Direct Testimony
Jennifer J. Cady

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-21-335

Exhibit _____

RATE CASE OVERVIEW

November 1, 2021

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I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Jennifer Jae Cady, 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., doing business as Minnesota Power ("Minnesota Power" or the "Company"). My current position is as Manager of Regulatory Strategy and Policy.

Q. Please summarize your qualifications and experience.

A. I have been employed by Minnesota Power for over ten years and have regulatory experience in the electric industry that includes customer program development, renewable project development, resource acquisition, integrated resource planning, integrated distribution planning, and rate design.

In my current position as the Manager of Regulatory Strategy and Policy, I lead a team that develops and executes Minnesota Power's regulatory strategy; identifies, tracks, and develops energy policy issues and positions; develops and leads processes to engage diverse sets of interested stakeholders; and represents the Company before the Minnesota Public Utilities Commission ("Commission") in stakeholder groups and at industry initiatives.

I graduated from the College of Saint Scholastica (*cum laude*) with a bachelor's degree in International Studies. I also hold a master's degree in International Relations and Conflict Resolution, with a minor in Comparative Security Issues from the American Military University (*summa cum laude*). Focusing on my experience in public policy, I completed a foreign policy internship at the Center for Strategic and International Studies in Washington D.C. and currently serve on the Board of Directors for the Center for Rural Policy and Development and the Duluth Chamber of Commerce. Finally, I

was an intelligence professional in the United States military for the last 20 years. I am originally from Hibbing, Minnesota and have been a lifelong Minnesota resident.

Q. What testimony do you provide in this proceeding?

A. I provide an overview of the Company's case and its rate increase request in this proceeding.

Q. What are the Company's overall requests in this proceeding?

A. In light of the five years that have passed since the Company filed its last completed rate case, Minnesota Power has a projected overall revenue requirement of $724.3 million (MN Jurisdictional[1]) in the 2022 test year and seeks a rate increase of $108.3 million (MN Jurisdictional) or 17.58 percent above present rate revenue of $615.9 million. These amounts are based on the Company's capital budget and projected operations and maintenance ("O&M") expense for the 2022 test year, a rate of return on equity ("ROE") of 10.25 percent, and an overall rate of return of 7.5 percent. The Company is proposing an equal increase adjustment of 18.22 percent across all General Rates for sales by rate class. For interim rates, Minnesota Power is requesting a revenue increase of $87.3 million (MN Jurisdictional) or 14.23 percent above the Company's present rate revenue. The support for these requests is set forth in my testimony, as well as by the other witnesses testifying on behalf of Minnesota Power, and this overall filing.

Q. At a high level, please explain why Minnesota Power is submitting this rate request.

A. Minnesota Power has filed only three completed rate cases in the last 25 years, with our last completed case initiated five years ago. Minnesota Power has also made substantial capital investments to decarbonize the system and is the first utility in the State to deliver 50 percent renewable energy to customers. However, while we have held O&M levels steady for over a decade, our rates reflect even lower O&M levels than we have actually incurred. Additionally, at the conclusion of our last completed rate case in Docket No. E015/GR-16-664 ("2016 Rate Case"), the Company's actual sales were immediately

[1] 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.

below the level set for ratemaking in that case and have since declined substantially. At the same time, low wholesale power market prices and the Company's substantially changed generation fleet have made it impossible for Minnesota Power to offset revenues lost due to industry downturns.

As a result, over the last several years, Minnesota Power experienced credit rating downgrades, as discussed by Company witness Patrick L. Cutshall, despite substantially reducing both its workforce and costs. Continued employee and expenditure reductions to offset inflating costs and revenue deficiencies are neither possible nor sustainable, and would result in further loss of employees, as well as the reductions of services, decrease in quality of service, or both. Our current credit metrics likewise create a material risk of a further credit downgrade absent reasonable recovery of our costs and a strong return in this case.

