Direct Testimony and Schedules
Wing H. Chan

Before the Minnesota Public Utilities Commission

State of Minnesota

In the Matter of the Application of Minnesota Power
For Authority to Increase Rates for Electric Utility
Service in Minnesota

Docket No. E015/GR-26-199

Exhibit _____

EMPLOYEE COMPENSATION AND BENEFITS

November 2, 2026

TABLE OF CONTENTS

Page

I. INTRODUCTION AND QUALIFICATIONS 1

II. COMMITMENTS FROM THE ACQUISITION OF ALLETE 3

III. OVERVIEW OF THE COMPANY'S WORKFORCE AND COMPENSATION 8

IV. EMPLOYEE COMPENSATION 22

A. Base Pay 28

B. Annual Incentive Plan 36

C. Short-Term Incentive Plan 40

D. Long-Term Incentive Plan 42

E. Top Ten Paid Employees 48

F. Interim Rate Adjustment for Employee Compensation and Benefits 50

V. EMPLOYEE BENEFITS 50

A. Health and Welfare Benefit Plans 53

1. Health Care 53

2. Dental Care 64

3. Other Components of the Health and Welfare Benefit Plans 65

B. Other Benefits 68

C. Retiree Benefits 71

1. Defined Contribution Plan ("DC Plan") 72

2. Defined Benefits Pension Plans 75

3. Other Post-Employment Benefits 80

4. Other Executive Retirement Benefits 83

VI. CONCLUSION 85

I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Wing H. Chan, and my business address is 30 West Superior Street, Duluth, Minnesota 55802.

Q. By whom are you employed and in what position?

A. I am employed by ALLETE, Inc. ("ALLETE"), doing business as Minnesota Power ("Minnesota Power" or the "Company"). My current position is Supervisor, HR Systems and Payroll.

Q. Please describe your educational background and work experience with the Company.

A. I earned a Bachelor of Arts degree in Accounting and a Bachelor of Science degree in Finance from the College of St. Scholastica. I am a certified public accountant in Minnesota and a certified internal auditor, with 17 years of experience at the Company. I spent 14 years in the internal audit department, where I worked on a wide range of operational and financial audits, integrated internal control frameworks for newly acquired companies, and contributed to several enterprise information system implementations. I then spent a year in the customer experience transformation department, leading electric vehicle initiatives. In my current role, I lead the human resources information systems, payroll, and executive compensation areas.

Q. What is the purpose of the testimony you are presenting on behalf of Minnesota Power?

A. The purpose of my Direct Testimony is to describe the compensation and benefits Minnesota Power provides to its employees and eligible retirees, explain the associated costs included in the test year, and support the reasonableness of the Company's request for recovery of those costs in rates. As Minnesota Power continues to transform the way it produces and delivers energy and advances its long-term clean energy objectives, the Company must maintain a skilled workforce capable of supporting safe, reliable, and cost-effective electric service. That need is particularly important at a time when the

Company is adding and retaining both bargaining unit and non-bargaining unit employees to support ongoing operations, major capital projects, and evolving legislative and regulatory requirements. My testimony explains how Minnesota Power's compensation and benefits programs are designed to remain market-competitive, support attraction and retention of employees, and align employee performance and rewards with outcomes that benefit customers. My testimony also explains that the Company's rate recovery request is limited to reasonable compensation and benefits costs that are necessary to support the workforce required to serve customers safely, reliably, and efficiently. The accounting treatment, test year expense, and rate base treatment associated with the Company's qualified pension plans and other post-employment benefits are addressed in the Direct Testimony of Company witness Tara L. Anderson.

Q. How is your testimony organized?

A. My testimony is structured as follows:

- Section II – Commitments from the Acquisition of ALLETE;
- Section III – Overview of the Company's Workforce and Compensation;
- Section IV – Employee Compensation;
- Section V – Employee Benefits; and
- Section VI – Conclusion.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes. I am sponsoring the following exhibits:

- MP Exhibit ___ (Chan), Direct Schedule 1 – Actual and Budgeted Employee Counts for 2023-2027;
- MP Exhibit ___ (Chan), Direct Schedule 2 – 2027 Culpepper Salary Budget Survey Results Excerpt;
- MP Exhibit ___ (Chan), Direct Schedule 3 – Society for Human Resource Management ("SHRM") Employee Benefits Survey Excerpt; and
- MP Exhibit ___ (Chan), Direct Schedule 4 – Summary of Compensation and Benefit Costs.

Q. Are there any other schedules in the rate filing that support the recommendations in your testimony?

A. Yes. I am sponsoring Schedule H – 5A in Volume 3, which sets forth the compensation of the Company's ten highest paid officers and employees, as required by Minn. Stat. § 216B.16, subd. 17(a)(5).

II. COMMITMENTS FROM THE ACQUISITION OF ALLETE

Q. What labor commitments did Minnesota Power make as part of the ALLETE acquisition by Canada Pension Plan Investment Board ("CPP") and Global Infrastructure Partners ("GIP") (together, "the Partners," now the Company's shareholders) (Docket No. E015/PA-24-198)?

A. Minnesota Power's labor-related commitments center on five main areas: protecting Minnesota jobs, maintaining workforce staffing levels, preserving employee compensation and benefits, honoring and supporting union labor, and providing workforce transparency through compliance reporting. These commitments were included in the approved settlement stipulation and were adopted in the Minnesota Public Utilities Commission's December 10, 2025 Order ("Acquisition Order"):[1]

- Order Point 17 – The Partners and Minnesota Power shall continue to locate Minnesota Power's call center in Minnesota and maintain staffing levels of no less than 22 call center employees for at least 10 years.
- Order Point 18 – Minnesota Power shall maintain internal expertise to provide high-quality utility service and continue to provide high-quality, Minnesota jobs. The Partners and Minnesota Power shall maintain employee staffing levels of no less than 10% below Minnesota Power's 5-year historic average employment levels (1,078 employees, as calculated based on Minnesota Power's response to IR 12) unless approved by the Commission.

[1] *In the Matter of the Petition of Minn. Power for Acquisition of ALLETE by Canada Pension Plan Investment Board and Global Infrastructure Partners*, Docket No. E015/PA-24-198, Minnesota Power, ORDER APPROVING PETITION FOR ACQUISITION WITH CONDITIONS AND ESTABLISHING OTHER REQUIREMENTS (Dec. 10, 2025) (eDocket No. 202512-225721-01).

- Order Point 19 – Minnesota Power shall continue to prioritize local, union labor whenever possible and shall require contractors and subcontractors to pay their workers prevailing wage.
- Order Point 20 – Minnesota Power nonunion employees will maintain the same or better position and compensation and benefits in aggregate for five years following the close of the transaction. This provision shall be subject to voluntary departures and terminations in the ordinary course and shall not apply to any nonunion employee who voluntarily agrees to a change in position or location. The Company acknowledges IBEW Local 31's exclusive representation as identified in current collective bargaining agreements and will continue to honor agreements as they are bargained.
- Order Point 22 – Within 30 days after the order, the Company shall make a compliance filing identifying the full-time equivalent employee ("FTE") count and the number of employees in each category or division of Minnesota Power such as transmission and distribution, generation, and operations support services. The reporting shall identify how many FTEs are union versus nonunion and their work locations. The reporting shall identify contractor work hours related to the job classifications covered under the Company's current collective bargaining agreement. The Commission delegates authority to the Executive Secretary to approve the division classification made by Minnesota Power if no objection is filed by the Department or OAG within 14 days of the compliance filing. Additionally, Minnesota Power shall list the number of those employees with their primary work location in Minnesota and the number of FTEs presently unfilled at the time of the filing.
- Order Point 23 - The Company shall make compliance filings quarterly, on dates designated by the Executive Secretary or by the Commission, reporting on the metrics identified in the initial filing under Order Point 22 or modifications approved by the Commission.
- Order Point 24 - So long as Minnesota Power is owned by Alloy Parent or any successor company affiliated with Global Infrastructure Partners or Canada Pension Plan Investment Board, the Company may not reduce the identified FTE

complement for each business area identified in Order Point 22 above by more than 10 percent below Minnesota Power's 5-year historic average employment (as of the date of the Acquisition) or move the primary work location out of Minnesota without prior Commission approval. The FTE count for each category and associated primary locations shall be reset with approval of the Commission.

- Order Point 25 - Upon filing a request to modify the FTE count in Minnesota or to relocate jobs to primary sites outside of Minnesota (unless it relates to a Company asset located outside of Minnesota) between rate cases, the Company must show such actions are reasonable, prudent, will not reduce service quality, and are in the public interest. The Commission delegates authority to the Executive Secretary to approve the request if no objection is made by the Department or OAG and no request for further investigation is made by a Commissioner within 14 days of the filing of any such request.

Q. Describe how Minnesota Power fulfills the labor-related commitments focused on protecting Minnesota jobs and maintaining workforce staffing levels following the acquisition.

A. Minnesota Power fulfills the labor-related commitments contained in Order Points 17 and 18 by maintaining both its Minnesota-based call center operations and overall employee staffing levels above the minimum thresholds established in the Acquisition Order.

As of August 31, 2026, Minnesota Power continues to operate its customer call center in Minnesota and employs 26 call center employees, exceeding the minimum of 22 employees required by Order Point 17. Minnesota Power is the only investor-owned electric utility in Minnesota with a union-represented call center, and it remains an office-first, in-person call center.

Minnesota Power also continues to maintain overall workforce staffing levels above the requirements of Order Point 18. As of August 31, 2026, the Company had 1,168 employees (1,162.7 full-time equivalents). This staffing level is approximately 8.3

percent above the five-year historical average employment level of 1,078 employees referenced in Order Point 18 and exceeds the Acquisition Order's minimum requirement that staffing levels not fall more than 10 percent below the five-year average without Commission approval.

Further, approximately 99 percent of Minnesota Power's workforce remains located in Minnesota. This demonstrates the Company's continued commitment to maintaining internal expertise, supporting high-quality utility service, preserving high-quality Minnesota jobs, and keeping its workforce rooted in the communities it serves.

Q. Describe how Minnesota Power fulfills the labor-related commitments related to preserving employee compensation and benefits and honoring and supporting union labor contained in Order Points 19 and 20 from the Acquisition Order.

A. Minnesota Power fulfills the labor-related commitments contained in Order Points 19 and 20 by continuing to support union labor, honoring collective bargaining relationships, and preserving nonunion employee positions, compensation, and benefits.

With respect to Order Point 19, Minnesota Power continues to prioritize local, union labor whenever practicable and requires contractors and subcontractors to comply with applicable prevailing wage requirements. The Company incorporates these expectations into its procurement and contracting processes and routinely engages qualified union contractors for construction, maintenance, and infrastructure projects. Through these practices, Minnesota Power continues to support local union labor and comply with the commitments established in the Acquisition Order.

With respect to Order Point 20, Minnesota Power remains committed to maintaining the same or better positions, compensation, and benefits in the aggregate for nonunion employees during the five-year period following the close of the transaction. The Company has continued to preserve its compensation and benefits programs for

nonunion employees and has taken no actions inconsistent with the protections established under the Acquisition Order.

Also consistent with Order Point 20, Minnesota Power continues to honor its collective bargaining agreements and maintain a strong working relationship with the International Brotherhood of Electrical Workers ("IBEW") Local 31. As discussed in the Rebuttal Testimony of Laura E. Krollman filed in Docket No. E015/PA-24-198, Minnesota Power and IBEW Local 31 reached a tentative agreement that included a two-year extension of the collective bargaining agreement beyond its April 30, 2026, expiration date, negotiated wage increases, and a process for reviewing mutually agreed-upon job classifications against market data, as needed.[2] This agreement was subsequently finalized and ratified on March 18, 2025. In addition, Minnesota Power established the framework for a neutrality agreement separately with IBEW Local 31 and IBEW Local 1593. This framework affirms the Company's commitment to respect employees' choice regarding bargaining-unit representation and establishing general principles for recognition and future collective bargaining.

Additional discussion regarding compensation and employee benefits is provided in Sections IV and V.

Q. Describe how Minnesota Power fulfills the labor-related commitments focused on providing workforce transparency through compliance reporting as required by Order Points 22 through 25 of the Acquisition Order.

A. Consistent with Order Points 22 and 23, the Company submitted its initial compliance filing identifying employee and FTE staffing by category or division, including union and nonunion status, work locations, contractor work hours associated with classifications covered by the Company's current collective bargaining agreement, the number of employees whose primary work location is in Minnesota, and the number of

[2] *In the Matter of the Pet. Of Minn. Power for the Acquisition of ALLETE by Canada Pension Plan Investment Board and Global Infrastructure Partners*, Docket No. E015/PA-24-198, REBUTTAL TESTIMONY OF LAURA E. KROLLMAN at 4-5 (March 4, 2025) (eDocket No. 20253-216055-07).

unfilled FTE positions.[3] The Company has also continued to submit the required quarterly compliance filings in accordance with the schedule established by the Commission. Through these filings, the Company provides the Commission with regular, transparent, and detailed reporting regarding workforce composition, staffing levels, employee locations, and contractor utilization consistent with the requirements of the Acquisition Order.

Minnesota Power also understands and complies with the requirements of Order Points 24 and 25, which require Commission approval before the Company can reduce staffing levels below the thresholds established in the Acquisition Order or relocate primary work locations outside Minnesota. To date, no such filing has been necessary because Minnesota Power has not sought to reduce its identified FTE complement below the allowable thresholds, nor has it proposed relocating primary work locations outside Minnesota.

III. OVERVIEW OF THE COMPANY'S WORKFORCE AND COMPENSATION

Q. Please briefly describe Minnesota Power's workforce.

A. By the end of 2027, Minnesota Power expects to provide jobs to 1,292 full-time and part-time employees, including 465 employees represented by unions (referred to as bargaining unit employees) and 827 non-bargaining unit employees. As discussed later in my Direct Testimony, this is an increase of 144 full-time and part-time, bargaining unit and non-bargaining unit employees in 2026 and 2027 compared to the 2025 actual number of employees. Additionally, as part of the Company's employee talent pipeline strategy, discussed later in my testimony, Minnesota Power expects to employ 34 interns during 2027. Minnesota Power's employees perform a variety of functions that support the Company's ability to supply retail electric service to more than 150,000 customers and wholesale service to 14 municipalities in Minnesota.

[3] *In the Matter of the Petition of Minn. Power for Acquisition of ALLETE by Canada Pension Plan Investment Board and Global Infrastructure Partners*, Docket No. E015/PA-24-198, QUARTERLY FULL-TIME EQUIVALENT EMPLOYEE REPORT (July 1, 2026) (eDocket Nos. 20267-233721-01, 20267-233721-02, 20267-233721-03, and 20267-233721-04).

Q. How has Minnesota Power's workforce evolved over the last few years?

A. Minnesota Power's workforce continues to evolve in terms of both the types of work and jobs needed to operate the utility and the number of employees needed to transition towards 100 percent carbon-free electricity for Minnesota Power customers. The Company has an ongoing process of evaluating and aligning its workforce to meet the needs of the system transformation across core functions: generation, distribution, and transmission.

As discussed in the Direct Testimonies of Company witnesses Todd Z. Simmons, Daniel W. Gunderson, and Joshua P. Goutermont, Minnesota Power continues to transform its generation fleet, expand and optimize its transmission system in response to regional planning needs and interconnection growth, and modernize its distribution system to address reliability, resiliency, wildfire risk, and increasing automation. Each of these changes carries workforce implications. Generation workforce alignment will continue as the fleet transformation progresses. Transmission workforce alignment remains critical as the Company responds to the convergence of regional planning activity, aging asset replacement, and increased interconnection requests. On the distribution system, growth in vegetation management, wildfire mitigation, connecting new Distributed Energy Resources, and grid modernization work together with a utility training program, each of which requires additional employees and new technical skills.

This growth across these core functions drives the Company's need to add and retain skilled employees in engineering, operations, planning, support services, and the skilled trades. Accordingly, Minnesota Power's employee headcount is increasing as the Company works to ensure it has the right number of employees, with the right capabilities, to meet its energy transformation goals. Just as important as the size and composition of the workforce is how that work is carried out. Minnesota Power expects its employees to uphold ALLETE's four core values:

- Integrity: We conduct ourselves honestly and ethically—integrity is the foundation of all we do.
- Safety: We commit to be injury-free at work, at home, and in our communities.

- People: We care about others, respect our differences, and create opportunities for everyone to thrive.
- Planet: We are building a cleaner, better world.

These values shape how Minnesota Power recruits, develops, and retains its workforce as the Company builds the workforce needed to execute its energy transformation strategy.

Q. Please describe why Minnesota Power's employee headcount is increasing.

A. Minnesota Power's employee headcount is increasing as the Company continues to position its workforce to meet the evolving demands of the energy industry and support its long-term strategic objectives. Growth in staffing reflects increased operational needs associated with the energy transition, expansion and modernization of transmission infrastructure, enhanced regulatory and compliance requirements, cybersecurity investments, and the Company's commitment to maintaining safe, reliable, and cost-effective service for customers.

While a significant portion of the increased employee headcount is related to generation, transmission, and distribution activities, as described above, several other areas within the Company are also undergoing changes or experiencing expanded support needs as a result of the Company's growing infrastructure investments. For example, additional resources are needed in areas such as engineering and project support, regulatory and compliance, and technology and cybersecurity to support the planning, execution, and ongoing operation of these investments.

Q. Is this increase in employees unique to Minnesota Power?

A. No. Minnesota Power is not unique in this regard. Utilities across the country are increasing staffing levels to support infrastructure investments, system reliability, grid modernization, and evolving customer and regulatory requirements.[4] These factors are

[4] U.S. Bureau of Labor Statistics, *Utilities fastest job growth, private healthcare and social assistance most new jobs, projected 2025–35*, accessed on October 22, 2026, available at: https://www.bls.gov/opub/ted/2026/utilities-fastest-job-growth-private-healthcare-and-social-assistance-most-new-jobs-projected-2025-35.htm.

driving increased demand for employees in electric utility operations, engineering, technical specialties, and skilled trades.

Q. What else is Minnesota Power doing to plan for the future of its workforce?

A. It is increasingly important and necessary to retain the Company's current employees, and to fill open positions due to both newly created jobs and attrition. The Company was successful in meeting its budgeted employee count in 2025. The Company is also working diligently to recruit and then onboard the new employees needed for 2026 and 2027. As I explain throughout my testimony, the Company is making significant progress in its talent strategy efforts through several initiatives to ensure the retention of current employees and attraction of new employees.

