Proposed 01/01/23
		Benefits	Return on/of	- 12/31/23
1	735: Misc. Production Expense			250,273
2	754: Field compressor station expenses			-
3	756: Field measuring and regulating station expenses			80
4	Production	<u>-</u>	<u>-</u>	<u>330</u>
5	804: Natural gas city gate purchases			-
6	804W: atural gas city gate purchases			-
7	804.1: Liquefied natural gas purchases			392
8	813: (Enter Description)			64
9	Gas Supply	<u>-</u>	<u>-</u>	<u>456</u>
10	856: Mains			503
11	857: Measuring & Regulating Station Equipment			0
12	863: Mains			426
13	865: Measuring & Regulating Station Equipment			2
14	867: Maintenance of Other Equipment			-
15	Transmission	<u>-</u>	<u>-</u>	<u>931</u>
16	870: Supervision and Engineering			-
17	871: Dist Load Dispatching			426
18	874: Mains and Services			5,114
19	875: Meas and Reg Sta - General			361
20	877: Meas and Reg Sta - Gate Station			-
21	878: Meter and House Reg Exp			606
22	879: Cust Instal Expense			84
23	880: Other Expenses			5,304
24	881: Rents			29
25	885: Supervision and Engineering			26
26	887: Mains			1,378
27	889: Meas and Reg Sta Equip - General			911
28	891: Meas and Reg Sta - Gate Station			453
29	892: Services			4,569
30	893: Meters and House Regulators			1,780
31	894: Other Equipment			112
32	Distribution	<u>-</u>	<u>-</u>	<u>21,153</u>
33	901: Supervision			234
34	902: Meter Reading Expenses			827
35	903: Cust. Records and Collection Exp			7,047
36	904: Uncollectible Accounts			2,996
37	905: Misc.			74
38	Customer Accounts	<u>-</u>	<u>-</u>	<u>11,178</u>
39	907: Supervision			18
40	908: Customer Assistance Expense			698
41	909: Info & Instructional Advertising Exp			110
42	910: Misc.			-
43	Customer Services	<u>-</u>	<u>-</u>	<u>826</u>
44	913: Advertising Expenses			-
45	Sales	<u>-</u>	<u>-</u>	<u>-</u>
46	920: Administrative & General Salaries			4,217
47	921: Office Supplies & Expenses			2,745
48	923: Outside Services Employed			1,310
49	924: Property Insurance			62
50	925: Injuries and Damages			2,155
51	926: Employee Pensions & Benefits	22		4,354
52	927: Franchise Requirements			-
53	928: Regulatory Commission Exp			470
54	929: Duplicate Charges - GR			-
55	930.1: General Advertising Exp			3
56	930.2: Misc. General Expenses		(18)	931
57	931: Rents			551
58	935: General Plant			-
59	Administrative and General	<u>22</u>	<u>(18)</u>	<u>16,797</u>
60	Non-Fuel O&M	<u>22</u>	<u>(18)</u>	<u>51,672</u>
61	MERC-Minnesota Allocation Dollars			-
62	Production (System Sales)			330
63	Gas Supply (System Sales)			456
64	Transmission (Total Sales)			845
65	Distribution (Distribution Plant)			21,153
66	Customer Accounts (Fixed Charge Counts)			11,178
67	Customer Services (Fixed Charge Counts)			826
68	Sales (Fixed Charge Counts)			-
69	Administrative and General (Salaries and Wages)			16,797
70	Total MERC-Minnesota			<u>51,585</u>
71	MERC-Michigan Allocation Dollars			-
72	Production (System Sales)			-
73	Gas Supply (System Sales)			-
74	Transmission (System Sales)			86
75	Distribution (Distribution Plant)			-
76	Customer Accounts (Fixed Charge Counts)			0
77	Customer Services (Fixed Charge Counts)			0
78	Sales (Fixed Charge Counts)			-
79	Administrative and General (Salaries and Wages)			0
80	Total MERC-Michigan			<u>86</u>

Line No.	Description	Reference	Historic 01/01/21 - 12/31/21	Adjustments	Projected 01/01/22 - 12/31/22	Adjustments	Proposed 01/01/23 - 12/31/23
1	Minnesota Production Depreciation Expense	Allocated by System Sales	131	17	148,418	14	162
2	Minnesota Transmission Depreciation Expense	Allocated by Total Sales	192	8	200,258	28	228
3	Minnesota Distribution Depreciation Expense	Allocated by Distribution	19,862	1,728	21,590,361	1,781	23,371
4	Minnesota Customer Depreciation Expense	Allocated by Customers	734	96	830,105	102	932
5	Minnesota Total Depreciation Expense		20,920	1,849	22,769	1,925	24,694
6	Michigan Production Depreciation Expense	Allocated by System Sales	-	-	-	-	-
7	Michigan Transmission Depreciation Expense	Allocated by Total Sales	21	(1)	20	3	23
8	Michigan Distribution Depreciation Expense	Allocated by Distribution	-	-	-	-	-
9	Michigan Customer Depreciation Expense	Allocated by Customers	0	0	0	0	0
10	Michigan Total Depreciation Expense		21	(1)	20	3	23
11	Production Depreciation Expense	General Ledger	131	17	148	14	162
12	Transmission Depreciation Expense	General Ledger	213	7	220	31	251
13	Distribution Depreciation Expense	General Ledger	19,862	1,728	21,590	1,781	23,371
14	Customer Depreciation Expense	General Ledger	734	96	830	102	932
15	Total Depreciation Expense		20,941	1,848	22,789	1,928	24,717