At the same time Minnesota Power has transitioned its system while withstanding these financial challenges, our Company has been thoughtful of its customers' economic situations overall, including the specific hardships experienced during the COVID-19 pandemic. We have instituted or proposed a number of customer protections and rate mitigation efforts, described later in my testimony, to ensure reasonable customer rates and appropriate supporting programs for our most vulnerable customers. As I discuss later in my testimony, Minnesota Power's residential rates have remained low as compared to state and national averages and will continue to remain reasonable even with the requested rate increase.

We have reached a point at which it is vital to re-establish base rates that reflect our current revenue and reasonable cost structures to maintain a financially health utility. Such rate relief would allow the Company to better withstand reduced sales while maintaining its excellence in addressing industry and customer transformation, renewable energy additions, carbon reduction, conservation programs, customer programs and services, and community support.

Q. At a high level, please introduce the main drivers of Minnesota Power's current rate increase request.

Much has changed since our last completed rate case. Overall, the main drivers of Minnesota Power's current rate increase request are:

(1) the Company's continuing investments and leading efforts to decarbonize its system;

(2) revenue changes and increased risk profile due to a significant concentration of highly cyclical industrial customers;

(3) the need to recover increased capital and O&M expenses as compared to the levels currently in rates, supporting high quality utility service to customers; and

(4) Minnesota Power's diminished ability to offset business and economic changes, as well as the credit-negative outcome of the Company's last completed rate case, through cost cutting or selling power through the wholesale markets.

Minnesota Power is at a critical inflection point in its *Energy**Forward*** transition. The Company has led the State in reducing carbon emissions and has transitioned from relying almost entirely upon coal-fired generation to being the first Minnesota utility to deliver a power supply that is 50 percent renewable in just 15 years. Minnesota Power needs regulatory support in order to continue this important progress toward a carbon free future for customers.

Q. At a high level, please introduce Minnesota Power's unique company risk.

Minnesota Power is unique among its peers in regards to its customer concentration and the nature of its largest customers' industries, which creates significant financial risk to the Company. Minnesota Power serves the natural resources based economy of northern Minnesota, and its industrial customers operate in the highly cyclical, globally competitive industries of taconite mining and paper manufacturing. This cyclicality, combined with the fact that customers in the mining, metals and forest products industries represent approximately 64 percent of the Company's annual retail sales, mean that changes in their economic conditions can result in significant variations in the Company's sales. Even when some of these customers are operating at relatively high production levels, others are not and the risk of steep declines is ever-present. For

example, in 2020, two of the Company's large industrial customers unexpectedly reduced their energy demand by an amount equivalent to the entire residential class of customers in response to the COVID-19 pandemic. Although the Company has mitigated rate impacts as much as possible for customers while also significantly decarbonizing its system, the Company's current financial circumstances necessitate this rate proposal to realign rates with current costs and revenues and to provide new tools to address changes in customer energy needs.

Q. Why should the risks facing the Company matter to its customers?

A. A financially healthy utility is critical to customers for two primary reasons. First, our customers rely on Minnesota Power to provide safe, reliable, and environmentally sound electric service, as well as excellent customer programs and services. While we have shown we can weather many challenges, Minnesota Power needs sustainable levels of support to be able to meet these needs and expectations. Second, as discussed by Mr. Cutshall, credit ratings and increased perception of the risks associated with the Company increase its costs of obtaining the capital necessary to finance utility infrastructure and investments, which are increasingly necessary for the clean energy transition. This increased cost of obtaining capital would in turn increase costs to customers. Perhaps even more concerning is the risk of losing access to financial markets and capital during broader market downturns, which we faced during the pandemic. Our requests in this case are also designed to help ensure a reasonable cost of capital for our customers. So, when we refer to risk or our risk profile, we mean risks to the Company's economic well-being but also the corresponding risks to the customers we serve.