Q. What is Minnesota Power's objective regarding employee compensation and benefits?

A. Minnesota Power recognizes that a well-designed compensation and benefits program is essential to attracting, retaining, and engaging a highly skilled workforce. As the Company works to deliver safe, reliable, and cost-effective energy to its customers, maintaining a capable, motivated, and high-performing workforce is critical to achieving these objectives.

Accordingly, Minnesota Power's objective is to provide compensation and benefits to its employees that are market-competitive, internally equitable, and aligned with business strategy and industry practices. The Company regularly evaluates its programs to ensure they remain responsive to evolving workforce expectations and external market conditions.

At the same time, Minnesota Power is committed to balancing the employee value proposition with its responsibility to customers as compensation and benefits are managed through a lens of cost discipline and long-term sustainability. This approach ensures that the Company's compensation and benefits programs support workforce needs while maintaining cost-effectiveness and delivering value to customers.

Q. How does Minnesota Power determine whether it is providing market-competitive compensation and benefits?

A. Minnesota Power evaluates the competitiveness of its compensation and benefits programs through a comprehensive benchmarking approach that incorporates multiple data sources. The Company compares its pay and benefit levels to those of other employers using both utility-specific and general industry market data. This dual-market perspective is important because many of Minnesota Power's roles include positions in accounting, human resources, finance, engineering, and information technology which are not unique to the utility industry and compete with a broader labor market.

To support this analysis, Minnesota Power uses a range of independent compensation and benefits surveys and consulting resources, including nationally recognized providers such as Aon Radford, Willis Towers Watson ("WTW"), Culpepper, KFF, Lockton, Creative Planning, and other utility-focused benchmarking groups.

The Company conducts continuous analyses of this market data to assess how its total compensation and benefits compare to peers and to inform adjustments where appropriate. Through this ongoing, data-driven process, Minnesota Power ensures its programs remain competitive with the external market while supporting its ability to attract and retain a skilled workforce.

Q. What challenges does Minnesota Power face in recruiting and retaining the skilled employees necessary to serve the needs of its customers?

A. Recruiting and retaining employees with specialized, utility-specific technical or high demand skills has been increasingly difficult in recent years and economic data strongly suggests this trend will continue or worsen. Specifically, the Minnesota Department of Employment and Economic Development ("DEED") continues to illustrate that the economic environment in northeast Minnesota, which includes the City of Duluth, faces

two main challenges: (1) a tightening labor market and (2) an aging population.[5] Additional data from the Minnesota Chamber Foundation indicates that high labor force participation leaves little room for expansion as Minnesota ranks among the top states for labor force participation – sixth in the nation in 2025.[6]

Q. Please describe how a tightening labor market affects Minnesota Power's ability to attract and retain qualified employees.

A. A tightening labor market requires Minnesota Power to compete with other northeast Minnesota employers, and increasingly with employers outside the region and outside the utility industry, for a limited pool of qualified applicants. This is particularly true in senior-level and specialty areas such as engineering, analytics, corporate business functions, and the highly skilled trades. Labor force participation in northeast Minnesota has consistently trailed the statewide rate, leaving regional employers with a proportionally smaller workforce pool, as discussed further below. Based on the number of qualified applicants received for open positions, Minnesota Power continues to find that the candidate pool for many specialty roles remains limited.

Competition for energy talent has also expanded well beyond traditional utility employers. As reported by CNBC in January 2026, large technology companies investing heavily in artificial intelligence have been engaged in an energy-related hiring spree in order to secure the power needed for data center growth. According to data compiled by Workforce.ai for CNBC, energy-related hiring by these companies increased 34 percent year-over-year in 2024 and remained approximately 30 percent above 2022 levels in 2025.[7] That hiring has been concentrated in operational energy functions, including energy procurement, energy markets, grid interface, and energy

[5] Minnesota Department of Employment and Economic Development, *Northeast Minnesota Planning Region, 2025 Regional Profile*, accessed on September 9, 2026, available at: https://mn.gov/deed/data/regional-lmi/northeast-lmi.jsp.
[6] Minnesota Chamber of Commerce, *2026 Business Benchmarks Report*, accessed on September 9, 2026, available at: https://mnchamber.com/2026-business-benchmarks-report.
[7] CNBC, *Big Tech is poaching energy talent to fuel its AI ambitions*, accessed on September 26, 2026, available at: https://www.cnbc.com/2026/01/14/big-tech-google-microsoft-energy-hiring-ai.html.

strategy, which are the same functional areas in which utilities such as Minnesota Power must maintain expertise.

Q. Why is the labor market in northeast Minnesota area so tight?

A. Of the six planning regions into which DEED divides the state, northeast Minnesota is the least populated. As illustrated in Table 1, northeast Minnesota has experienced an insignificant increase in population since 2010, increasing by 515 people, even though the population of the state of Minnesota has grown by 526,480 people, a 9.9 percent increase. Approximately 70 percent of the Company's employees work in St. Louis County, which has only increased its population by 0.1 percent since 2010.

Table 1. Northeast Minnesota and State of Minnesota Population Change 2010-2025

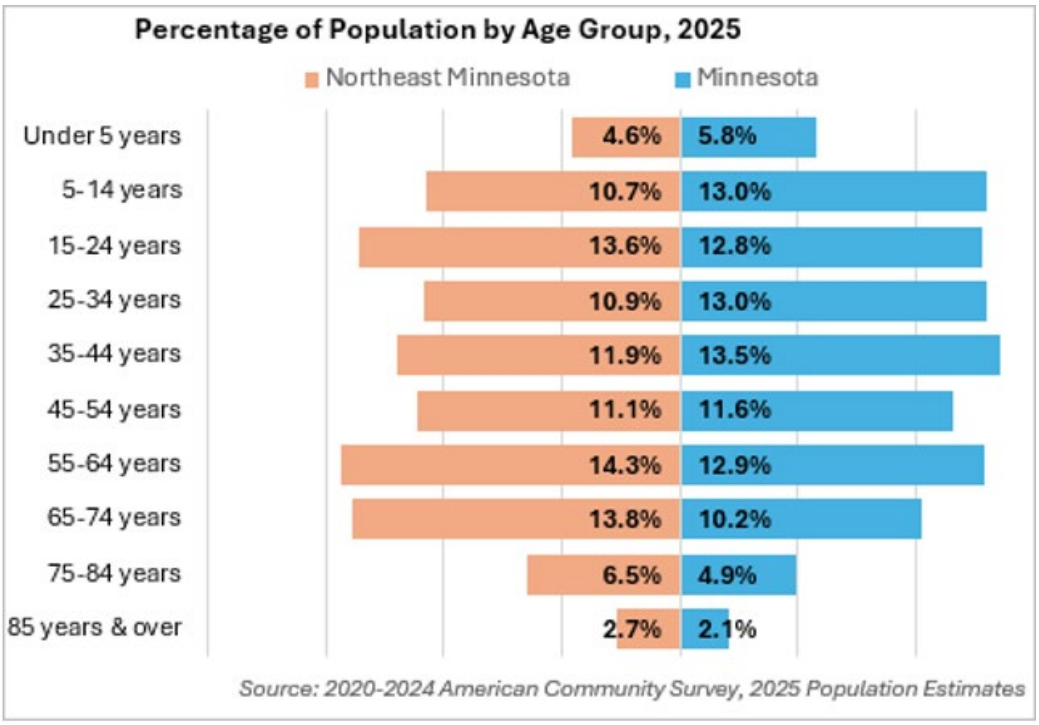
Table 1. Population Change 2010-2025

Area	2010 Population	2020 Population	2025 Population	2010-2025 Change		2020-2025 Change	
				Number	Percentage	Number	Percentage
Northeast Minnesota	**326,225**	**325,689**	**326,740**	**+515**	**+0.16%**	**+1,051**	**+0.32%**
Aitkin Co.	16,202	15,689	16,252	+50	+0.3%	+563	+3.6%
Carlton Co.	35,386	36,200	36,711	+1,325	+3.7%	+511	+1.4%
Cook Co.	5,176	5,602	5,522	+346	+6.7%	-80	-1.4%
Itasca Co.	45,058	44,996	45,404	+346	+0.8%	+408	+0.9%
Koochiching Co.	13,311	12,061	11,587	-1,724	-13.0%	-474	-3.9%
Lake Co.	10,866	10,914	10,746	-120	-1.1%	-168	-1.5%
St. Louis Co.	200,226	200,227	200,518	+292	+0.1%	+291	+0.1%
City of Duluth	86,265	86,721	87,986	+1,721	+2.0%	+1,265	+1.5%
WDB 3 - Northeast	239,960	238,968	239,371	-589	-0.2%	+403	+0.2%
Central Minnesota	*684,001*	*725,936*	*765,298*	+81,297	+11.9%	+39,362	+5.4%
Northwest Minnesota	*553,805*	*575,437*	*586,268*	+32,463	+5.9%	+10,831	+1.9%
Southeast Minnesota	*494,684*	*517,866*	*527,116*	+32,432	+6.6%	+9,250	+1.8%
Southwest Minnesota	*395,643*	*398,692*	*398,970*	+3,327	+0.84%	+278	+0.07%
Twin Cities Metro	*2,849,567*	*3,163,113*	*3,226,013*	+376,446	+13.2%	+62,900	+2.0%
State of Minnesota	**5,303,925**	**5,706,733**	**5,830,405**	**+526,480**	**+9.9%**	**+123,672**	**+2.2%**

Source: U.S. Census Bureau, 2010 and 2020 Decennial Census, 2025 Pop. Estimates

In addition to the relatively flat population growth rate, the northeast Minnesota region also has an aging population. Figure 1 shows that northeast Minnesota has a much older population than the state, with 23 percent of residents aged 65 years and over, compared to 17.2 percent statewide, and a lower percentage of people in the 25- to 54-year-old age group than the state (33.9 percent compared to 38.1 percent, respectively).

Figure 1. Age of Northeast Minnesota and State of Minnesota Populations



Q. Are there any other unique challenges associated with recruiting and retaining employees in northeast Minnesota as compared to the state as a whole?

A. Yes. Northeast Minnesota is a great location for outdoor enthusiasts to work, play, and live. However, for those who are not drawn to an outdoor lifestyle or do not have a tie to the region, it can be difficult to persuade people to make the initial move to this region to work. Convincing an experienced hire to move to northeast Minnesota can be even more difficult when the hire has a trailing family member who is already working in a different market that the Company's region may not offer and who wants to continue working. Job applicants may be reluctant to move to the region for a variety of reasons, including the desire to stay in larger cities where there are more employment opportunities; more diverse cultural choices, such as large community centers, places of worship, restaurants, and grocery stores; or to live in their desired location and work remotely while earning a higher income with a more generous compensation and benefits package than what Minnesota Power is able to offer.

Q. Have remote work opportunities resolved these concerns?

A. No. While the Company identified and provided remote work opportunities for certain roles, the Company has many roles that cannot be completed entirely remotely. Therefore, these challenges remain as the Company works to attract, retain, and engage its workforce.

Q. How has Minnesota Power responded to the challenges associated with recruiting and retaining employees in northeast Minnesota?

A. Minnesota Power has responded to the recruiting and retention challenges in northeast Minnesota through a combination of talent attraction efforts, employee development, leadership development, workplace flexibility, and ongoing review of compensation and benefits. These efforts are intended to strengthen the Company's candidate pool, improve quality of hire, support employee engagement, and retain critical talent in a competitive labor market.

To support recruitment, the Company attends a significant number of recruiting, networking, and job and career fairs, both within and outside of the state, and develops an annual outreach strategy based on current hiring needs and future workforce demands, while continuing to recognize the importance of Minnesota Power's connection to the communities it serves. The Company also offers job shadow opportunities, Company building and generation facility tours led by Company professionals, and mock interviews at local colleges and career events to increase awareness of utility careers and build interest among prospective candidates.

The Company continues to invest in its robust and successful internship program as an important part of its long-term talent strategy, particularly for entry-level roles and career pathways that are increasingly difficult to fill at more advanced levels, such as engineering, accounting, budget and analytics, and utility-specific positions. The internship program is incredibly successful, with a 35 percent conversion rate – this means that 35 percent of the Company's interns are converting into full-time roles. Given the Company's national recruiting footprint, work authorization limitations

affecting a portion of its intern population, and highly structured planning in the utility industry, the Company's 35 percent conversion rate reflects targeted hiring into critical roles rather than volume-based conversion. The Company's focus is on quality of the employee hire and long-term retention rather than maximizing the conversion percentage. Additionally, the internship program provides a growth and development opportunity for mid-level and senior-level professional employees by allowing them to take on additional responsibilities, for example supervising an intern or leading an intern's project work. These experiences allow employees to develop and apply leadership skills on a smaller scale, ultimately contributing to retention and engagement among skilled workers.

At the same time, the Company recognizes that recruitment challenges are not limited to entry-level positions. Minnesota Power is also developing strategies to attract senior-level professional employees, as that segment of the labor market has become more difficult to recruit successfully. This further underscores the importance of retaining and engaging the Company's current workforce.

To support retention and broaden the available talent pool, the Company continues to embrace alternative work arrangements and hybrid work where job duties permit. Alternative work schedules and hybrid work arrangements can help the Company fill highly skilled roles that do not require an on-site presence, while also helping employees balance work with family, education, and other commitments. The Company also continues to invest in employee development through its tuition reimbursement program, internal training opportunities, engagement with industry and local peers, and on-the-job development through cross-functional and project team participation.

In addition, employee-led efforts under the Company's "Living Our People" initiative support engagement and connection across the organization. The groups focus on initiatives that strengthen the Company's efforts in areas such as workforce, supply chain, corporate citizenship, communications, safety, and customers. These employee-led subcommittees identify and share learning and engagement opportunities; develop

and maintain communication platforms to raise awareness, educate, inspire and engage employees; and highlight employees, retirees, customers and community partners.

Finally, the Company regularly reviews compensation for all positions and adjusts based on market data, including establishing new or refining existing position compensation targets to ensure employees are paid competitively and commensurate with their skills, scope of responsibility, and market conditions. In addition to market competitive compensation, the Company offers a thoughtfully designed benefit package, incentive plans, and bonus opportunities to support engagement and retention across the organization.

Q. Has Minnesota Power undertaken any specific initiatives to further broaden its reach in attracting talent?

A. Yes. In 2024, it became clear that the Company's current strategy for recruiting talent was no longer sufficient, as the Company's employee growth trajectory has outpaced its ability to fill senior-level professional and highly skilled roles. In response, the Company began developing a more robust recruiting strategy in 2025, focused on actively sourcing candidates through a variety of avenues. These efforts include engaging senior-level professionals who may not be actively seeking employment through social media outreach, recruiting platforms, and word-of-mouth referrals, stronger relationships with local college professors to access broader networks, connecting with additional workforce development initiatives, increasing brand awareness through targeted advertisements, enhancing job advertisement language, creating an engineering candidate pool, and sponsoring H-1B visas for employees in specialized fields. To further support these efforts, in 2026 the Company filled a dedicated recruiter role responsible for continuing to develop and implement this strategy. Also in 2026, the Company began replacing its current applicant tracking system. This strategic move will provide the foundation needed to support the Company's expanded recruiting efforts, enabling the team to more effectively manage candidate workflows, track sourcing outcomes, and scale recruitment activity in alignment with the Company's growth trajectory in a more efficient manner.

Q. What other steps has the Company taken to address these workforce challenges?

A. In 2025, the Minnesota Indigenous Energy Workforce Initiative ("MIEWI") was developed by James Whirlwind Soldier, Workforce Strategy Consultant with DEED, and Annette Kuyper, Community Engagement Specialist with Great River Energy. Minnesota Power joined the inaugural workshop in November 2025. The goal of this initiative is to develop career and educational pathways for Indigenous talent within Minnesota's energy sector. The initiative helps align the workforce needs of Minnesota's energy industry with the strengths, values, and sovereignty of Indigenous communities, while fostering greater opportunities for Indigenous participation in the energy workforce. On August 20, 2026, Minnesota Power hosted the MIEWI workshop at its headquarters in downtown Duluth. A total of 44 participants attended in-person, while an additional 26 joined virtually from across Minnesota. The workshop focused on advancing the objectives and action items identified through previous Strengths, Weaknesses, Opportunities, and Threats analysis and planning sessions. Discussions centered on three key areas: Group A: Education, Training & Career Entry, Group B: Cultural Adaptation, Trust & Retention and Group C: Increasing Exposure and Overcoming Barriers, with participants collaborating to further refine strategies and priorities within each focus area.

In early 2026, Minnesota Power became a Disability:IN Minnesota Bronze member. This membership provides free training, company recognition career fair discounts, and access to the Jobs Ability job network, expanding access to a larger talent pool and providing continuing education for disability inclusion in the workforce. The Company joined the 2026 spring INclusive Career Fair and began posting jobs to Jobs Ability in July 2026.

Also in 2026, Minnesota Power became a member of The Center for Energy Workforce Development, which provides the Company more access to resources for workforce planning, collaboration among other utilities, and career awareness and promotion. Additionally, the membership includes access to Troops to Energy Jobs, a career site

designed to support those with military experience in the workforce and to connect them to employers who support veterans and service members. For decades, Minnesota Power has supported veterans, military members, and their families in various ways and has been a Beyond the Yellow Ribbon company since 2016. This designation recognizes the Company's ongoing commitment to hiring, supporting, and retaining veterans and engaging its military-connected employees, their families, and the community. Minnesota Power is proud to say that this program has continued to grow and evolve in meaningful and impactful ways since 2016.

Q. What does Minnesota Power do to attract and retain military personnel?

A. Offering benefits to attract and retain veterans and active-duty personnel is an effective way to offset the tightening labor market and projected retirements. Thousands of Minnesotans have served and continue to serve our country, and a support system between companies, cities, and counties is critical to allow for a successful transition into the workplace for deployed service-members, and recognition and honor for all veterans. Utilities have long valued the skills and contributions from military service in the energy industry; military personnel often have technical skills that are closely translatable to a utility environment. Minnesota Power has a unique opportunity to attract and retain military-connected employees as the Company's headquarters is located near an active Coast Guard Station and Air National Guard Base. The Company continues to engage in the following areas:

- Attend the annual Minnesota Veterans Career Fair, and sponsor and attend the Camp Ripley Job and Resource Fair.
- Review policies and procedures annually to better attract and retain military-connected personnel and to ensure their benefits are market-competitive. In 2024, the Company established a "Peace of Mind" program to provide financial assistance to employees being deployed. Once a year, employees being deployed for longer than 30 days qualify for a net payment of $200 to help manage personal preparations before deployment.
- Serve as a GI Bill® Training Facility for several apprenticeship programs through both the federal and state of Minnesota program. Currently, all Company

apprenticeships are bargaining unit positions. Open positions that qualify for GI Bill benefits include language that says *Approved for the GI Bill®* in the job postings.

