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 major elements of operating income.

Sales and the associated tariff revenues were based on actual January 2016 through June 2022 weather normalized sales, with expected growth included as explained in the Direct Testimony of Mr. Jared Peccarelli.

Non-Tariff Revenues were forecasted based on historical trends and proposed amortizations of regulatory assets or liabilities.

Cost of gas expense was forecasted based on the sales forecast described above with July 21, 2022 NYMEX gas prices. Cost of gas expense is consistent with the Company's filing in Docket No. G011/MR-22-505.

Depreciation expense was calculated using March 31, 2022 actual plant balances along with the forecasted plant additions for the final nine months of 2022, and the full year plant additions for 2023. 2021 depreciation rates are based on the rates authorized in Docket No. G011/D-20-515, while the 2022 projected test year and the 2023 proposed test year should use the depreciation rates approved in Docket No. G011/D-22-261.

Amortization expense is detailed in Information Requirement Document No. 5 page 10 and described in the Direct Testimony of Joseph Zgonc.

Non-Fuel Operations & Maintenance ("O&M") expense was based on the 2021 historic non-fuel O&M, increased by inflation, and adjusted for known and measurable items as explained in the Direct Testimony of Joseph Zgonc.

Taxes other than income taxes consist of two major components. The largest component is property taxes, which were forecasted based on historical trends and discussed further in the Direct Testimony of Mark Kissinger. The second major component is payroll taxes, which were calculated based on the forecasted 2023 payroll.