Q. Are there any additional proposals in this case you would like to highlight?

A. Yes. As I noted, much of this case is focused on aligning our rates with our current revenues and costs, which have been closely managed but also are not well reflected in our current rates. Additionally, in an effort to help align the unique risks and benefits of Minnesota Power's large industrial customer concentration between rate cases, the Company is proposing a simple and balanced sales true-up mechanism. As described

further in Company witness Frank L. Frederickson's testimony, the proposed sales true-up mechanism would allow customers to benefit when large industrial customer operations increase beyond the baseline set in the test year, which would decrease the risks associated with basing test year sales on a forecast for these globally competitive customers. This mechanism would also help the Company avoid future rate cases that are triggered so heavily by large industrial customer operational changes. Further, as discussed in the testimony of Mr. Cutshall, ALLETE's credit rating agencies and credit ratings would likely favor the mechanism, as the proposed mechanism shares both the rewards and risks of industrial customer volatility with all customers.

Q. How is your testimony organized?

A. My testimony is organized as follows:

- In Section II, I describe Minnesota Power and our Customers;
- In Section III, I describe Minnesota Power's state energy policy leadership and changes since the last approved rate case;
- In Section IV, I provide an Introduction to this Filing, including an overview of requests, revenue requirements, cost mitigation efforts and rate design;
- In Section V, I provide an Introduction of Witnesses; and
- In Section VI, I conclude my testimony.

Q. Please summarize your Case Overview Testimony.

A. First, I provide an overview of ALLETE, Inc. and the Minnesota Power electric utility. Specifically, I highlight how Minnesota Power serves one of the most unique customer mixes of any utility in the country, consisting mostly of large industrial users on Minnesota's Iron Range, and how the Company's economic environment affects this rate case.

Second, I provide an overview of Minnesota Power's leadership on executing Minnesota's state energy policy and the many changes to Minnesota Power since its last completed rate case, filed in 2016. I provide examples of the many things Minnesota

Power has done to transform the electric system toward a cleaner energy future while creating an experience that provides more choices for customers.

Third, I provide an overview of the specific requests in this filing, which focus on revenue requirement and rate design updates that reflect the Company's capital investments, resource acquisitions, current and foreseeable load, and changes in customer operations. I also explain, at a high level, how the Company has reduced costs and continues to contain costs but note that continued employee reductions to offset inflating costs are neither possible nor sustainable. Finally, I discuss the rate impact of this rate increase request, along with significant and proactive efforts the Company has undertaken to mitigate rate increases for customers. I also provide an overview of why the rate increase requested in this proceeding is just and reasonable, as further supported by the broader filing.

Lastly, I introduce the other Minnesota Power witnesses who will present testimony in this proceeding and introduce the subject matter of their Direct Testimony.

II. MINNESOTA POWER AND OUR CUSTOMERS

Q. Please describe ALLETE, Inc.

A. ALLETE, Inc. is a reliable provider of competitively priced energy services in the upper Midwest. ALLETE is comprised primarily of regulated energy businesses with some additional non-utility, energy-focused businesses. Minnesota Power is a division of ALLETE and comprises the majority of ALLETE's activities. Net income from Minnesota Power regulated operations is projected to be 65 percent of budgeted total consolidated ALLETE net income in 2021. The remaining 35 percent of ALLETE's budgeted consolidated net income comes primarily from the following wholly owned subsidiaries: ALLETE Clean Energy; BNI Energy; Superior Water, Light and Power Company; and an investment in the American Transmission Company. The Direct Testimony of Mr. Cutshall identifies ALLETE's other businesses and subsidiaries in more detail.

Q. Please describe the Minnesota Power public utility.

A. Minnesota Power is a public utility operating division of ALLETE. First incorporated in 1906, Minnesota Power has been serving northern Minnesota for over a century and currently provides electricity to more than 145,000 residential and commercial customers, 15 municipal systems, and some of the nation's largest industrial customers across a 26,000 square mile service area located in central and northern Minnesota.