- Continue to engage employees in military-related volunteer opportunities, strengthening the Company's ties to the community and supporting employee retention. As of October 1, 2026, Minnesota Power had 86 employees self-identify either as a veteran or an active service member, and 101 employees signed up for the volunteer pool.

Q. How has Minnesota Power been recognized for its commitment to attracting and retaining military personnel?

A. Minnesota Power's support for veterans, military-connected employees, and their families has been recognized over many years through the Employer Support of the Guard and Reserve ("ESGR"), a Department of Defense program established to promote cooperation between service members and their employers. That recognition began at the individual leader level, with Company leaders receiving Patriot Awards and the Seven Seals Award in acknowledgment of their support for employees serving in the Guard and Reserve. Building on that foundation, Minnesota Power itself received the ESGR Above and Beyond Award, recognizing the Company's broader organizational commitment to its military-connected workforce.

Minnesota Power has continued and expanded that commitment in the years since. The Company has held the Beyond the Yellow Ribbon Company designation since 2016, and its Yellow Ribbon committee has been recognized with a Certificate of Appreciation from the United States Air Force for the support provided to a deployed employee. Minnesota Power also collaborates with other businesses across its service territory to encourage their participation in Minnesota's Beyond the Yellow Ribbon program and has been a mentor to other businesses pursuing the certification. Together, these recognitions reflect a sustained and ongoing commitment to supporting employees who serve and to positioning Minnesota Power as an employer of choice for veterans and military-connected candidates.

Q. Please summarize Minnesota Power's approach to its talent strategy.

A. Minnesota Power's talent strategy is centered on ongoing workforce planning to retain current employees, attract new employees, and fill vacancies as the business evolves. The Company's approach combines market-competitive and internally equitable compensation and benefits, targeted recruiting and community outreach, internships, employee development and engagement initiatives, and workplace flexibility where job duties permit. Minnesota Power has also expanded its strategy through more proactive sourcing for hard-to-fill and senior-level roles, investment in recruiting infrastructure, and focused outreach to veterans, military-connected individuals, Indigenous talent, and individuals with disabilities. In addition, the Company is investing in the training and development of its current workforce. For example, as the Company expands its solar generation resources, it is developing an apprenticeship program to build the skills needed to operate and maintain these facilities. The program is also expected to give employees in other generation areas the opportunity to build on their existing skills and transition into emerging roles in solar generation. Overall, the strategy is designed to build and sustain the skilled workforce needed to support safe, reliable, and cost-effective utility service.

IV. EMPLOYEE COMPENSATION

Q. What is the purpose of this section of your testimony?

A. In this section of my Direct Testimony, I will describe the components of compensation and the costs of each component. I will also describe the importance of each component, and how the costs have evolved, resulting in the amounts included in Minnesota Power's 2027 test year.

Q. What are the components of the Company's compensation program?

A. Minnesota Power's compensation program includes two categories: base pay and incentive compensation.

Base pay refers to the fixed rate of income an employee receives for their work over a defined period, providing stability and predictability in employees' earnings. Base pay

is the primary component of all employees' cash compensation. For bargaining unit employees, base pay is determined by the terms of the applicable collective bargaining agreement with IBEW Local 31 or IBEW Local 1593. These agreements establish the negotiated wage progression schedules and other pay adjustments and are collectively bargained by representatives from both the Company and IBEW. For bargaining unit employees represented by IBEW Local 31, base pay is generally the sole component of cash compensation. Effective January 1, 2026, the two employees represented by IBEW 1593 also participate in a cash incentive plan in addition to base pay. For non-bargaining unit employees, an individual's base pay is determined by analyzing quantitative external market data, internal equity (*i.e.*, comparisons between employees performing similar work within the Company), and individual performance.

Incentive compensation is available to non-bargaining unit employees except as noted above. Incentive compensation has three components:

- Annual Incentive Plan ("AIP");
- Short-Term Incentive Plan ("STIP"); and
- Long-Term Incentive Plan ("LTIP").

The AIP and STIP are designed to drive short-term (one year) performance by aligning employee behaviors with certain goals and rewarding employees for achieving these common goals. As of August 2026, 193 employees in leadership positions and other key roles of the Company participate in the AIP, while 508 non-bargaining unit employees are eligible for STIP. Employees are not eligible to participate in both AIP and STIP.

The LTIP is designed to drive long-term performance and retain and engage executive talent. Eligibility for the LTIP is limited to 13 vice-president level and above employees of the Company. Consistent with external market compensation practices, these positions are responsible for strategic decision-making and have a significant ability to influence the Company's long-term performance.

The AIP and the LTIP earning opportunities are structured such that, as an employee's job responsibilities increase, a greater percentage of that employee's compensation is tied to Company performance. The STIP is a fixed opportunity of the employee's total compensation tied to Company performance**.** The AIP and STIP are annual plans with a single-year vesting period, meaning awards are earned based on performance during the applicable plan year. By contrast, the LTIP is earned over a three-year performance period, which aligns a portion of compensation with the Company's longer-term results. Participants who separate from service for reasons other than retirement may forfeit a portion of their incentive compensation in the plan year. Participants who retire prior to the end of the plan year may receive prorated incentive compensation earned during employment. The plan components serve as a powerful tool to reinforce desired behaviors, promote collective accountability, and foster a performance-driven culture within the organization.

The Company is requesting recovery of the AIP costs up to 20 percent of each participant's base salary, as explained in Section IV.B of my Direct Testimony. The Company is also requesting recovery of STIP, as explained in Section IV.C of my Direct Testimony, as well as the Company's redesigned LTIP, as discussed in Section IV.D of my Direct Testimony.

Q. Please describe the importance of Minnesota Power's total compensation program.

A. It is increasingly important that the Company has the correct total compensation mix of base pay, short-term incentives, and long-term incentives as well as other individual performance-based recognition to align with market conditions for employees at all levels across the Company. As explained throughout my Direct Testimony, the incentive plans pay-at-risk feature drives employee investment in the work they do, and the combination of base pay plus incentives ensures that employees' total compensation remains near the market median while individual performance-based awards such as high performance awards and spot bonuses to help the Company recognize, engage, and retain top talent which I discuss further in Section IV.A.

Q. Have there been any changes to Minnesota Power's base compensation or compensation philosophy since the 2023 Rate Case or the ALLETE acquisition by CPP and GIP?

A. Since Minnesota Power's 2023 Rate Case (Docket No. E015/GR-23-155) ("2023 Rate Case")[8] and the ALLETE acquisition by CPP and GIP, there have been no material changes to the structure or elements of the base compensation or to the Company's compensation philosophy. At the same time, with the expected employee headcount growth throughout 2026 and 2027 and given the workforce attraction and retention challenges discussed in Section III of my Direct Testimony, effective base compensation and other recognition programs have become increasingly important to the Company's ability to attract and retain qualified employees.

Q. Have there been any changes to the Company's incentive compensation programs?

A. Yes. In 2026, the Company redesigned its LTIP to limit eligibility to employees with a significant degree of influence over the Company's direction, strategy, and innovation, generally employees at the vice president level and above. This more targeted approach aligns LTIP with its purpose of retaining and tying the compensation of key employees to achievement and advancement of the Company's long-term objectives.

Because this change narrowed LTIP participation, the Company also adjusted AIP so that the total compensation for affected employees who were no longer eligible for LTIP would remain at market. Those employees retained their existing AIP target percentage and received an additional AIP opportunity (fixed AIP) reflecting the value previously delivered through the LTIP. The additional AIP opportunity is subject to the same performance goals and payout timing as the employee's existing AIP award. The Company is not seeking recovery for fixed AIP costs in this proceeding. This change preserves a competitive compensation structure for those employees and supports the Company's labor commitments discussed in Section II of my Direct Testimony.

[8] *In the Matter of the Application of Minn. Power for Auth. to Increase Rates for Elec. Utility Serv. in Minn.*, Docket No. E015/GR-23-155, DIRECT TESTIMONY OF LAURA E. KROLLMAN at 17-33 (Nov. 1, 2023) (eDocket No. 202311-200094-03).

Q. What is the total compensation, including Base Compensation, Spot Bonuses, High Performance Awards, AIP, STIP, and LTIP, for both bargaining unit and non-bargaining unit employees?

A. Table 2 provides the total compensation, including Base Compensation, Spot Bonuses, High Performance Awards, AIP, STIP, and LTIP, from 2023 actuals to the 2027 test year.

Table 2. Compensation, Including Base Compensation, Spot Bonuses, High Performance Awards, AIP, STIP, and LTIP – All Employees

	2023 Actual	2024 Actual	2025 Actual	2026 Projected Year	2027 Test Year
Base Compensation					
Total Company	$71,762,088	$75,862,312	$75,934,558	$84,139,213	$91,755,825
MN Jurisdictional[9]	$63,656,410	$67,583,182	$66,641,140	$73,856,256	$77,714,913
Spot Bonuses					
Total Company	$255,261	$72,524	$52,841	$44,618	$50,533
MN Jurisdictional[9]	$235,967	$64,917	$46,552	$38,149	$41,548
High Performance Awards					
Total Company	$181,754	$163,435	$196,118	$331,024	$358,879
MN Jurisdictional[9]	$161,394	$145,190	$172,713	$291,725	$307,767
AIP[10]					
Total Company	$7,520,825	$6,415,342	$3,054,989[11]	$5,595,780	$6,533,880
MN Jurisdictional[9]	$6,678,342	$5,699,197	$2,690,407	$4,931,449	$5,603,325
STIP					
Total Company	-[12]	$2,516,355	$964,590[11]	$2,322,636	$2,673,847
MN Jurisdictional[9]	-	$2,235,454	$849,476	$2,046,893	$2,293,038
Redesigned LTIP					
Total Company	-	-	-	$1,385,475	$2,836,925
MN Jurisdictional[9]	-	-	-	$1,220,991	$2,432,890
Legacy LTIP[13]					
Total Company	$2,858,578	$1,495,212	$2,368,992	$2,103,669	$1,080,572
MN Jurisdictional[9]	$2,538,360	$1,328,301	$2,086,276	$1,853,921	$926,677
Total Compensation, including Spot Bonuses, High Performance Awards, AIP, STIP and LTIP					
Total Company	$82,578,506	$86,525,180	$82,572,088	$95,922,415	$105,290,461
MN Jurisdictional[9]	$73,270,473	$77,056,241	$72,486,564	$84,239,384	$89,320,158

Q. What employee headcount is used as the basis for these compensation figures?

A. Table 3 provides the employee count from 2023 actuals to the 2027 test year. Actual and budgeted employee counts for 2023-2027 are also provided in MP Exhibit ___ (Chan), Direct Schedule 1.

[9] A summary of allocation factors used across the Company for purposes of calculating the Minnesota Jurisdictional totals is provided in Volume 3, Direct Schedules B-16 to B-19 and C-13 to C-16.

[10] AIP costs in this table reflect total AIP costs and do not include the 20 percent cap on AIP or removal of fixed AIP. Table 4 below shows the amount of AIP requested in this case.

[11] Lower actual costs in 2025 is due to unmet incentive compensation targets. Due to the acquisition by CPP and GIP, the Company still paid these costs out at target, but that portion of the 2025 AIP and STIP actual costs were recorded as transaction costs in non-regulated expenses rather than in AIP and STIP.

[12] The STIP was implemented effective January 1, 2024, with the first awards earned for the 2024 plan year. No STIP costs were incurred prior to 2024.

[13] Minnesota Power is not seeking recovery for Legacy LTIP costs in this rate case.

Table 3. Minnesota Power Employee Count 2023 – 2027

Employee Count	2023 Year-End (Actual)	2024 Year-End (Actual)	2025 Year-End (Actual)	2026 Projected Year-End (Actual and Budget)	2027 Test Year Year-End (Budget)
Full-time and Part-time	1,084	1,118	1,148	1,235	1,292

A. Base Pay

Q. Please describe the Company's objectives in establishing base pay amounts for its employees.

A. Minnesota Power's objective in establishing base pay is to compensate employees equitably and competitively based on their skills, experience, assigned responsibilities, and the value of the work they perform for the Company. A sound base pay structure supports the Company's ability to maintain the workforce necessary to provide safe, reliable, and cost-effective electric service to customers.

In establishing base pay, Minnesota Power seeks to maintain both external competitiveness and internal equity. External competitiveness helps the Company attract and retain qualified and effective employees in the labor markets in which it competes for talent. Internal equity helps ensure that employees in similar positions are compensated consistently, while also recognizing differences in experience, performance, and responsibility. Taken together, these objectives support a compensation structure that is market-informed, equitable, and aligned with the Company's operational needs.

Q. How does the Company determine an employee's base compensation?

A. For bargaining unit employees, annual base compensation adjustments are established through the collective bargaining process. For non-bargaining unit employees, Minnesota Power uses market-based salary ranges and generally seeks to position base compensation at approximately the midpoint of the applicable market range for each position, while recognizing that individual employee pay may vary based on relevant factors, which are described below.

At the time of hire, an employee's base compensation is established based on factors such as the individual's education, training, experience, job responsibilities, and then-current market conditions. After hire, the Company reviews employee base compensation on an on-going basis and, at a minimum, annually to determine whether adjustments are appropriate. That review considers a number of factors, including external market data, economic trends, years of experience, individual job performance, and overall compensation competitiveness. This process helps ensure that base compensation remains aligned with the Company's compensation objectives and supports its ability to attract and retain qualified and effective employees.

Q. How many bargaining unit employees does the Company have?

A. There are two unions with which the Company has collective bargaining agreements: the IBEW Local 31 and IBEW Local 1593. In 2027, Minnesota Power expects to have approximately 463 employees in Local 31, as compared to 446 employees in Local 31 in 2025 and 435 employees in Local 31 in 2024. In 2027, Minnesota Power expects to have two employees in Local 1593, the same number it had in 2024 and 2025.

Q. Does the Company's base compensation for the 2027 test year reflect negotiated wage increases specific to bargaining unit employees?

A. Yes. The Company has a strong relationship with Local 31 and Local 1593 leadership and is pleased with the recent ratification of two new collective bargaining agreements that the base pay increases will be effective into 2026 and 2027, respectively.

Under the Company's collective bargaining agreement, ratified on May 1, 2023, and new agreement, ratified on March 18, 2025, with Local 31, bargaining unit employees' base salaries increases are:

- 2.75 percent in 2022 lasting through April 30, 2023,
- 3.25 percent in May 2023 lasting through August 31, 2023,
- 3.25 percent increase in September 2023 lasting through December 31, 2023,
- 4 percent increase in January 2024 lasting through December 31, 2024,

- 4 percent increase in January 2025 lasting through December 31, 2025,
- 4.25 percent increase in January 2026 lasting through December 31, 2026, and
- 4 percent increase in January 2027 lasting through December 31, 2027.

Under the Company's collective bargaining agreement, ratified on June 27, 2023, and new agreement, ratified on August 11, 2025, with Local 1593, members' base salaries increases are:

- 2.75 percent in 2022 lasting through June 30, 2023,
- 4.5 percent in July 2023 lasting through June 30, 2024,
- 4 percent in July 2024 lasting through June 30, 2025,
- 3.25 percent in July 2025 lasting through December 31, 2025,
- 3 percent in January 2026 lasting through June 30, 2026,
- 2.5 percent in July 2026 lasting through December 31, 2026, and
- 4 percent in January 2027 lasting through December 31, 2027.

The 2027 test year base pay compensation amounts in Table 2 above reflects the negotiated base pay increases as part of these collective bargaining agreements.

Q. Do the collective bargaining agreements for Local 31 and Local 1593 reflect any other changes to compensation?

A. Yes. Local 31 members received an increase in shift differential, the premium pay provided to employees whose regularly scheduled shift begins outside of standard daytime hours, in the same percentage as their base compensation:

- 2.75 percent in 2022 lasting through April 30, 2023,
- 3.25 percent in May 2023 lasting through August 31, 2023,
- 3.25 percent increase in September 2023 lasting through December 31, 2023,
- 4 percent increase in January 2024 lasting through December 31, 2024,
- 4 percent increase in January 2025 lasting through December 31, 2025,
- 4.25 percent increase in January 2026 lasting through December 31, 2026, and
- 4 percent increase in January 2027 lasting through December 31, 2027.

Local 1593 members received the following compensation changes:

- Current members received a one-time gross bonus in the amount of $2,250 in 2023.
- Work stipends increased to $175 effective July 1, 2025.
- Effective January 1, 2026, members became eligible for a cash incentive plan based on meeting financial and operational metrics. The plan carries a maximum opportunity of $1,000 per participant.

Q. Are there any other changes reflected in the collective bargaining agreements for Local 31 and Local 1593?

A. Yes. While some contract changes may not directly affect base compensation, they are nevertheless important to maintaining a constructive and trusted relationship with represented employees and to ensuring the agreements remain appropriately aligned with the skills, responsibilities, and evolving needs of these positions.

In 2025, Minnesota Power and IBEW Local 31 and Local 1593 established a neutrality agreement within the current collective bargaining agreement that affirms employee choice regarding union representation and sets forth general principles governing future organizing activity, bargaining, and dispute resolution. The agreement serves as a framework for labor-management relations and does not change the substantive terms of any existing collective bargaining agreement.

For employees represented by Local 31, the collective bargaining agreement includes the addition of a short-term disability plan effective January 1, 2026. This change was made to help preserve the overall value of employee benefits in light of the implementation of Minnesota Paid Leave ("MNPL") requirements, which I discuss further in Section V of my Direct Testimony. In addition, Local 31 and Minnesota Power continue to work collaboratively to clarify and refine several provisions of the agreement to improve administration and mutual understanding.

Q. How did the Company develop the base compensation amounts for the 2027 test year?

A. The base compensation for the 2027 test year was developed beginning with the Company's budgeted employee headcount as of December 31, 2026, together with the budgeted hourly wage rates for bargaining unit employees and the budgeted annual salaries for non-bargaining unit employees. As shown in Table 3, the 2027 test year reflects approximately 57 more full-time and part-time employees than are included in the 2026 projected year. As of the time of filing, the Company is actively and diligently hiring for these positions and expects to have hired employees for these positions by the end of 2027.

These positions were identified through a deliberate workforce planning process as strategic hires needed to support the Company's portfolio of large capital projects and its continued ability to provide safe, reliable, and cost-effective electricity to customers. As discussed in Section III of my Direct Testimony, the transformation underway across the Company's generation, transmission, and distribution functions carries direct workforce implications, and these positions reflect the staffing required to execute that work. These additions are also necessary to support the Company's Energy*Forward* strategy and compliance with Minnesota's Carbon Free Energy Standard. Minnesota Power made specific, strategic, and deliberate increases to employee headcount over 2026, and is continuing that strategy into the 2027 test year to ensure that the Company has adequate resources to meet customer needs.