Line No.	Description	Reference	Historic 01/01/21 - 12/31/21	Adjustments	Projected 01/01/22 - 12/31/22	Adjustments	Proposed 01/01/23 - 12/31/23
1	MERC - CIP Expense	General Ledger	11,061	1,302	12,363	375	12,738
2	MERC - COVID Deferred Expense	General Ledger	-	-	-	-	-
3	MERC - ICE Cost Deferral	General Ledger	34	-	34	-	34
4	MERC - Rate Case Expense 2023	General Ledger	-	-	-	1,165	1,165
5	MERC - GAP Carry Cost	General Ledger	126	28	155	(14)	140
6	MERC - GUIC Sewer Laterals	General Ledger	601	(601)	0	-	-
7	MERC - GUIC EFV Outreach External	General Ledger	0	(0)	-	-	-
8	MERC - Farm Taps Phase 1 Costs	General Ledger	-	0	0	390	390
9	MERC - Amortization of Rate Case	General Ledger	10	(10)	-	-	-
10							
11	Total Amortization		<u>11,833</u>	<u>718</u>	<u>12,551</u>	<u>1,916</u>	<u>14,468</u>
12	MERC-Minnesota		11,833	718	12,551	1,916	14,468
13	MERC-Michigan		-	-	-	-	-

Line No.	Description	Reference	Historic 01/01/21 - 12/31/21	Adjustments	Projected 01/01/22 - 12/31/22	Adjustments	Proposed 01/01/23 - 12/31/23
1	Payroll from Budget	General Ledger	1,223	132	1,355	(31)	1,324
2	Property Taxes	General Ledger	10,939	5,022	15,961	6,103	22,064
3	Property Tax Tracker - Amortization (incl non-refund deferral \$)	General Ledger	374	(4,829)	(4,455)	3,564	(891)
4	Misc TOTIT	General Ledger	23	(22)	2	0	2
5	Unauthor Ins Tax	General Ledger	69	(10)	59	2	60
6	Total Taxes Other Than Income Tax		<u><u>12,629</u></u>	<u><u>292</u></u>	<u><u>12,921</u></u>	<u><u>9,638</u></u>	<u><u>22,559</u></u>
7	MERC-Minnesota Allocation Dollars						
8	Salaries	IR-9 Page 4	1,223		1,355		1,324
9	Rate base	IR-9 Page 3	11,390		11,555		21,210
10	MERC-Minnesota		<u><u>12,613</u></u>		<u><u>12,909</u></u>		<u><u>22,534</u></u>
11	MERC-Michigan	Line 11- Line 24	<u><u>16</u></u>		<u><u>12</u></u>		<u><u>26</u></u>

Line No.	Description	Reference	Historic 01/01/21 - 12/31/21	Adjustments	Projected 01/01/22 - 12/31/22	Adjustments	Proposed 01/01/23 - 12/31/23
1	431 Other Interest (excl Credit Facility Costs)		(8)	8	(1)	1	-
2	Rate Base Allocator - MN	IR-9 Page 3	99.866%		99.904%		99.886%
3	MERC-Minnesota	Line 1 * Line 2	<u>(8)</u>		<u>(1)</u>		<u>-</u>
4	MERC-Michigan	Line 3 - Line 11	<u>(0)</u>		<u>(0)</u>		<u>-</u>

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

	2023 Proposed Less 2021 Historical	
Present Rate Revenue	59,516	The increase in tariff revenues is significantly effected by the increase in the cost of gas expense as described below.
Cost of Gas	60,288	The cost of gas is calculated based off of the sales forecast described in the Direct Testimony and Exhibits of Jared Peccarelli, and a NYMEX strip based on July 21, 2022.
Non-Fuel O&M Expense	10,645	Non-Fuel O&M is forecasted to increase due to the Known and Measurable items as described in the testimony of Joe Zgonc.
Depreciation Expense	3,776	Depreciation expense was calculated based off of the forecasted plant expenditures as described in the testimonies of Joylyn Hoffman-Malueg and Joe Zgonc. These forecasted plant balances were then applied to the depreciation rates as described in the testimony of Joe Zgonc.
Amortization	2,634	Amortization expense is projected to increase; the CIP amortization and 2023 rate case expense and farm tap amortizations debuting in the rate case forecast as explained in the direct testimony of Joe Zgonc.
Taxes Other Than Income Taxes	9,931	Property taxes are expected to increase as described in the testimony Mark Kissinger.