Q. How does Minnesota Power serve its customers?

A. Minnesota Power currently utilizes a diverse combination of wind, hydro, solar, coal, biomass, and small amounts of natural gas generation, totaling nearly 1,800 megawatts ("MW") of capacity, to serve its customers. Since 2013, Minnesota Power has decreased its thermal generation through coal plant retirements, idling, or remissioning, while the Company has added a substantial volume of renewable energy to the power supply. In fact, Minnesota Power has tripled its renewable energy generation since 2014. As described in further detail in the Direct Testimony of Company witness Julie I. Pierce, Minnesota Power added two significant renewable power purchases in 2020 — Manitoba Hydro and Nobles 2 wind farm. However, even with the new power supply additions, Minnesota Power's total power supply output (including both purchases and Company-owned generation assets) will be slightly lower in 2022 than in 2010.

Minnesota Power's transmission system operates on voltages generally between 115 kilovolts ("kV") up to 500 kV and serves local loads across nearly 26,000 square miles of central and northern Minnesota. As Company witness Daniel W. Gunderson describes in his Direct Testimony, Minnesota Power's transmission system is also critical in supporting the larger regional transmission system's overall reliability. Minnesota Power's distribution system is comprised of 6,170 miles of distribution lines and 201 distribution substations, reaching from International Falls in the north to Royalton in the south, and from Duluth in the east to as far west as Long Prairie. Much

of this area consists of rural communities, which present unique issues when planning for investment in the distribution system.[2]

In addition to investments in generating and delivering power, Minnesota Power remains focused on the customer experience. As one example, Minnesota Power is nearing completion of its Advanced Metering Infrastructure ("AMI") deployment and recently completed the implementation of a holistic Customer to Meter solution with Meter Data Management functionality. Together, these foundational systems will allow for further enhancements to customer service options through the Company's MyAccount tool, as well as sophisticated meter read estimates and advanced rate design options to support customer engagement.

Through its generation, transmission, distribution, and customer experience assets, Minnesota Power strives to always remain customer-focused as it delivers safe, reliable, affordable, and increasingly clean electricity to customers and communities across northeastern and central Minnesota.

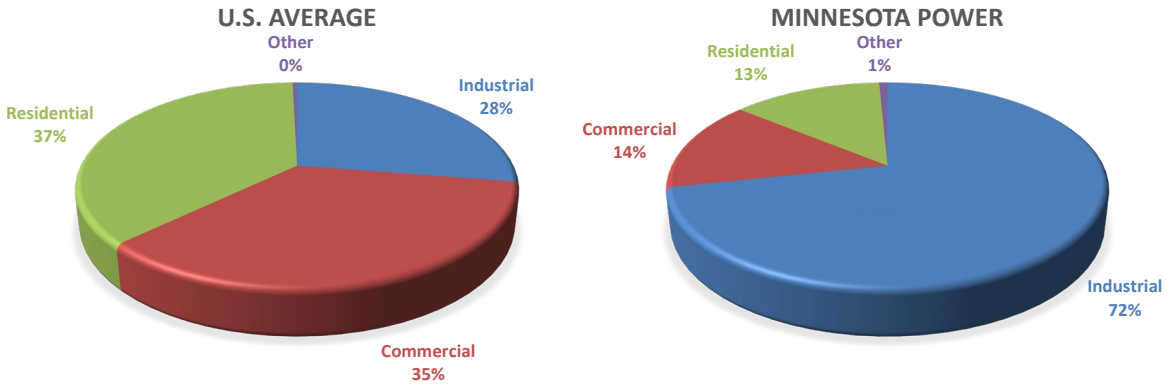
Q. Please provide additional information about Minnesota Power's customers.

A. Minnesota Power serves approximately 123,600 residential, 23,300 commercial, and 400 industrial customers, with programs and services for each customer class.