Finally, the base compensation amount for 2027 also includes a 4 percent merit adjustment for the non-bargaining unit employees and the bargaining unit employees. The net effect of these adjustments is an increase in base compensation, including Base Compensation and Spot Bonuses of approximately $7.6 million Total Company ($3.9 million MN Jurisdictional) from the 2026 projected year to the 2027 test year, as shown in Table 2.

Q. Turning to the base compensation structure itself, why is a 4 percent base pay increase appropriate for non-bargaining unit employees?

A. A 4 percent base pay increase is appropriate because it helps Minnesota Power maintain compensation that is competitive with the external market and consistent with broader industry trends. While the Company budgeted a 4 percent increase for the non-bargaining unit employee group overall, the actual increase provided to any individual employee may vary based on demonstrated performance and the employee's current compensation relative to the applicable market range and internal equity considerations. Specifically, results effective July 7, 2026, 2027 Culpepper Salary Budget Planning Survey, provided in MP Exhibit ___ (Chan), Direct Schedule 2, shows companies in the Energy and Utilities industry are projecting base salary increases of 4.5 percent for 2027. Minnesota Power's average annual merit increase for non-bargaining unit employees in 2026 was 4.5 percent.

It is necessary to provide market- and industry-competitive compensation to retain and engage employees in an increasingly challenging labor market. Minnesota Power's proposed 4 percent base pay increase is reasonable and consistent with external data and the 4 percent wage increase negotiated in the Local 31 collective bargaining agreement. Providing compensation that remains competitive with the market and broader industry trends is necessary to retain, engage, and attract qualified employees in a challenging labor market. In that context, Minnesota Power's proposed 4 percent base pay increase is reasonable, supported by market data, and consistent with the 4 percent wage increase negotiated in the Local 31 collective bargaining agreement.

Q. Does Minnesota Power offer any other pay-for-performance compensation programs in addition to the incentive compensation plans discussed above?

A. Yes. In addition to annual incentive plans, Minnesota Power maintains other pay-for-performance programs. The Company occasionally provides ad hoc project-specific incentive opportunities for major initiatives. In such cases, the Company creates custom agreements in advance with specific performance milestones. These agreements provide

incentive and recognition during critical and labor-intensive project development and construction periods.

Unlike incentive plans, which are prospective in nature and tied to the achievement of pre-established performance objectives, the Company also provides performance awards including High Performance Awards paid through payroll and Spot Bonuses paid through payroll or provided as gift cards or Minnesota Power company store merchandise credit, which are retrospective and intended to recognize performance that has already been achieved. These performance awards provide a cost-effective means of recognizing, engaging, and retaining high-performing employees.

Q. How does Minnesota Power administer these performance awards?

A. Minnesota Power administers performance awards based on the nature of the employee's contribution, the significance of the results achieved, and the type of award for which the employee is eligible.

High Performance Awards are performance-based payments that are designed to reward the top 10 percent of non-bargaining unit, non-management employees for sustained exceptional performance that contributed in a material way to achievement of the Company's strategic or operational goals. High Performance Awards generally range from $2,000 to $5,000 on a gross basis per individual. High Performance Awards are generally justified when an employee has been instrumental in achieving department objectives or large-scale process improvement over a sustained period. Because these awards are intended to recognize the highest performers within each department, each High Performance Award is reviewed by the Chief Executive Officer ("CEO").

By way of example, Minnesota Power provided a High Performance Award to an employee who played a key role in maintaining the reliability and operation of several critical transmission assets and strategic projects: high-voltage direct current control system, North Shore Static Synchronous Compensator ("STATCOM") outage, Warroad Series Compensation annual maintenance, Flexible Alternating Current Transmission

System lead for Riverton STATCOM, warranty coordination with Hitachi, and Cuyuna Series Compensation project. Their technical expertise and leadership attributes contributed to the reliable operation of critical infrastructure and advancement of strategic transmission investments while assuming additional responsibilities following a mid-year engineering vacancy.

Spot Bonuses are also performance-based awards, but they are generally intended to recognize more immediate accomplishments, such as going above and beyond normal job duties or delivering exceptional performance on specific projects. Spot bonuses may be paid through payroll or for smaller amounts be provided in the form of gift cards or Minnesota Power company store merchandise credit. In recent years, the Company has awarded numerous Spot Bonuses in the range from $50 to $250 via gift card or merchandise credit. Less frequently, the Company has provided higher Spot Bonus awards, ranging from $350 to several thousand dollars on a gross basis through payroll. These higher-dollar awards are used in limited circumstances where performance has greatly exceeded expectations or where an employee has contributed to the achievement of a significant customer-value milestone.

Eligibility for these awards depends on employee group and incentive plan participation. Non-bargaining unit employees may be eligible for High Performance Awards, Spot Bonuses as cash through payroll or gift cards, and Company store merchandise credit. Bargaining unit employees are eligible for Minnesota Power company store merchandise, consistent with applicable terms and past practice. Employees who are eligible to participate in the AIP are not eligible for High Performance Awards, but they remain eligible for Spot Bonuses, whether provided through payroll, gift cards, or Company store merchandise credits.

Q. What costs for High Performance Awards and Spot Bonuses (through payroll and gift cards/merchandise credits) are included in the 2027 test year?

A. Minnesota Power's 2027 test year budget includes $358,879 Total Company ($307,767 MN Jurisdictional) for High Performance Awards and $50,533 Total Company

($41,548 MN Jurisdictional) for Spot Bonuses paid through payroll, gift cards, or Minnesota Power company merchandise credit.

Q. Why does Minnesota Power offer High Performance Awards and Spot Bonuses?

A. Minnesota Power offers High Performance Awards and Spot Bonuses because performance-based compensation is an important tool for both recognizing exceptional contributions and for retaining qualified and talented employees. These recognition programs allow the Company to encourage and reward employees who deliver sustained exceptional performance or undertake significant additional effort, often requiring additional time, energy, or initiative, to achieve important operational, strategic, or customer focused outcomes.

These programs are also a more targeted and cost-effective alternative to increasing base compensation more broadly. That approach would increase the Company's fixed compensation costs on a permanent basis and would apply uniformly regardless of individual performance. By contrast, High Performance Awards and Spot Bonuses are variable, directed to specific employees and circumstances, and allow the Company to address competitiveness and retention needs at a lower overall cost to customers. According to the Gallagher 2025 Workforce Trends Report Series, Best in Class Benchmarking Analysis, 85 percent of large companies offer service awards or employee recognition awards. Furthermore, 94 percent of the companies labeled "Best in Class" by the Gallagher survey provide service awards or employee recognition awards.[14]

B. <u>Annual Incentive Plan</u>

Q. How is Minnesota Power's AIP designed?

A. The AIP is a key component of Minnesota Power's total compensation structure for eligible employees. It provides an important performance-based element of total cash compensation and is designed to motivate employees to achieve short- and medium-

[14] Gallagher, *2025 US Workforce Trends Report: Best-in-Class Benchmarking Analysis*, accessed on September 27, 2026, available at: https://www.ajg.com/2025-us-workforce-trends-report-best-in-class/.

term strategic, operational, and financial goals that benefit both customers and the Company. By tying a meaningful portion of compensation to the achievement of pre-established objectives, the AIP promotes accountability, reinforces performance in areas critical to the Company's success, including the quality of service provided to customers, and supports a competitive total compensation program.

The AIP is also an important component of the Company's market-based compensation philosophy for leadership positions. Minnesota Power generally establishes compensation for AIP participants so that, when target performance is achieved, total cash compensation—consisting of base salary and annual incentive compensation—is positioned near the 50th percentile of the competitive market. If performance falls below target, the resulting payout is reduced or eliminated, causing total cash compensation to fall below market. In that way, a portion of each participant's compensation is performance-based and at risk. In addition, the AIP includes an accountability measure tied to leadership safety engagement. Participants who do not complete a required quarterly leadership safety conversation are subject to a 2.5 percent reduction in their final AIP payout for each missed quarter, up to a maximum reduction of 10 percent.

Absent the AIP, Minnesota Power's total cash compensation for leadership positions would fall below the market median, making it more difficult for the Company to recruit, retain, and motivate qualified leadership talent. Without incentive compensation, the Company would need to rely more heavily on base pay to maintain market-competitive compensation levels. This approach would result in higher fixed compensation that would be paid regardless of whether the Company achieves its performance objectives. By contrast, the AIP allows the Company to maintain competitive compensation while placing a meaningful portion of that compensation at risk and tying it to the achievement of pre-established Company goals that benefit customers. Accordingly, the AIP is a necessary and integral part of the Company's compensation program.

Q. What are Minnesota Power's 2027 AIP goals?

A. The Company's goals fall broadly under three categories: operational and values; strategic; and financial. Each of these three categories is described below.

Operational and Values. The Company's 2027 operational and values goals are designed to demonstrate continuous safety improvement and reinforce the Company's commitment to reliable service, customer responsiveness, and operational discipline. These goals measure performance in areas that are important to both customers and the Company, including safety, generating unit availability, service reliability, customer call response, and billing accuracy.

There are two subcategories for this goal: (1) safety and (2) customer service and reliability. Under the safety category, the Company continued to commit to "*Living its Safety*" value, with a focus on preventing serious injury. Performance for the safety category is measured based on a safety index rating, comprised of both lagging indicators and leading indicators. The lagging indicators for the safety metric compare the Company's safety performance with other peer utilities, while the leading indicators for the safety metric focus on behaviors and actions intended to reduce serious injuries.

Under the customer service and reliability category, Minnesota Power strives to provide reliable electric service and strong customer service while maintaining the availability of generating resources needed to serve customers. This component includes generating unit availability measures for thermal, hydro, wind, and solar resources, as well as customer service and reliability measures such as statewide service reliability, work center reliability, non-Minnesota Distributed Energy Resources Interconnection Process service complaints, Cold Weather Rule protection, involuntary reconnect performance, customer call response times, and customer invoice accuracy. These performance metrics are intended to reflect both service quality and the Company's ability to provide safe, reliable, and cost-effective electric service to customers.

In addition, any willful disregard of environmental, reliability, or any Federal Energy Regulatory Commission regulation or standard will result in a reduction to or a non-payout for the operational and values goal.

Strategic. The strategic goal is designed to support the Company's long-term priorities and the successful execution of key initiatives. The goal measures performance in advancing all dimensions of the Company's sustainability journey towards a zero-carbon future through the execution of transmission strategy and clean energy projects.

Financial. The financial metric of the 2027 AIP goal is related to ALLETE's Adjusted Earnings Before Interest, Taxes, Depreciation, and Amortization ("Adjusted EBITDA"). Adjusted EBITDA measures operating performance in the Company's core business and reflects how effectively employees manage revenues and operating expenses.

Q. Is Minnesota Power proposing a limit on the level of cost recovery for its AIP?

A. Yes. While some Minnesota Power employees have target maximum payout levels that exceed 20 percent of base salaries, the Company is proposing to limit recovery in rates for that portion of AIP compensation to 20 percent of an individual employee's base salary. Minnesota Power has operated under a Commission-approved 20 percent cap on AIP since its 2008 rate case.[15]

Q. What is the AIP expense in the 2027 test year?

A. The AIP costs for the 2027 test year are shown in Table 4.

[15] *In the Matter of the Application of Minn. Power for Auth. to Increase Elec. Serv. Rates in Minn.*, Docket No. E015/GR-08-415, FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER at 42-45 (May 4, 2009) (eDocket No. 20095-37160-01).

Table 4. 2027 Test Year AIP Request

	Total Company	MN Jurisdictional
Total Cost without any adjustment	$6,533,880	$5,603,325
Total Cost with the 20 percent cap	$4,395,639	$3,769,612

C. Short-Term Incentive Plan

Q. How is Minnesota Power's STIP designed?

A. The STIP is designed to motivate employees and align compensation with achievement of the Company's short-term goals. As a pay-at-risk component of compensation, the STIP encourages employee engagement in the Company's performance and provides a meaningful and recognizable reward when Company objectives are achieved. The STIP is an important part of Minnesota Power's overall total compensation structure and supports the Company's ability to attract, retain, and engage employees. Consistent with market practice for short-term incentive programs, the STIP is based on a combination of financial and operational goals. All non-bargaining unit employees who are not participating in the AIP are eligible for the STIP at an opportunity level of 5 percent.

Q. What are the 2027 STIP goals?

A. The Company's STIP goals are the same as the Company's AIP financial and operational and values goals. There are no strategic goals.

Q. Is Minnesota Power requesting a limit on the level of cost recovery for its STIP?

A. No. Unlike Minnesota Power's AIP, STIP is capped at 5 percent of an employee's base salary.

Q. What is the STIP expense in the 2027 test year?

A. The STIP costs for 2027 are $2,673,847 Total Company ($2,293,038 MN Jurisdictional).

Q. How do the 2027 AIP and STIP goals benefit customers?

A. The 2027 AIP and STIP goals benefit customers by aligning employee performance with outcomes that support safe operations, reliable electric service, responsive customer service, and execution of the Company's strategic priorities.

Operational and Values. The operational and values goals benefit customers by promoting continuous safety improvement, reliable service, and responsive customer service. The safety measures incentivize participants to reinforce Minnesota Power's commitment to "*Living its Safety"* value through both leading and lagging indicators. Improved safety performance supports productivity, reduces disruption, and helps control costs, which benefits customers. The operational measures also incentivize performance in areas directly experienced by customers, including service reliability, generating resource availability, customer call response times, invoice accuracy, Cold Weather Rule protection, and reconnect performance. Together, these goals are designed to improve service quality and reduce the frequency and duration of outages.

Strategic. The strategic goals benefit customers by incentivizing progress on initiatives that support Minnesota Power's long-term ability to provide safe, reliable, and cost-effective electric service. In 2027, those goals include advancement of the Company's transmission strategy and Energy*Forward* priorities. These efforts are intended to position the Company to continue serving customers reliably while advancing its long-term energy objectives.

Financial. Adjusted EBITDA was selected as a financial metric because it is a widely used measure of operating performance that reflects the Company's ability to generate earnings from its core business operations. This financial metric benefits customers because meeting the target requires prudent management of the Company's revenues and expenses, which supports the Company's overall financial strength. Maintaining financial strength reduces the cost of capital for utility operations, which in turn supports a financially healthy utility that can continue to provide safe, reliable, and cost-effective electric service.

Q. Is it appropriate for Minnesota Power to recover AIP and STIP costs in rates?

A. Yes. Minnesota Power's incentive plans are a critical component of its total compensation program. Without those plans, the Company's total cash compensation may fall below the market median, making it more difficult to attract and retain qualified and effective employees. In the absence of incentive compensation, the Company would need to increase base compensation to maintain market-competitive pay levels. That approach would require the Company to pay higher fixed compensation even in years when performance goals are not achieved. By contrast, AIP and STIP provide the Company with a necessary degree of flexibility by linking a portion of employee compensation to the achievement of Company goals that benefit customers.

Additionally, short-term incentive compensation is a common component of total compensation throughout the utility industry. According to WTW's 2025 Energy Services and General Industry Compensation Surveys, short-term incentive plans are nearly universal among investor-owned utilities, with 100 percent of surveyed investor-owned utilities reporting the use of a short-term incentive program.[16] Such programs are an important component of a market-competitive compensation package to attract, retain, and engage the skilled workforce necessary to provide safe and reliable service. Short-term incentive plans are designed to align employee performance with customer-oriented goals such as reliability, safety, operational performance, customer satisfaction, and environmental stewardship.

D. Long-Term Incentive Plan

Q. Please describe Minnesota Power's LTIP.

A. The LTIP is a performance-based compensation program for eligible executive management employees. Effective January 1, 2026, the LTIP was redesigned to provide a long-term incentive compensation opportunity tied to both strategic objectives and

[16] WTW, *Short-term incentives in the utility industry: A history of balance*, accessed on July 20, 2026, available at: https://www.wtwco.com/en-us/insights/2026/02/short-term-incentives-in-the-utility-industry-a-history-of-balance.

financial performance. The addition of strategic performance objectives strengthened the alignment between long-term incentive compensation and the execution of Company initiatives that support the Company's customers and its long-term operations.

Under the LTIP, eligible participants receive annual grants of performance cash awards that are earned over a three-year performance period. Award payouts are based on pre-established performance goals. Payouts are determined based on performance against threshold, target, and superior levels, with straight-line interpolation between those levels. If performance falls below threshold for a metric, no amount is earned for that portion of the award.

The LTIP is also a pay-at-risk program. Generally, awards vest only if the applicable performance goals are achieved and the participant remains in continuous service through the date performance results are certified following the end of the performance period, subject to the terms of the plan. Awards are generally settled in cash following the end of the performance period, although participants may elect, and in some cases are required, to defer a portion of the award in accordance with the plan's terms.

Q. What are Minnesota Power's 2027 LTIP goals?

A. The 2027 LTIP performance goals have not yet been established, the Company anticipates that the plan design will be closely aligned with the 2026 LTIP design and goals. Because the goals are long-term in nature, they do not typically change materially from year to year. I will describe the 2026 LTIP performance goals as a reference for how the LTIP is structured and will provide an update on the 2027 LTIP performance goals during the proceeding.

The 2026 LTIP performance goals fall broadly into two categories: strategic and financial. As part of the 2026 redesign, strategic performance objectives were incorporated into the LTIP to complement the financial performance measures.

Strategic. The strategic goals focus on two areas: (1) project execution and (2) customer base, load diversification, and transmission agreements. The project execution goal measures progress in the execution of priority capital projects, including achievement of project milestones, cost discipline, and schedule performance. The customer base, load diversification, and transmission agreements goal measures progress in areas such as load growth planning, customer development and diversification, and the advancement of service agreements through applicable permitting and regulatory processes.

Financial. The financial goals include a Price-to-Earnings ("PE") valuation metric and a cumulative adjusted EBITDA metric. The PE valuation metric measures compound annual growth in the Company's valuation over the performance period, while the cumulative adjusted EBITDA metric measures the Company's cumulative adjusted EBITDA over the performance period.

Q. How do the LTIP goals benefit customers?

A. The LTIP goals benefit customers by aligning executive compensation to the Company's long-term financial performance and, following the 2026 redesign, by tying a portion of that compensation to the successful execution of strategic objectives that have a closer connection to the Company's customers and utility operations. The addition of strategic objectives to the LTIP strengthens the alignment between long-term incentive compensation and performance in areas that support Minnesota Power's ability to provide safe, reliable, and cost-effective electric service to its customers over time.

Strategic. The strategic component provides a more direct connection between the LTIP and long-term customer interests. The project execution goal encourages disciplined execution of priority capital projects by measuring performance against project milestones, cost discipline, and schedule performance. The 2026 LTIP goals specifically recognize that disciplined execution of capital projects affects project costs, schedules, and cost-effectiveness. The customer base, load diversification, and transmission

agreements goal focuses on preparing the Company for anticipated load growth, diversifying the customer base, and advancing customer and transmission agreements. The 2026 strategic goals position this objective around accommodating anticipated load growth while maintaining a commitment to customer cost-effectiveness and system reliability. Together, these strategic objectives create an incentive for management to execute long-term initiatives in a disciplined manner while considering the operational and financial impacts on customers.

Financial. The financial goals complement the strategic objectives by linking compensation to the Company's long-term financial performance. The PE valuation metric measures compound annual growth in Company valuation, while the cumulative Adjusted EBITDA metric measures operating financial performance over the performance period. These measures encourage management to maintain financial discipline and focus on the Company's long-term financial strength. Customers benefit when the Company is financially healthy, it leads to constructive credit ratings by rating agencies, which in turn leads to better access to capital and a lower cost of capital. It also allows the Company to continue to provide all the services its customers rely on.

In addition, the LTIP measures performance over a three-year period and generally requires continued service through the date performance results are certified following the end of the performance period. This structure reinforces sustained performance, longer-term planning, and leadership continuity rather than focusing solely on short-term results. The LTIP is an important tool to retain critical leadership talent as the Company is advancing an unprecedented level of projects on behalf of customers.

Q. How does the LTIP relate to the total compensation for eligible employees?

A. Similar to the AIP, the LTIP is an important part of total compensation for eligible employees because it provides a long-term performance-based component of pay that is earned only if pre-established goals are achieved. For employees who participate in the LTIP, total direct compensation generally consists of three components: (1) base

compensation; (2) an AIP award based on annual performance; and (3) an LTIP award based on longer-term performance and continued service.

The LTIP is also an important component of the Company's market-based compensation philosophy for eligible leadership positions. Minnesota Power generally structures compensation so that a portion of target total direct compensation is performance-based and at risk. Without performance-based compensation, the Company would need to rely more on fixed compensation to maintain market-competitiveness. In that way, the LTIP helps maintain market-competitive compensation while placing a portion of compensation at risk based on longer-term financial performance and strategic execution. Following the 2026 redesign, this structure also provides a stronger connection between long-term incentive compensation and the achievement of strategic objectives relevant to the Company's long-term operations and customers.

Q. Is the use of LTIP consistent with compensation practices in the utility industry?

A. Yes. LTIP is a common component of total compensation in the utility industry and more broadly. According to WTW's Utility Industry Compensation Trends, 100 percent of utility companies reported providing LTIP as a component of total compensation for executive roles. This data indicates that LTIP is a standard compensation practice and supports the reasonableness of including LTIP as part of Minnesota Power's market-competitive compensation structure.

Minnesota Power's LTIP is also reasonable from a cost perspective because it is a pay-at-risk component of compensation. As described above, awards are earned over a three-year performance period and are tied to pre-established performance goals and generally include continued service requirements. Because payment depends on performance and retention, the LTIP does not increase fixed compensation in the same manner as base pay.

Q. Is Minnesota Power seeking to recover the LTIP?

A. Yes. Minnesota Power is seeking recovery of the redesigned LTIP. As discussed above, the LTIP is an important component of the Company's market-based compensation program that supports the attraction and retention of key leadership talent while placing a portion of compensation at risk based on longer-term performance and continued service.

The 2026 redesign further strengthened the basis for recovery by adding strategic performance objectives to the LTIP. These objectives establish a more direct connection between long-term incentive compensation and the execution of initiatives related to project execution, load growth, customer diversification, and customer and transmission agreements. The strategic objectives complement the LTIP's financial measures and strengthen the alignment between the compensation program and Minnesota Power's long-term operational and strategic objectives.

Accordingly, recovery of LTIP costs supports a market-competitive, performance-based compensation structure that places compensation at risk while encouraging long-term strategic execution in areas relevant to Minnesota Power's operations and customers. Minnesota Power is not seeking recovery on LTIP cost associated with the legacy LTIP program.

The LTIP costs for the 2027 test year for which the Company is seeking recovery are shown below in Table 5.

Table 5. 2027 Test Year LTIP Request

	Total Company	MN Jurisdictional
Redesigned LTIP cost	$2,836,925	$2,432,890

E. Top Ten Paid Employees

Q. What elements of compensation is the Company seeking recovery for top ten paid employees in the proceeding?

A. Minnesota Power applies the same compensation philosophy to its top ten paid employees that it applies to its broader non-bargaining workforce. As discussed in Section III of my testimony, the Company evaluates compensation using external market data from both the utility industry and general industry and regularly reviews that information to assess how its compensation compares to compensation for comparable positions in the market. With this in mind, Minnesota Power is seeking recovery of base compensation, AIP compensation subject to the 20 percent cap discussed above, and compensation associated with the redesigned LTIP. These are the same core components of compensation discussed earlier in my testimony: base compensation provides the fixed component of pay, while AIP and LTIP provide performance-based components of compensation.

As discussed in Section IV.B of my testimony, the Company is limiting its request for AIP recovery to an amount equal to 20 percent of an employee's base salary, even when an individual's incentive opportunity exceeds that amount and despite the fact that as an employee's job responsibilities increase, a greater percentage of the employee's total compensation is tied to Company performance. The Company is also seeking recovery only for the redesigned LTIP and is not seeking recovery of costs associated with the legacy LTIP.

Q. What customer benefits are provided by the leadership and performance of the Company's top ten paid employees?

A. The Company's top ten paid employees provide leadership and oversight over Minnesota Power's operations and provide long-term strategic direction. Their responsibilities include oversight of the Company's operational and financial performance, strategic initiatives, and execution of investments necessary to support safe, reliable, and cost-effective electric service to customers.

As discussed in Section III of my testimony, these responsibilities are particularly important as Minnesota Power continues to transform its generation fleet, expand and optimize its transmission system, modernize its distribution system, provide more programs and services for customers, and address evolving reliability, resiliency, regulatory, and workforce needs. These activities require effective leadership and coordination across the Company to successfully manage both current operations and longer-term investments. They also require sustained knowledge and experience to oversee complex, multi-year initiatives through execution.

The Company's incentive compensation programs further align the compensation of these employees with outcomes that benefit customers. As discussed in Section IV.B of my testimony, the AIP includes goals related to safety, generating resource availability, service reliability, customer service, strategic priorities, and financial performance. These goals are designed to promote safe operations, reliable electric service, responsive customer service, financial discipline, and execution of the Company's strategic priorities.

As discussed in Section IV.D of my testimony, the redesigned LTIP extends that alignment over a longer period. The LTIP includes strategic objectives related to disciplined execution of priority capital projects, customer growth, customer diversification, and customer and transmission agreements, together with longer-term financial performance. Because the LTIP measures performance over a three-year period and generally requires continued-service requirements, it also supports sustained performance, longer-term planning, and leadership continuity rather than focusing solely on short-term results.

Taken together, these employees' responsibilities and performance measures align a portion of the compensation of the Company's top ten paid employees with operational, strategic, and financial outcomes that support Minnesota Power's ability to provide safe, reliable, and cost-effective electric service to customers.

F. Interim Rate Adjustment for Employee Compensation and Benefits

Q. Is the Company proposing any interim rate adjustments to its compensation and benefits rate request in this proceeding?

A. Yes. Minnesota Power's employee headcount is projected to increase as the Company continues to position its workforce to meet the evolving demands of the energy industry and support its long-term strategic objectives. While Minnesota Power expects to achieve its planned staffing levels in 2027, the Company recognizes that recruitment, hiring, and onboarding activities require time and may result in temporary vacancies relative to budgeted headcount during 2027. To reflect the potential timing lag associated with filling planned positions and to proactively pass potential savings on to customers, Minnesota Power proposes a $5.0 million (Total Company) reduction to O&M expenses for Interim Rates. This adjustment does not reflect a change in the Company's workforce requirements but rather recognizes the uncertainty regarding the timing of achieving budgeted staffing levels in 2027.

The proposed adjustment was developed using an estimated average compensation and benefit cost of approximately $110,000 (Total Company) per employee, derived from Table 3 and Schedule 4 in my Direct Testimony. The Company considered a range of vacancy assumptions and the related cost impacts. Because the actual level and duration of any staffing lag during 2027 cannot be predicted with precision, Minnesota Power selected a $5.0 million (Total Company) adjustment as a reasonable and conservative estimate that reflects the potential variability in hiring outcomes while proactively providing customers with the benefit of potential savings. Please refer to the Direct Testimony of Company witness Amanda L. Turner for more information on how this adjustment was included in the Interim Test Year revenue requirement.

V. EMPLOYEE BENEFITS

Q. What is the purpose of this section of your testimony?

A. In this section of my testimony, I explain the market competitive benefits that Minnesota Power offers to its employees. I also describe why each component of the benefits program is important and how the costs of the components have changed over the last

few years and for the 2027 test year. Finally, I describe components of the Company's benefits program that are no longer available to employees, but for which the Company continues to incur costs.

Q. What benefits does Minnesota Power offer its employees?

A. Minnesota Power offers a comprehensive employee benefits program designed to support the Company's ability to attract and retain qualified employees. In administering its benefits programs, the Company proactively evaluates market trends, legislative developments, and employee feedback to help ensure its offerings remain competitive and responsive to workforce needs.

Minnesota Power offers a package of employee benefits including medical and dental for active employees and eligible retirees; group life insurance for active employees and eligible retirees; retirement income; vacation pay; parental leave; sick pay; disability benefits; flexible compensation plan; health, dependent care, and transportation reimbursement accounts; employee resource program; tuition reimbursement; service and retirement awards; employee-paid voluntary benefits; and executive benefits. The benefits offered by Minnesota Power have evolved over time. As a result, and in recognition that benefit changes can affect different employee groups in different ways, not all employees are eligible for all benefits.

For bargaining unit employees, the design and level of all benefits, except for health care benefits, are determined through collective bargaining. For non-bargaining unit employees, the Company establishes the level of benefits other than health care benefits. As discussed in Section V.A of my Direct Testimony below, health care benefits for both bargaining unit and non-bargaining unit employees are addressed through a Board of Governors process that makes recommendations regarding those benefits.

Q. What is Minnesota Power's strategy and objective for employee benefits?

A. Minnesota Power's strategy and objective for benefits is to offer a competitive and sustainable benefits program that supports the Company's ability to attract and retain a

qualified and skilled workforce. Consistent with the Company's compensation philosophy, the Company views benefits as an important part of total rewards and regularly evaluates its programs to ensure they continue to provide meaningful value to employees and remain competitive in the labor market. Minnesota Power monitors external trends, considers employee input regarding the value of its offerings, and takes active steps to maintain compliance with applicable legal requirements while using resources prudently to maximize overall program value.

Q. How does Minnesota Power gauge whether its benefits are in line with the benefits provided by other employers?

A. As with compensation, Minnesota Power evaluates its benefits programs against market survey data and benefit consulting data analyses that compare benefit practices across both general industry and utility industry companies. The Company also uses external expert consultants, internal and external data benchmarking, and targeted ad-hoc survey data to assess the competitiveness and overall value of its benefits offerings. This approach allows Minnesota Power to develop a more comprehensive view of how its benefits compare in the market and whether they continue to support the Company's attraction and retention objectives.

Q. Have there been any changes to Minnesota Power's employee benefit programs since the 2023 Rate Case?

A. Minnesota Power has not made any material changes to its employee benefit programs that affect the overall value of benefits since the 2023 Rate Case. However, the Company has implemented certain changes in the normal course of business to comply with state and federal law and to maintain its benefits programs. In addition, as referenced in Section II of my Direct Testimony, Minnesota Power has committed to preserving employee compensation and benefits as part of the agreed Acquisition Order settlement stipulation.

First, Minnesota Power revised its sick leave policy to comply with the requirements of the MNPL program. The new leave policy is designed to support employees and their

families across various qualifying leave events by coordinating state-provided wage replacement benefits with Company-provided benefits. The policy includes a Company-provided sick bank, short-term disability benefits, and long-term disability benefits. Minnesota Power contracted with Sun Life Insurance Company ("Sun Life") to administer leave approvals and MNPL benefit calculations. Sun Life provides the MNPL benefit amounts to the Company, and the Company is responsible for processing and remitting those amounts to employees. This policy is substantially similar in overall design to the prior sick pay policy and applies to both non-bargaining unit employees and employees represented by IBEW Local 31.

Second, Minnesota Power made changes to the defined contribution retirement plan to incorporate legislative provisions under SECURE Act 2.0, which I will discuss later in my testimony.

A. Health and Welfare Benefit Plans

Q. Please provide an overview of the Company's health and welfare benefit plans.

A. Minnesota Power offers a comprehensive health and welfare benefits program to eligible employees. These benefits include: medical; dental; health savings account; flexible spending accounts for medical, dependent care and transportation expenses; term life insurance; accidental death & dismemberment ("AD&D") insurance; and flexible credits ("flex credits"). The Company also provides an employee resource program and other voluntary benefits as part of the health and welfare offering. Beginning in 2027, the Company also plans to incorporate a Paid Time Off ("PTO") exchange program under the health and welfare benefits design. This program will allow employees to exchange the value of earned vacation hours for options that may be made available by the Company.

1. Health Care

Q. Please describe Minnesota Power's health care plans for active employees.

A. Minnesota Power's health care plans for active employees are self-funded and self-administered. Contributions on behalf of the Company and employees are made to a

trust fund which holds, invests, and distributes those amounts to pay claims and related administrative expenses.

The health care plans are administered through a Board of Governors process. The Board of Governors makes recommendations regarding plan design, coverage provisions, cost sharing, and other administrative matters associated with the health plans. The Board of Governors is comprised of three representatives from each of the following groups: non-bargaining unit management, non-management employees, and bargaining unit employees, as well as one retiree representative.

Those recommendations are submitted to a Negotiating Committee, which comprises representatives of Company management and of bargaining unit employees. The Negotiating Committee is responsible for negotiating and approving the provisions of the health and dental care plans for all employees. The Negotiating Committee also negotiates plan funding with the CEO.

Q. Do the Board of Governors plan to make any material changes to the active employee health care plans in the 2027 test year?

A. No. The Board of Governors does not plan to make any material changes to the active employee health care plans in the 2027 test year. The Board of Governors continues to systematically review the health care plan's design features, including the self-insured and self-funded structure, benchmarking data regarding plan design and coverage trends, and internal feedback regarding the adequacy and value of current plan coverage. Through this ongoing review, the Board seeks to maintain a consistent overall benefit value while considering incremental changes necessary to respond to the evolving health care landscape. These analyses inform the future strategy described in this section of my Direct Testimony.

Q. Please summarize the key components of the Company's active health care plans that the Company will offer in 2027.

A. The Board of Governors sponsors a variety of robust and comprehensive health care plans that promote personal accountability through choice, engage participants in their health care decisions, and help manage overall health care costs. This strategy is consistent with broader market practice. For example, the 2025 KFF Employer Health Benefits Survey reports that 77 percent of covered workers in firms with 200 or more employees have access to more than one type of health plan. That same survey found that 33 percent of workers enroll in Consumer Driven Health Plans ("CDHPs") and 46 percent enroll in Preferred Provider Organization ("PPO") plans.[17]

Consistent with that approach, in 2027, Minnesota Power will offer all full-time employees, as well as eligible part-time, temporary, and intern employees a choice among four health plan designs. Two of those options are CDHPs, which are High-Deductible Health Plans with a Health Savings Account ("HSA") option. A third option is a co-pay plan that provides some first dollar coverage for participants but does not include an HSA option. Finally, the fourth plan is a co-pay only plan, referred to as Surest ("Surest"), which was introduced in 2023. Surest leverages technology to promote consumer engagement through price transparency and quality of care metrics. The addition of Surest was based on participant feedback, benchmarking and external sensing data, and the opportunity to offer an innovative benefit design that expands individual choice.

All four of Minnesota Power's health plan options are designed to provide a similar overall value, and fluctuations in participant elections should not materially affect the expected 2027 test year costs. Each plan's monthly premium contribution is determined based on its specific plan design features and the cost sharing arrangement between participants and the Company. Like the other plan options, Surest is intended to guide

[17] KFF, *2025 Employer Health Benefits Survey*, accessed on September 9, 2026, available at: https://www.kff.org/health-costs/2025-employer-health-benefits-survey/.

participants to high value and cost-effective care, which is expected to support both employee outcomes and overall plan values.

The CDHPs require a participant to satisfy a deductible before most medical expenses are covered, while the other two plans require a co-pay for some or all services, depending on the plan is selected. However, in compliance with the Patient Protection and Affordable Care Act ("PPACA"), preventive services are covered at 100 percent under all plans regardless of the deductible or copay requirements. Under the CDHP options, once the deductible is met, medical expenses are generally subject to co-insurance. Under the co-pay plan, certain office visits, prescriptions, and emergency care are covered through fixed co-pays that do not apply toward the deductible. Under each plan, participant's medical and prescription drug expenses, excluding monthly premiums, are subject to an annual out-of-pocket maximum. The amount of the co-pay, deductible, and the annual out-of-pocket maximum varies by plan.

Prescription drug coverage is generally consistent between the two CDHP options. These plans distinguish between preventive and non-preventive prescriptions. Certain preventive prescriptions are covered before the deductible is met, while non-preventive prescriptions are generally covered through co-insurance only after a separate prescription deductible has been satisfied. Under the co-pay plans, participants pay fixed co-pays based on the type of prescription. Across all of Minnesota Power's health plans, participants receive the highest level of coverage when using the nationwide in-network providers while services from out-of-network providers generally result in higher participant cost.

Q. What contributions do active employees make to fund the health care plans?

A. Active employees have contributed to the funding of the health care plans since 1962. For several decades, employees have shared in the cost of coverage through monthly premiums, deductibles, and co-insurance. Historically, employee premium contributions have been designed to cover, on average, approximately 25 percent of the health care plans' claims and administrative costs. Over the past three years Minnesota

Power and IBEW Local 31 have negotiated a temporary cost sharing adjustment which has decreased the employee contribution to approximately 22 percent. This cost-sharing arrangement applies to both bargaining unit employees and non-bargaining unit employees. For bargaining unit employees, the cost-sharing arrangement remains subject to change through negotiations between the Negotiating Committee and the Company.

Minnesota Power's cost-sharing levels are consistent with broader market practice. The 2025 KFF Employer Health Benefits Survey indicates that covered workers pay, on average, between 16 percent and 26 percent of the total premium cost.[18] In assessing that benchmark, the Company considered relevant survey subcategories, including employers with bargaining unit employees, self-funded plans, and comparable wage characteristics.

Q. How are contributions to Minnesota Power's health care plans determined and how often are they adjusted?

A. Monthly premium contributions for all employees are established by the Negotiating Committee and are generally reviewed and set on an annual basis, although they may be adjusted more frequently if needed. A summary of the monthly premium contributions for each active employee health care plan for the 2027 test year is provided in Table 6.

[18] KFF, *2025 Employer Health Benefits Survey*, accessed on September 9, 2026, available at: https://www.kff.org/health-costs/2025-employer-health-benefits-survey/.

Table 6. 2027 Active Employee Health Care Monthly Premiums

Plan Type	Single	Family
CDHP #1	$263	$650
CDHP #2	$169	$494
Co-pay	$263	$650
Surest	$246	$610

These premiums are designed to achieve the desired cost share levels discussed above. In establishing and reviewing premiums, the Negotiating Committee, in consultation with the Company's benefits consultant, Lockton, considers health plan claims experience and projected future plan expenses on an ongoing basis. The Negotiating Committee also has authority to adjust premium contributions as necessary to maintain the financial soundness of the plans. Accordingly, all plan participants are subject to premium increases or decreases as determined by the Negotiating Committee.

Q. What additional health care costs do active participants pay through co-insurance and deductibles?

A. Consistent with prior years, participants are responsible not only for premium contributions but also for deductibles, medical co-pays and co-insurance, and separate prescription drug co-pays or co-insurance, depending on the plan selected. Each plan's cost sharing levels are reviewed in relation to Minnesota Power's other health plan options, as well as against external health plans, to assess cost competitiveness and differences in overall value in a manner that promotes meaningful choice among plans. Based on that review, the Negotiating Committee may adjust the design and cost-sharing features of an individual plan to help achieve those objectives. To illustrate these features, Table 7 provides a summary of the co-insurance, co-pay, and deductible provisions for the two distinct types of health plans.

Table 7. Health plan options for 2027

Health Plan Components	CDHP #1	CDHP #2
Annual medical and pharmacy deductible	$3,500/person or $7,000/family. Deductible is embedded.	$4,500/person or $9,000/family. Deductible is embedded.
Medical co-insurance	20%	
Prescription co-insurance (non-preventive)	After $3,500 pharmacy deductible limit has been satisfied, prescription co-pay applies	
Prescription co-insurance (preventive)	10% (not subject to deductible)	
Maximum Out of Pocket ("OOP")	$4,000 per person or $8,000 per family. OOP is embedded.	$6,000 per person or $12,000 per family. OOP is embedded.
Health Plan Components	**Copay**	**Surest**
Annual medical and pharmacy deductible	$2,000 per person or $4,000 per family. Deductible is embedded.	N/A
Medical co-insurance	20%	N/A
Prescription co-insurance (non-preventive)	N/A	
Prescription copay (tier 1)	$10	
Maximum Out of Pocket	$5,000 per person or $10,000 per family. OOP is embedded.	

Q. What steps has Minnesota Power taken to control the rising costs of health care benefits?

A. Minnesota Power has taken a number of steps to manage the rising cost of health care benefits while continuing to provide comprehensive coverage to employees. Like other employers, the Company has experienced rising cost pressures in recent years. According to the Company's benefit consultant, medical costs are expected to increase by approximately 8 percent in 2026, and prescription drug costs are expected to increase by approximately 11 percent. These increases are attributed to inflationary pressures, including higher provider contract renewal pricing and phased implementation of new provider contract rates over time, as well as the introduction of new high-cost treatments such as gene therapy. In response, the Board of Governors has worked to ensure that cost increase associated with benefit design changes, including

those resulting from coverage requirements imposed by the PPACA, are shared between the Company and employees in accordance with the negotiated cost sharing described above.

Minnesota Power also designs its health plans to encourage employees to be informed and cost-conscious consumers of health care. In 2020, the Company changed health plan providers to UnitedHealthcare to obtain more favorable negotiated provider rates. That change also gave participants a broader set of tools and programs to help them manage their health care needs and make better informed decisions about care. These enhancements include proactive outreach to participants, programs intended to support behavior change and condition management, and educational resources that provide price transparency and cost comparison tools to help participants obtain appropriate care at a competitive cost.

The Board of Governors regularly evaluates alternative plan structures and vendor arrangements to determine whether additional savings opportunities are available. This includes periodic review of fully-insured group health plan products and comprehensive evaluations of self-insured and fully-insured options, including medical and prescription carriers. Based on those reviews, the Board of Governors determined that available fully-insured alternatives did not offer cost savings and were generally more restrictive than Minnesota Power's current plan offerings. In addition, the Board of Governors reviewed pharmacy benefit management rebate provisions and expects to realize savings through enhanced prescription rebate sharing.

Finally, the Board of Governors continues to evaluate emerging technology-based services and other targeted tools that may improve the participant experience and support more efficient plan administration. These resources can enhance access, simplify participant decision-making, and better tailor support to individual health care needs. At the same time, the Board remains mindful of the need to balance the value of new resources against the risk of adding unnecessary complexity. Accordingly, the

Board evaluates new tools and supplemental products carefully to ensure they are aligned with the goals of the plans and the needs of participants.

Q. Have changes to the retiree health plans been implemented on the same schedule as changes for active employees?

A. No. Although the Company considers active and retiree health plan strategies collectively at a high level to support consistent communication and overall benefits planning, those strategies are developed separately based on factors such as utilization trends, cost, market prevalence, and benchmarking. As a result, changes to retiree health plans have not always been implemented on the same schedule as changes to active employee health plans. For example, the retiree health plans transitioned to CDHPs later than the active employee plans and, at various times, have included different plan options. Since 2023, however, the active employee and pre-Medicare retiree medical plans have been aligned in the plan options offered, consisting of two CDHPs and two co-pay plans.

Retiree health coverage is divided into two categories: pre-Medicare coverage, which generally applies to retirees under age 65, and Medicare-eligible coverage, which generally applies to retirees age 65 and older. Effective January 1, 2024, Medicare eligible retirees transitioned to a Medicare marketplace model paired with a Health Reimbursement Arrangement ("HRA"). This strategic change was intended to provide participants and their dependents with greater choice in coverage while also reducing costs to the plan.

Q. How do Minnesota Power's health care costs compare to other companies' health care costs?

A. Minnesota Power's health care costs are comparable to those of other companies nationwide. In 2025, the Company's average annual premium cost was $25,267 for active employees with family coverage and $10,049 for active employees with individual coverage. According to the 2025 KFF Employer Health Benefits Survey the average annual premium at large employers was $27,744 for family coverage and

$9,663 for individual coverage.[19] While Minnesota Power's family coverage premium falls below the large-employer average and its individual coverage premium is modestly above it, the Company's health care costs are consistent with national benchmarks overall.

Q. What is the Company's request for active employee health care costs in the 2027 test year and what factors are driving the change from prior years?

A. Table 8 compares the active employee health care costs in the 2027 test year to 2023–2025 actuals and the 2026 projected year.

Table 8. Active Employee Health Care Costs 2023–2027

Year	Total Company	MN Jurisdictional
2023 (Actual)	$6,342,839	$5,632,314
2024 (Actual)	$6,815,376	$6,065,685
2025 (Actual)	$9,469,082	$8,339,042
2026 (Projected Year)	$12,025,168	$10,597,540
2027 (Test Year)	$14,831,589	$12,654,460

As shown in Table 8, Minnesota Power's active employee health care costs are projected to increase in the 2027 test year. The increase reflects several factors, including inflationary pressures related to the cost of care, the availability of new medical and prescription services, and administration costs such as network arrangements. Plan costs also may vary from year to year based on the number of participants and changes in the enrollment mix, such as shifts between single and family coverage. These factors can cause health care costs to fluctuate from year to year and are not entirely within the Company's control. As discussed throughout my Direct Testimony, the Company continues to review and strategically adapt its health plans to manage costs while maintaining a competitive and comprehensive health care offering for Minnesota Power employees and their families.

[19] KFF, *2025 Employer Health Benefits Survey*, accessed on September 9, 2026, available at: https://www.kff.org/health-costs/2025-employer-health-benefits-survey/.

Q. Are healthcare costs per participant increasing, and what factors are contributing to those increases?

A. Yes. Health care costs per participant are increasing due to a combination of inflationary pressures and broader external cost drivers affecting employer-sponsored health plans. Most notably, national trends continue to show rising medical and prescription drug costs, as well as cost impacts associated with changes required under the PPACA. These increases reflect both higher unit costs for specific services and increased utilization of health care services by plan participants.

Prescription drug costs are a significant contributor to these increases. In particular, the expanded availability of specialty drugs and biosimilar medications, which can exceed $100,000 per prescription, has increased plan expenses. In addition, gene therapy treatments have emerged as a new and effective, but extremely costly, form of care, with costs ranging from approximately $1 million to $5 million per treatment.

High-cost claimants are another significant driver of plan expenses. For purposes of the Company's health plans, high-cost claimants are individuals with annual expenses exceeding $100,000. In 2025, those claimants accounted for approximately 36 percent of total claims. The number and severity of these large claims can be unpredictable and volatile, particularly as new treatments become available.

High-cost claims can affect plan costs beyond the year in which they occur. They increase current-year expenses through immediate claim payments. When claims exceed the Company's stop-loss insurance thresholds, they also increase future stop-loss premiums and individual reinsurance laser levels. Accordingly, the financial effect of high-cost claims may extend beyond a single plan year.

Q. How does the Company's premium trend compare to national trends?

A. Minnesota Power continues to actively manage its health plans in response to these cost pressures while maintaining competitive and comprehensive health care benefits for employees and their families.

The Company's experience relative to broader health care cost trends provides an indication of these efforts. The KFF Employer Health Benefits Survey indicates that health plan premiums have increased by 26 percent from 2020 through 2025.[20] Over that same period, premiums under Minnesota Power's plan have increased by approximately 20 percent. Minnesota Power's health plan premium increases have therefore remained below the broader increase reported by KFF, reflecting the Company's continued efforts to manage health care costs while maintaining competitive and comprehensive health plan for employees and their families.

2. Dental Care

Q. Please describe Minnesota Power's dental plan.

A. Minnesota Power offers two dental plan options. The first is a base plan that provides basic, preventative, and restorative dental care subject to an annual benefit maximum of $1,250 per participant. The second is a buy-up dental plan that was introduced in 2020 following a comprehensive review of benchmarking data, employee feedback, and attraction and retention considerations. The buy-up plan has an annual benefit maximum of $1,500 per participant and includes enhanced coverage features, such as up to $1,000 in lifetime orthodontic coverage per child, additional preventive services for children, and added coverage for implant and occlusal guard services. Consistent with the Company's medical plan, the dental plan is self-funded and self-administered, and administered by the Board of Governors. Funding for the dental plan is provided by both employee and Company contributions. Under the base plan, employee contributions fund approximately 40 percent of plan costs and Company contributions fund approximately 60 percent of plan costs. For participants who elect the buy-up plan, the additional cost of the enhanced benefit is absorbed by those participants and is reviewed and adjusted annually. Table 9 summarizes the 2027 monthly premiums.

[20] KFF, *2025 Employer Health Benefits Survey*, accessed on September 9, 2026, available at: https://www.kff.org/health-costs/2025-employer-health-benefits-survey/.

Table 9. 2027 Employee Dental Plan Monthly Premiums

Plan Type	Single	Family
Base Plan: Full-time active employee	$18	$52
Buy-up Plan: Full-time active employee	$31	$117

Q. What dental care costs are included in the 2027 test year?

A. The 2027 test year includes $658,658 Total Company ($561,973 MN Jurisdictional) in dental care costs for active employees.

3. Other Components of the Health and Welfare Benefit Plans

Q. Please describe other components of the Company's health and welfare benefits plans.

A. Minnesota Power maintains five other components of its health and welfare benefit plans: the flexible compensation plan, reimbursement accounts, the employee resource program, life insurance, and other voluntary benefits.

Q. What is the flexible compensation plan?

A. The flexible compensation plan works in concert with the Company's other health and welfare benefit programs. It allows employees to set aside before-tax dollars to pay for eligible benefit expenses and is available to both bargaining unit and non-bargaining unit employees. For non-bargaining unit employees, it also includes Company-provided "flex credits" that may be applied toward benefit expenses. The flexible compensation plan is administered in compliance with Section 125 of the Internal Revenue Code.

For non-bargaining unit employees, flex credits are provided in an amount equal to two percent of base salary and may be used to offset the cost of eligible health and welfare benefits. When an employee first becomes eligible, flex credits are calculated based on the employee's current base salary. Thereafter, flex credits are updated on January 1 during the annual benefit election period and are recalculated using employee's October 1 base salary from the prior year.

This design gives employees greater flexibility in how they allocate benefit dollars to meet their own individual needs, rather than requiring all employees to receive the same additional benefit. Employees may use flex credits and/or before-tax dollars to offset the cost of the following benefit plans: employee term life insurance, AD&D insurance, vision, medical reimbursement account, dependent care reimbursement account and other voluntary benefits. If the employee's flex credits are not sufficient to offset the entire cost of these benefits, the employee may use before-tax dollars to pay the remaining costs. The Company-provided flex credits are the costs shown in MP Exhibit ___ (Chan), Direct Schedule 4.

Q. Please describe the reimbursement account programs.

A. Minnesota Power offers a medical reimbursement account, a dependent care reimbursement account, and a transportation reimbursement account, which are collectively referred to as flexible spending accounts. These programs allow employees to contribute before-tax dollars to pay for eligible medical expenses, dependent care expenses, including daycare, and transportation expenses, such as parking and bus expenses, respectively. The costs associated with these programs are limited to administrative expenses and are included in the "Reimbursement Accounts" category in MP Exhibit ___ (Chan), Direct Schedule 4.

Q. What is the employee resource program?

A. The employee resource program is a Company-provided service available at no cost to employees and members of their household. It is designed to support overall well-being by providing resources related to physical, mental and emotional, professional and financial, and social needs. Through this program, employees and their household members have access to outside counselors, resources, and referrals to assist with personal and work-related issues that may affect well-being, job performance, or the ability to achieve personal and professional goals. The program is intended to provide confidential support and practical tools that help employees maintain a healthy and balanced life. The employee resource program also provides support in response to significant workplace events. For example, it may offer on-site groups or individual

counseling for employees affected by a tragic event, such as the loss of a co-worker, and may provide sessions on specific topics, including mental health awareness.

In addition to employee-specific services, the program offers resources designed to support leaders in working effectively with employees. These resources include consultations, referral programs, training tools, and other services intended to assist leaders in responding to employee needs.

Q. Please describe the life insurance program.

A. The Company provides core life insurance to active bargaining unit and non-bargaining unit employees. For bargaining unit employees represented by IBEW Local 31 and non-bargaining unit employees, the Company provides core life insurance coverage equal to two times annual base salary. For bargaining unit employees represented by IBEW Local 1593, the Company provides core life insurance coverage equal to one times annual base salary. The cost of this Company-provided coverage is included in MP Exhibit ___ (Chan), Direct Schedule 4. In addition, employees may elect to purchase voluntary life insurance coverage for themselves and their eligible spouse and children.

Q. What are the other voluntary benefits?

A. To provide a well-rounded health and welfare package, Minnesota Power offers employees the opportunity to purchase voluntary benefits to complement the Company-provided benefits, such as AD&D insurance, critical illness insurance, hospital indemnity insurance, accident insurance, and vision insurance. These offerings provide employees with additional flexibility to select benefit options that best meet their individual needs.

Q. What are the Company's costs to administer and deliver the health and welfare benefit plans described above?

A. The Company's cost to administer and deliver the health and welfare benefit plans described above are included in MP Exhibit ___ (Chan), Direct Schedule 4. Minnesota Power continually reviews the administration and delivery of its benefit programs to

ensure they are provided in a cost-effective and user-friendly manner. The Company, with support from its benefits consultant evaluates benefit design, participant experience, and administrative costs, and recommends changes as appropriate.

Minnesota Power has also implemented administrative efficiencies where practical. For example, the Company uses a consolidated participant platform that integrates medical, health savings account, flexible spending account, and Consolidated Omnibus Budget Reconciliation Act ("COBRA") direct billing administration. Similarly, the Company uses a single vendor to administer life insurance, MNPL, short-term disability, and voluntary benefits. These administrative approaches help improve the participant experience while supporting efficient and cost-effective benefit delivery.

Q. Is Minnesota Power seeking recovery of the costs to administer the above-described health and welfare benefit plans?

A. Yes. Program administration costs are an essential component of the Company's overall benefit program. The costs are set forth on MP Exhibit ___ (Chan), Direct Schedule 4.

B. <u>Other Benefits</u>

Q. Please describe other benefits Minnesota Power offers to both non-bargaining and bargaining unit employees.

A. The other benefits that Minnesota Power offers to its employees are:

Tuition Reimbursement. The Company provides funds to employees to assist with qualified educational expenses.

Short-Term and Long-Term Disability Plans. Company-provided disability plans provide a benefit for qualified active employees who become unable to work.

Service Awards. Awards are provided to employees every fifth year in the amount of $10 per year of service in the form of a gift card and include a certificate at each

milestone. In addition, employees with twenty years of service or greater are provided with a recognition meal.

Retirement Awards. Awards are provided to employees at retirement. These awards are given as gift cards in the amount of $250.

Q. Was Minnesota Power previously denied recovery of some of these other benefits?

A. In the 2021 Rate Case (Docket No. E015/GR-23-155) ("2021 Rate Case"), Minnesota Power was denied recovery of Service Awards and Retirement Awards, which were included in the employee expense schedules.[21] Minnesota Power continues to believe that Service Awards are reasonable and important components of the Company's overall compensation and benefits package, and benchmarking data supports their prevalence. According to the Gallagher 2025 Workforce Trends Report Series, Best in Class Benchmarking Analysis, 85 percent of large companies offer service awards or employee recognition as a component of career wellbeing. Furthermore, 94 percent of the companies labeled "Best in Class" by the Gallagher survey include service awards or employee recognition as a wellbeing benefit.[22] Minnesota Power also believes Retirement Awards are appropriate because they provide meaningful recognition to employees for their service to the Company and support the Company's exit with respect strategy.

Q. Is Minnesota Power seeking recovery for the costs associated with these other benefits?

A. Yes. Minnesota Power is seeking recovery for all such costs, with the exception of recognition meals provided for years of service. These expenses are an important component of the Company's benefit program, and especially support employee

[21] *In the Matter of the Appl. of Minn. Power for Auth. to Increase Rates for Elec. Serv. in Minn.*, Docket No. E015/GR-21-335, FINDINGS OF FACT, CONCLUSIONS, AND ORDER at 30 (Feb. 28, 2023) (eDocket No. 20232-193486-01).

[22] Gallagher, *2025 US Workforce Trends Report: Best-in-Class Benchmarking Analysis*, accessed on September 27, 2026, available at: https://www.ajg.com/2025-us-workforce-trends-report-best-in-class/.

growth, retention, and recognition. The costs are set forth on MP Exhibit ___ (Chan), Direct Schedule 4.

Q. Describe the effect of Minnesota-mandated leave policies on Minnesota Power benefits.

A. Minnesota-mandated leave policies have had a significant administrative effect on Minnesota Power's benefit programs and on the cost of administering those programs. Effective January 1, 2026, the State of Minnesota implemented MNPL, which provides paid time away from work for qualifying medical and family events. In response, Minnesota Power revised its existing sick pay provisions to comply with MNPL while maintaining alignment with the original intent of Minnesota Power's sick time program. That approach is also consistent with the Company's commitment, discussed in Section II of my Direct Testimony, to preserve employee compensation and benefits as part of the agreed settlement stipulation.

To comply with these new requirements, Minnesota Power redesigned its leave-related benefits to operate through four coordinated components: a sick bank (which satisfies Minnesota's Earned Sick and Safe Time requirement), a short-term disability plan, MNPL, and parental leave. The sick bank consists of Company-provided Sick and Safe Time hours that are made available at the beginning of each calendar year. This design allows the Company to coordinate state-mandated benefits with existing Company-provided benefits in a manner that continues to support employees and their families during qualifying leave events. To assist with administration of the program and coordination of benefit payments, Minnesota Power partnered with Sun Life.

The revised leave structure also has broader workforce and operational implications. Employee absences associated with qualifying leave events can require work to be reassigned, schedules to be adjusted, and coverage to be maintained through other employees or departments. These circumstances highlight the importance of careful leave administration and workforce planning, particularly in functions that require continuous staffing or specialized support. As a result, the effect of Minnesota-

mandated leave policies extends beyond direct benefit and administrative costs to include broader operational considerations.

In addition to these administrative and benefit design changes, MNPL has increased the Company's benefit-related costs. Minnesota Power expanded its existing service arrangement with Sun Life to add MNPL administration services. An additional cost was also negotiated between Minnesota Power and its bargaining unit employees represented by the IBEW, effective until a new contract is negotiated. Specifically, the Company agreed to contribute an amount equal to the estimated employee-paid portion of MNPL premiums to the medical plan, which reduces premium costs to all participants.

C. Retiree Benefits

Q. What retirement benefits does Minnesota Power offer to its employees?

A. Minnesota Power provides eligible employees the following retirement benefits: (1) a defined contribution plan ("DC Plan"), which includes a 401(k) retirement savings account and covers both non-bargaining unit and bargaining unit employees; (2) defined benefit pension plans ("DB Plans") for eligible employees and retirees based on their hire date; and (3) Other Post-Employment Benefits ("OPEB"), such as retiree medical, dental, and life insurance for eligible employees and retirees.

Consistent with industry trends, Minnesota Power continued to transition from the defined benefit plan model to the defined contribution model for retirement benefits. The defined contribution model reflects a shared responsibility between employees and the Company for building retirement savings and generally results in the Company's expenses and contributions being less volatile than under the defined benefit model. As discussed below, the DB Plans are now closed to all new hires. Despite the shift, the DC Plan and the DB Plans both continue to be very important components of the Company's overall benefits program.

In the subsections that follow, I describe the design, structure, and eligibility of each of these retirement benefits, as well as other executive retirement benefits.

The accounting for the DB Plans and OPEB, the derivation of 2027 test year pension and OPEB expense, and the Company's request for rate base treatment of accumulated contributions in excess of net periodic benefit cost for pension are addressed in the Direct Testimony of Company witness Anderson.

1. Defined Contribution Plan ("DC Plan")

Q. Please describe Minnesota Power's DC Plan.

A. Minnesota Power's DC Plan is a retirement benefit program under which benefits are funded through Company cash contributions made on behalf of eligible employees. Those contributions are allocated to participants under the terms of the plan and provide a retirement savings benefit through the defined contribution structure.

Q. Does Minnesota Power contribute to supplement employee contributions to the 401(k) component of the DC Plan?

A. Yes. Minnesota Power provides both a Company contribution and a match contribution to the 401(k) component of the DC Plan for all non-bargaining unit employees and for bargaining unit employees not eligible for a defined benefit plan.

For non-bargaining unit employees hired after September 30, 2006, the Company contributes an amount equal to six percent of eligible wages and provides a matching contribution of up to five percent. As a result, if an employee contributes five percent, the Company's total contribution, including match, is 11 percent. For bargaining unit employees hired after January 31, 2011, the Company contributes an amount equal to seven percent of eligible wages and provides a matching contribution of up to five percent. For employees hired before those dates, the contribution and matching contribution percentages vary based on factors such as date of hire, age, and bargaining unit status.

Q. What is included in Minnesota Power's 2027 test year for annual DC Plan costs?

A. The 2027 test year includes Minnesota Power's estimated costs for the DC Plan, consisting of the Company's contributions and matching contributions to employee accounts. These estimated costs are based on the plan's contribution design and estimated employee earnings and contributions.

Q. How do Minnesota Power's costs for the DC Plan in the 2027 test year compare to prior years?

A. Table 10 compares DC Plan costs in the 2027 test year to 2023–2025 actuals and the 2026 projected year.

Table 10. DC Plan Costs 2023–2027

Year	Total Company	MN Jurisdictional
2023 (Actual)	$6,033,820	$5,357,912
2024 (Actual)	$6,762,942	$6,019,018
2025 (Actual)	$8,617,072	$7,588,711
2026 (Projected Year)	$10,905,589	$9,610,877
2027 (Test Year)	$11,929,891	$10,178,703

Q. Please explain why the DC Plan costs have fluctuated.

A. The fluctuation in the DC Plan costs is attributed to several factors. First, the Company expects a greater percentage of employees to receive retirement benefits through the DC Plan. Because the DB Plans are closed to new hires, new employees hired after those closure dates accrue retirement benefits entirely through the DC Plan. Second, Company contributions to the DC Plan are based on a percentage of eligible employee compensation. As employee salaries increase, Company costs also increase. Finally, increases in overall employee headcount contribute to higher DC Plan costs.

Q. What factors ensure that the DC Plan costs are reasonable?

A. Several factors support the reasonableness of the Company's DC Plan costs. First, certain plan administrative expenses, including legal, recordkeeping, and audit services,

are paid by participants rather than the Company. The Company also monitors those expenses closely and makes changes when appropriate to help ensure they remain reasonable. For example, in 2026 the Company secured a decrease in record keeping fees. Second, the DC Plan contribution structure applicable to bargaining unit employees is the product of the collective bargaining process. As a result, those costs reflect negotiated benefit levels for represented employees. Third, the Company monitors DC Plan costs to maintain a market-competitive retirement benefit. The DC Plan is an important part of the Company's total compensation and benefits package and supports the attraction and retention of qualified employees.

Q. Why is it reasonable for DC Plan costs to be included in rates?

A. It is reasonable for DC Plan costs to be included in rates because providing a competitive retirement benefit is an essential component of the Company's overall compensation and benefits package. Retirement benefits are one of the most important benefits to both prospective and current employees, and employees are highly attentive to whether an employer offers a defined contribution plan and the level of Company contributions and matching contributions provided under that plan. If the Company did not offer the DC Plan, it would be exceedingly difficult to attract and retain qualified employees.

Benchmarking data also supports the reasonableness of this benefit. According to the 2026 SHRM Employee Benefits Survey, 82 percent of employers rated retirement savings plans as very important or extremely important to their workforce.[23] As shown in MP Exhibit ___ (Chan), Direct Schedule 3, within the construction, utilities, and agriculture industry, 97 percent of employers offer a 401(k) or similar defined contribution plan. Across general industry, 81 percent of organizations reported offering an employer match for traditional 401(k) plan contributions, with the average maximum employer match equal to 6.11 percent. Minnesota Power is consistent with other employers in offering this important benefit. For these reasons, the DC Plan is an

[23] Society for Human Resource Management, *2026 Employee Benefits Survey*, accessed on September 22, 2026, available at: https://www.shrm.org/topics-tools/research/employee-benefits-survey-2026.

indispensable element of the Company's employee attraction and retention strategy, and its costs should therefore be included in rates.

Q. What changes have been implemented to the DC Plan?

A. Minnesota Power's DC Plan has been updated to incorporate a number of provisions under SECURE Act 2.0. Those changes include required amendments, such as adjustments to the required minimum distribution age, enhanced catch-up contributions for certain age groups, and Roth catch-up contributions for higher-wage earners. The Plan also implemented several discretionary changes, including an increase to the mandatory cash-out threshold, expanded distribution flexibility for participants affected by domestic abuse, a deferral exception for participants with a terminal illness, and a minor administrative change to the hardship distribution process.

In 2026, Minnesota Power implemented a managed account service through a third-party vendor, Creative Planning. This service provides participants with access to professional guidance to help them evaluate retirement planning goals. Collectively, these changes enhance the flexibility and usability of the DC Plan, provide participants with additional support and resources, and further the Company's objective of promoting employees' financial well-being.

2. Defined Benefits Pension Plans

Q. How many qualified pension plans does Minnesota Power have?

A. Minnesota Power has two qualified pension plans: Plans B and C, collectively referred to as Minnesota Power's DB Plans or pension plans, with the former Plan A rolled into Plan C in late 2018:

- Plan A – "non-bargaining plan": as a cost-savings measure, all benefits in Plan A were frozen effective November 30, 2018, and Plan A was merged into Plan C on December 31, 2018; thus, Plan A no longer exists;
- Plan B – "bargaining plan" for active bargaining unit employees hired prior to February 1, 2011, and participants who left service from the bargaining unit after December 31, 2015; and

- Plan C – "inactive plan" for all non-bargaining participants; retired participants, including surviving spouses; and bargaining unit participants or retirees, including surviving spouses, who were no longer represented by the union contract as of December 31, 2015. No new benefits are earned by participants in this plan.

Q. Please describe Minnesota Power's DB Plans.

A. Minnesota Power's DB Plans are traditional defined benefit plans which use final average pay and credited service to determine retirement benefits. For non-bargaining unit employees hired prior to October 1, 2006, the credited service is capped as of September 30, 2006, and final average earnings were frozen as of November 30, 2018. For bargaining unit employees hired prior to February 1, 2011, credited service and final average pay continue to accrue for employees who remain eligible to participate in the plans. Minnesota Power's actuary, WTW, calculates the Company's pension expense based on actuarial analyses. Based on WTW's 2026 actuarial analysis, approximately 127 non-bargaining unit employees (about 18 percent of all non-bargaining unit employees) and approximately 258 bargaining unit employees (about 58 percent of all bargaining unit employees) were eligible to participate in the DB Plans.

Q. What DB Plan Expenses are included in Minnesota Power's 2027 test year and how do these expenses compare to prior years?

A. Table 11 compares DB Plans expenses in the 2027 test year to 2023–2025 actuals and the 2026 projected year.

Table 11. DB Plans Expenses 2023–2027

Year	Total Company	Total MN Jurisdictional
2023 (Actual)	$3,920,784	$3,481,590
2024 (Actual)	$2,529,868	$2,251,587
2025 (Actual)	$5,224,206	$4,600,749
2026 (Projected Year)	$7,598,225	$6,696,164
2027 (Test Year)	$6,928,176	$5,911,189

Q. Please explain why the Company's DB Plans expenses have changed over this time period.

A. The Company's DB Plans expenses have changed over this period for several reasons. One of them is that the DB Plans underwent a series of changes over the last several years, as noted earlier.

The Company previously had a defined benefit Plan A, which was for non-bargaining unit employees hired prior to October 1, 2006. Plan B is for active bargaining unit employees hired prior to February 1, 2011. Plan C was created and was effective as of January 1, 2016. When Plan C was created, anyone in Plan A or Plan B who was inactive (meaning non-bargaining unit participants with a deferred vested benefit; retired participants (including surviving spouses); and bargaining unit participants or retirees (including surviving spouses), who were no longer represented by the union contract as of December 31, 2015) was rolled into Plan C; however, Plan A remained active for non-bargaining unit active employees. Then, effective November 30, 2018, Plan A was discontinued and all remaining participants in Plan A were rolled into Plan C. The net effect is that Plan B includes all eligible active bargaining unit employees, and Plan C includes all other eligible participants. The DB Plan expenses have also fluctuated over time because the liabilities and costs are measured using actuarial assumptions that change over time, depending on various factors, including the market environment, as discussed in the Direct Testimony of Company witness Anderson.

Q. Why did the Company make these changes to the DB Plans?

A. The benefits from these changes are described in the Direct Testimony of Company witness Anderson. Her testimony also describes several steps that Minnesota Power has taken to manage the costs of the DB Plans.

Q. How do the overall DB Plan expenses for the 2027 test year break down among Plans B and C?

A. The amount of the DB Plan expenses for each plan is set forth in Table 12.

Table 12. DB Plans Expenses For 2027 Test Year

	Total Company	MN Jurisdictional
Plan B – Bargaining Unit Employees	$1,858,922	$1,586,051
Plan C – Inactive Participants as of December 31, 2015, and Non-Bargaining Unit Employees	$5,069,254	$4,325,138
TOTAL	**$6,928,176**	**$5,911,189**

Q. What percentage of the Company's employees covered by the DB Plans also contribute to the 401(k) plan?

A. Over 92 percent of employees eligible for the DB Plans also contribute to the 401(k) plan, at an average deferral rate of approximately 11.75 percent. These employees' contributions to their 401(k) plans demonstrate that the Company's employees are paying for a portion of their retirement costs and that these costs are not borne solely by the Company's customers.

Q. Are Minnesota Power's DB Plan eligible employees able to make similar pre-tax contributions to the DB Plans?

A. No. While the Internal Revenue Code allows private sector employees to make pre-tax contributions to a 401(k) plan, it does not allow private sector employees to make contributions to a defined benefit plan on a pre-tax basis. Rather, private sector employees must do so with after-tax dollars. As a result, requiring employee contributions to the DB Plans would create a significant tax disadvantage for private sector employees.

Q. Are public sector employees subject to different taxation rules for defined benefits plans?

A. Yes. The Internal Revenue Code allows public sector employees to contribute to defined benefit (*i.e.*, pension) plans on a pre-tax basis. This difference in tax treatment explains why many public sector defined benefit plans require employee contributions whereas private sector plans do not.

Q. Do Minnesota Power's DB Plans provide a full retirement benefit?

A. No. The benefits from Minnesota Power's DB Plans are calculated as a life annuity using a formula based on years of service and final average earnings. For non-bargaining unit employees, years of service was capped as of September 30, 2006, and earnings were frozen as of November 30, 2018. As a result of the freeze, the DB Plan benefits provide only a portion of what they were originally designed to provide.

Q. How do the costs of Minnesota Power's DB Plans compare to the costs of its DC Plan?

A. For 2027, the estimated costs for the DB Plans are $6,928,176 Total Company ($5,911,189 MN Jurisdictional) (based on WTW's actuarial analysis) covering an estimated 127 non-bargaining unit employees, 258 bargaining unit employees, and 1,771 retirees. For the DC Plan, the costs are $11,929,891 Total Company ($10,178,703 MN Jurisdictional), covering an estimated 717 non-bargaining unit employees and 444 bargaining unit employees.

Q. Were DB Plans common when Minnesota Power established its plan in 1952?

A. Yes. Defined benefit plans were very common in 1952 and were an expected benefit for employees. Since that time, these plans have become far less common, and now it is very unusual for a private sector company to offer a defined benefit plan retirement benefit to employees. Consistent with these structural changes in retirement benefits expectations, Minnesota Power has eliminated its DB Plans for new non-bargaining unit

employees hired after September 30, 2006, and for new bargaining unit employees hired after January 31, 2011.

Q. Why is it reasonable to include the costs for the Company's DB Plans in rates?

A. Since 1952, the DB Plans have been a critical component of the Company's overall benefit package to attract and retain talent. While substantial design changes (such as eliminating eligibility for this benefit for all new hires and freezing both credited service and final average earnings for non-bargaining unit employees) have been made to these plans in response to regulatory changes and to reduce volatility in Company expense and contributions, the DB Plans remain a critical component of eligible employees' overall benefit package, and thus they remain necessary to retain talent.

Q. Overall, are Minnesota Power's benefit plans for employees reasonable compared to the market?

A. Yes, Minnesota Power's benefit plans are reasonable and necessary to attract and retain a skilled and reliable workforce. As previously described, Minnesota Power uses market survey and benefit consulting data analysis to compare its retirement benefits program to those offered by peer utilities and companies across other sectors.

3. Other Post-Employment Benefits

Q. What benefits make up the Company's OPEB?

A. The Company's OPEB consists of health, dental, and life insurance benefits that are available post-employment, that is, to eligible retirees.

Q. Please describe the eligibility criteria for the health benefits component of OPEB.

A. Minnesota Power employees hired before January 1, 2011, and who work until age 55 with a minimum of either 10 years of participation within the plan or 10 years of service with the Company are eligible to participate in the retiree health plans.

Q. Describe the current benefits provided in the Company's health plans for eligible retirees.

A. The Company offers two retiree health plan arrangements: a pre-Medicare retiree health plan for eligible retirees under age 65 and a Medicare-eligible retiree health plan for eligible retirees age 65 and older. The distinction between the two arrangements is based on Medicare eligibility, as retirees age 65 and older are required to enroll in Medicare, while retirees under age 65 are not.

For pre-Medicare retirees, the Company offers the same medical plan options that are available to active employees. Those options include two CDHPs, a co-pay plan, and the Surest plan. Monthly premium rates for the pre-Medicare retiree plans vary by plan design and reflect the applicable cost-sharing arrangement between participants and the Company as determined through the Board of Governors renewal process. Participants share in plan costs through deductibles, co-pays, and co-insurance, depending on the plan selected. Under the CDHP options, participants must satisfy a deductible before most medical expenses are covered, although certain preventive services are covered at 100 percent regardless of the deductible. Under the co-pay plan, certain services are covered through specified co-pays rather than through deductible and co-insurance cost sharing. Surest differs from the other options in that it operates as a co-pay-only model. Across all plan options, participants' medical and prescription drug expenses, excluding monthly premiums, are limited by an annual out-of-pocket maximum.

For Medicare-eligible retirees, the Company provides a HRA allocation to purchase coverage through a Medicare marketplace. Eligibility for that arrangement is contingent on enrollment in Medicare Parts A and B. This approach provides Medicare-eligible retirees individualized access to coverage options while allowing the Company to provide a defined level of retiree medical support.

Q. Describe the Company's dental plan for eligible retirees.

A. The retiree dental plan provides basic, preventative, and restorative dental care. The plan covers two cleanings per year and up to an annual benefit limit of $1,250 per

participant. No orthodontic coverage is provided. Retiree contributions fund approximately 40 percent of the costs of the plan while Company contributions fund approximately 60 percent of the costs.

Q. Has the Company taken steps to reduce/control OPEB costs in recent years?

A. Yes. The Company has made several changes over the past few years, which are also addressed in the Direct Testimony of Company witness Anderson:

1. Effective January 1, 2024, the post-65 group transitioned from a fully insured Medicare Advantage Plan to a Medicare marketplace administered by Aptia. This change provides Medicare eligible participants greater flexibility by allowing them to choose between health plan carriers, provider networks, and coverage options that best meet their individual needs and circumstances. To support this transition, the Company provided an annual $1,000 contribution to a tax-free HRA, which may be used for qualified medical expenses, including premiums and other eligible out-of-pocket costs. Retirees also have year-round access to Aptia's benefits counselors, who assist them with plan comparison, enrollment, and ongoing support and advocacy;
2. Effective January 1, 2026, the annual HRA allocation was negotiated by the Board of Governors Negotiating Committee with an updated schedule as follows:

Year	Annual HRA allocation per participant
2026	$1,100
2027	$1,100
2028	$1,200
2029	$1,200

3. Also, effective January 1, 2026, participants in the Post-65 plan also transitioned to an "open model," meaning they remain eligible to receive the HRA allocation regardless of the insurance broker or agent they choose to use in electing coverage.

Q. Does Minnesota Power provide additional OPEBs?

A. Other than the retiree medical and dental benefits described above, bargaining unit employees represented by IBEW Local 31 are eligible for Company-provided retiree life insurance benefits. The Company previously provided retiree life insurance for non-bargaining unit employees, but this benefit was discontinued for employees retiring after December 31, 2015.

Q. What costs are included in the 2027 test year for OPEB?

A. Minnesota Power's 2027 test year includes a negative $7,482,734 Total Company (negative $6,384,344 MN Jurisdictional) (based on WTW's actuarial analysis) in OPEB costs. This negative amount, or income, reduces customer rates. In Direct Testimony of Company witness Anderson, she discusses how the 2027 test year OPEB expense was calculated. As she describes, the negative OPEB expense in the 2027 test year is in part based on the cost savings from past benefit reductions that will continue to be reflected in the expense for several more years and income from the OPEB trusts investments. Costs would have increased if not for steps taken by the Company to control the rising costs of OPEB.

4. Other Executive Retirement Benefits

Q. What benefits does Minnesota Power offer to eligible executives?

A. Minnesota Power offers eligible executives a Supplemental Executive Retirement Plan ("SERP") pension benefit, a SERP annual restoration plan, and an Executive Deferral Plan ("EDA"). These benefits are designed to provide retirement benefits, in aggregate, that are substantially equivalent to the benefits to which eligible participants would have been entitled to if the Internal Revenue Code did not limit the types and amounts of compensation that can be considered in tax-qualified benefit plans.

Q. What has Minnesota Power included in the 2027 test year for SERP and EDA costs?

A. While these benefits are a key component of Minnesota Power's compensation and benefit package, the Company is not seeking recovery of SERP or EDA costs.

Q. Does Minnesota Power have any other costs associated with executive benefits?

A. Yes. In addition to the costs outlined above, Minnesota Power incurs costs for a now-closed Executive Investment Plan ("EIP") and for legacy employment agreements.

Q. Please describe the EIP.

A. The EIP was a non-qualified deferred compensation plan that provided employees in management-level positions an opportunity to save for retirement through salary or bonus deferral. This plan was put in place to provide a deferral opportunity for compensation that could not be deferred into the DC Plan because of the Internal Revenue Code limitations on how much can be contributed to a qualified deferred compensation plan. The EIP is a closed plan that no longer has any eligible active employees; all participants in the plan are retirees. The EIP also includes a survivor benefit for the surviving spouses of qualified management employees who participated in the EIP. The Company is not seeking recovery of any costs associated with the EIP.

Q. Please describe the legacy employment agreements.

A. The Company has obligations under outstanding legacy employment agreements that were reached during the 1980s and 1990s. These agreements were used as an attraction and retention tool for key employees and were considered essential compensation elements to stay competitive in hiring and retention trends at that time. For example, Minnesota Power had one employee who left the Company and who the Company wanted to rehire due to that employee's unique skills; therefore, the Company agreed to credit this employee for previous service in the employment agreement, such that the employee's retirement benefit would reflect previous service years to the Company. As these benefits were provided outside the normal plans, the interest on these benefits was calculated separately. The Company is not seeking recovery of the costs associated with these legacy employment agreements.

Q. What is the total amount of compensation and benefit costs for which the Company is not seeking recovery in the 2027 test year?

A. Minnesota Power is forgoing compensation and benefit costs for the 2027 test year totaling $5.383 million Total Company ($4.611 million MN Jurisdictional), as set forth in Table 13.

Table 13. Employee and Retiree Compensation and Benefit Costs Not Included in the 2027 Test Year ($ in millions)

Category	2027 Test Year (Total Company)	2027 Test Year (MN Jurisdictional)
AIP in excess of 20%	$2.138	$1.834
SERP – Pension Benefit	$0.780	$0.665
SERP – Annual Restoration Plan	$0.398	$0.339
Executive Deferral Plan	$0.862	$0.739
Executive Investment Plan	$0.003	$0.003
Executive Investment Plan – Survivor Benefits	$0.079	$0.068
Legacy Employment Agreements	$0.042	$0.036
Legacy LTIP	$1.081	$0.927
TOTAL	**$5.383**	**$4.611**

VI. CONCLUSION

Q. Please summarize your Direct Testimony for the Commission's consideration.

A. My Direct Testimony explains that the Company provides employees with a comprehensive and cost-conscious compensation and benefits package designed to maintain market-competitive pay and benefits. My testimony also describes how the Company uses industry best practices, market data, and a prudent plan design to administer and maintain these programs.

Based on that analysis, I recommend that the Commission approve the compensation and benefits expenses outlined in MP Exhibit ___ (Chan), Direct Schedule 4 – Summary of Compensation and Benefit Costs. Approval of those expenses will support the Company's ability to attract and retain the workforce needed to provide customers with the safe and reliable energy service they expect and deserve.

Q. Does this complete your Direct Testimony?

A. Yes, it does.

2023 Employee Headcount	January	February	March	April	May	June	July	August	September	October	November	December
Total Full-Time / Part-Time Actual	1,065	1,070	1,072	1,070	1,080	1,075	1,074	1,077	1,078	1,080	1,087	1,084
Total Temporary Actual	-	2	2	2	2	1	1	1	1	1	-	-
Total Intern Actual	16	15	14	14	20	34	37	28	27	25	24	21

2024 Employee Headcount	January	February	March	April	May	June	July	August	September	October	November	December
Total Full-Time / Part-Time Actual	1,102	1,105	1,102	1,104	1,111	1,114	1,117	1,117	1,116	1,122	1,119	1,118
Total Temporary Actual	-	-	-	-	4	4	4	1	2	1	-	-
Total Intern Actual	18	20	20	23	42	44	44	32	33	34	34	30

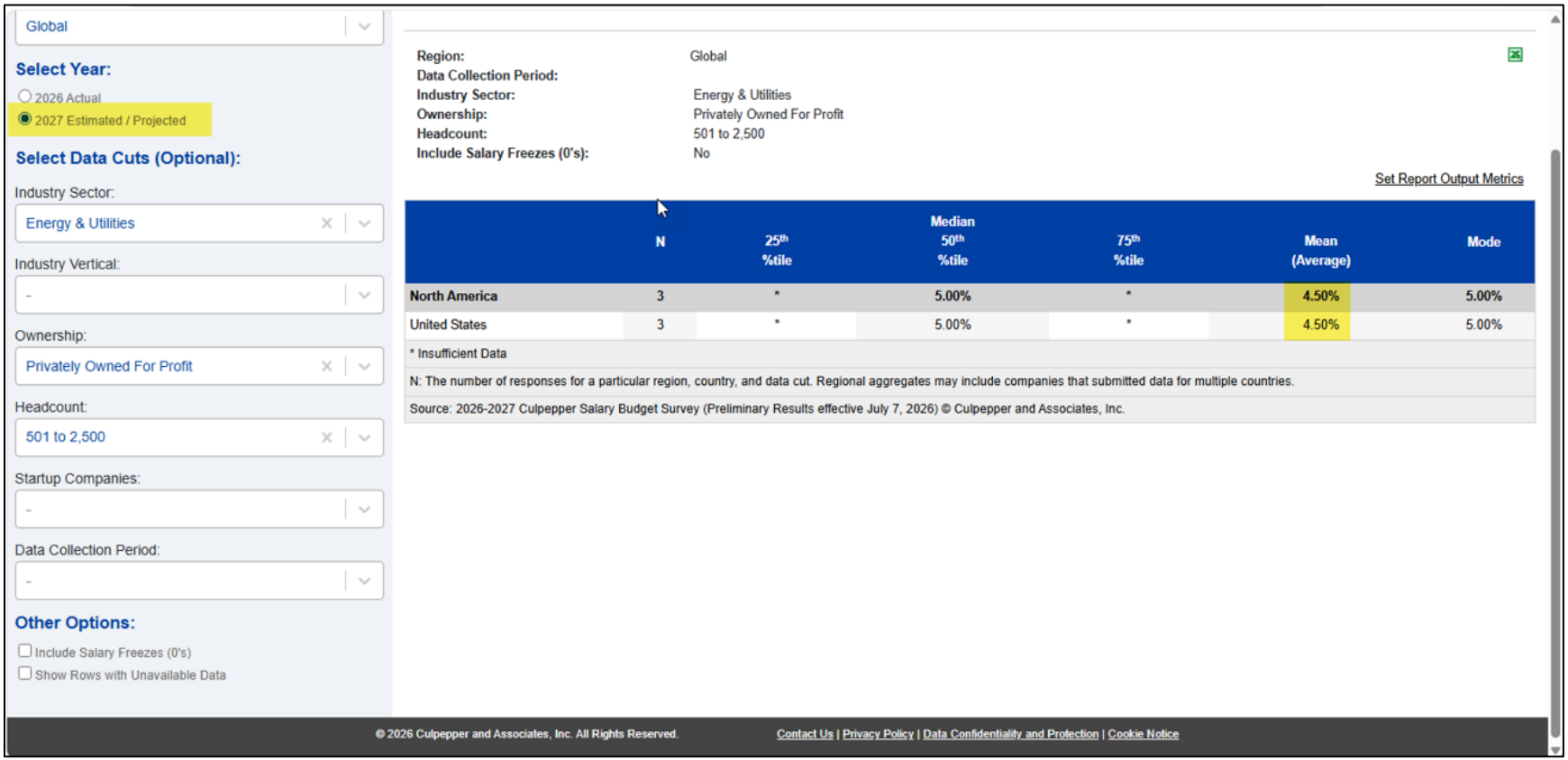
2025 Employee Headcount	January	February	March	April	May	June	July	August	September	October	November	December
Total Full-Time / Part-Time Actual	1,121	1,122	1,140	1,133	1,140	1,142	1,144	1,142	1,137	1,144	1,145	1,148
Total Temporary Actual	1	1	3	4	6	6	7	8	5	3	2	1
Total Intern Actual	24	21	22	22	29	31	31	22	19	19	20	16

2026 Employee Headcount	January	February	March	April	May	June	July	August	September	October	November	December
Total Full-Time / Part-Time Actual	1,152	1,152	1,164	1,161	1,171	1,162	1,162	1,168	1,164			
Total Full-Time / Part-Time Budget										1,221	1,228	1,235
Total Temporary Actual	1	1	1	1	5	5	4	4	1			
Total Intern Actual	17	18	23	23	25	23	23	17	16			

2027 Employee Headcount	January	February	March	April	May	June	July	August	September	October	November	December
Total Full-Time / Part-Time Budget	1,240	1,245	1,250	1,255	1,260	1,265	1,270	1,275	1,280	1,284	1,288	1,292

Culpepper and Associates, Inc.

2027 Culpepper Salary Budget Survey Results as of July 7, 2026



Global

Select Year:

2026 Actual
2027 Estimated / Projected

Select Data Cuts (Optional):

Industry Sector: Energy & Utilities

Industry Vertical: -

Ownership: Privately Owned For Profit

Headcount: 501 to 2,500

Startup Companies: -

Data Collection Period: -

Other Options:

Include Salary Freezes (0's)
Show Rows with Unavailable Data

Region: Global
Data Collection Period:
Industry Sector: Energy & Utilities
Ownership: Privately Owned For Profit
Headcount: 501 to 2,500
Include Salary Freezes (0's): No

Set Report Output Metrics

	N	25th %tile	Median 50th %tile	75th %tile	Mean (Average)	Mode
North America	3	*	5.00%	*	4.50%	5.00%
United States	3	*	5.00%	*	4.50%	5.00%

* Insufficient Data

N: The number of responses for a particular region, country, and data cut. Regional aggregates may include companies that submitted data for multiple countries.

Source: 2026-2027 Culpepper Salary Budget Survey (Preliminary Results effective July 7, 2026) © Culpepper and Associates, Inc.

© 2026 Culpepper and Associates, Inc. All Rights Reserved.

Contact Us | Privacy Policy | Data Confidentiality and Protection | Cookie Notice

Society for Human Resource Management (SHRM)

Percentage of employers offering a 401(k) or similar defined contribution plan

Retirement & Savings Plans | Construction / Utilities / Agriculture and Mining | Large (500-4,999) | All Locations

Retirement	2022	2023	2024	2025	2026	% change
Traditional 401(k) or similar defined contribution retirement savings plan (e.g., 403(b)s, 457s, federal Thrift Savings Plan)	98%	95%	95%	100%	97%	- -
Roth 401(k) or similar defined contribution retirement savings plan	71%	75%	83%	92%	92%	0% =
Traditional defined benefit pension plan (open to all employees)	12%	18%	18%	13%	11%	-2% ⌄
Traditional defined benefit pension plan (frozen for current employees and/or not open to new hires)	12%	15%	8%	19%	14%	-5% ⌄
Defined benefit cash balance pension plan	7%	7%	5%	4%	9%	5% ⌃
Lifetime income solutions	2%	3%	3%	6%	4%	-2% ⌄
Pooled Employee Plan (PEP; a provision of the 2019 SECURE Act allowing employers to pool retirement plans into a single 401(k) plan)	0%	0%	1%	0%	2%	2% ⌃

Used with permission from the Society for Human Resource Management (SHRM). Rights granted to repurpose.

Summary of Compensation and Benefit Costs		2023	2024	2025	2026	2027	2027	
	FERC Accounts	Actual Total Company	Actual Total Company	Actual, Total Company	Projected Year Total Company	Test Year Total Company	Test Year MN Jurisdictional	
Compensation, including Spot Bonuses	Multiple	72,017,349	75,934,836	75,987,399	84,183,831	91,806,358	77,756,461	
Compensation		71,762,088	75,862,312	75,934,558	84,139,213	91,755,825	77,714,913	
Spot Bonuses		255,261	72,524	52,841	44,618	50,533	41,548	
High Performance Awards	92000	181,754	163,435	196,118	331,024	358,879	307,767	
Defined Benefit Pension Plans	92608	3,920,784	2,529,868	5,224,206	7,598,225	6,928,176	5,911,189	
Defined Contribution Plan	92606 - 92607	6,033,820	6,762,942	8,617,072	10,905,589	11,929,891	10,178,703	
Other Post-Employment Benefits	92611 - 92613	(9,046,656)	(11,598,843)	(9,206,135)	(8,946,675)	(7,482,734)	(6,384,344)	
Health Care Plans	92605	6,342,839	6,815,376	9,469,082	12,025,168	14,831,589	12,654,460	
Dental Plans	92604 / 92616	400,247	373,082	540,579	624,076	658,658	561,973	
Group Life Insurance	92601	102,924	133,292	168,394	185,565	212,601	181,394	
Flexible Credits	92602	758,863	822,851	1,070,055	1,371,343	1,555,513	1,327,179	
Tuition Reimbursement Program	92603	45,216	33,873	45,850	49,654	54,891	46,833	
Employee Resource Program	92000	17,875	18,887	20,943	18,502	20,088	17,227	
Reimbursement Accounts	92610	7,891	7,433	9,314	13,655	13,933	11,888	
COBRA Administrative Fees	92000	7,729	8,615	8,223	7,696	7,853	6,735	
Long-Term Disability Plan	92614	144,030	271,732	157,736	705,081	1,842,942	1,572,416	
Service Awards	92000	24,370	52,447	25,575	29,892	33,384	28,629	
Retirement Awards	92000	9,749	13,082	7,425	10,128	10,128	8,686	
Severance	92000	-	-	349,833	65,727	-	-	
Redesigned Long-Term Incentive Plan	92000	-	-	-	1,385,475	2,836,925	2,432,890	
Short-Term Incentive Plan	92000	-	2,516,355	964,590	2,322,636	2,673,847	2,293,038	
Annual Incentive Plan	92000	7,520,825	6,415,342	3,054,989	5,595,780	6,533,880	5,603,325	Request capped at 20%
Executive Deferral Plan	92000	1,041,678	1,040,455	995,232	860,124	862,128	739,344	Not seeking recovery
Executive Investment Plan	92000	3,635	4,381	2,637	4,512	3,372	2,892	Not seeking recovery
Executive Investment Plan - Survivor Benefits	92609	57,093	51,991	59,188	65,741	79,210	67,583	Not seeking recovery
Legacy Employment Agreements	92000	289,930	34,678	45,975	33,948	42,384	36,348	Not seeking recovery
Legacy Long-Term Incentive Plan	92000	2,858,578	1,495,212	2,368,992	2,103,669	1,080,572	926,677	Not seeking recovery
Supplemental Executive Retirement Plan Pension Benefit	92615	693,242	589,390	724,360	805,401	779,869	665,392	Not seeking recovery
Supplemental Executive Retirement Plan Annual Restoration Plan	92615	402,682	152,009	391,818	621,822	397,550	339,193	Not seeking recovery