As noted previously, Minnesota Power's system is dominated by industrial customers, with approximately 72 percent of retail kilowatt-hour ("kWh") energy sales delivered to this customer class alone in 2020, while only 13 percent of sales supported the residential class and 14 percent of retail sales were to commercial customers. In contrast, the average utility in the United States sells just 28 percent of retail kWh energy sales to industrial customers and 37 percent and 35 percent of retail kWh energy sales to residential and commercial customers, respectively, as shown in Figure 1 below.

[2] Detailed information about Minnesota Power's distribution system can be found in the 2021 Integrated Distribution Plan filed in Docket No. E015/M-21-390 on October 25, 2021.

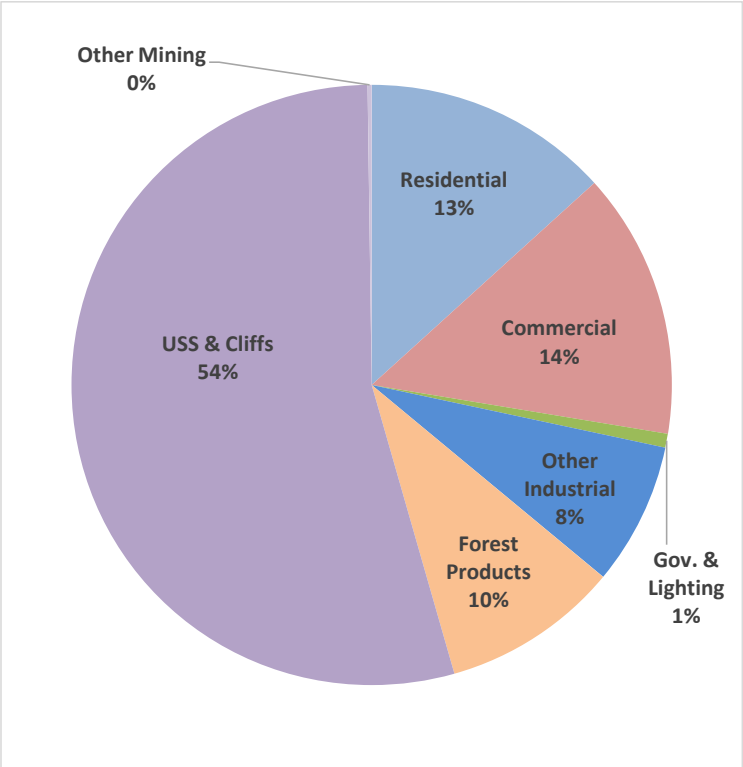
Figure 1. Minnesota Power's Customer Concentration is Unique



Q. Please describe how this customer concentration creates unique circumstances for the Minnesota Power system.

A. Minnesota Power's large industrial customers are unique in both their high overall percentage of revenue and kWh energy usage on the system, as well as the individual size of the customers relative to a typical utility. Minnesota Power's large industrial customers primarily consist of taconite producers and graphic paper and pulp producers in northern Minnesota, as depicted in Figure 2 below. These industries, like Minnesota Power itself, are significant components of the regional economy, as discussed in more detail in the Direct Testimony of Company witness Mr. Frederickson.

Figure 2. Minnesota Power Retail Energy Sales by Customer Class (2020)



Additionally, Minnesota Power's industrial customer operations are unique as they use large quantities of energy and typically operate around the clock every day of the year. As a result, when the industrial customers are operating, the energy usage pattern of the industrial customer class is relatively stable compared to the other customer classes. This stable usage contributes to more consumption of energy in off-peak hours than other customer classes, which is typically lower cost energy. The size and operations of these industrial customers results in Minnesota Power having one of the highest load factors of any utility in the country, near 80 percent, which allows the system to be used efficiently, creating additional value for all Minnesota Power customers. However, the energy usage from this globally competitive and price-sensitive industrial customer class can vary widely from year-to-year, which dramatically increases the risk profile of Minnesota Power compared to other electric utilities in the state and nation, as further discussed by Company witness Mr. Cutshall.

III. EXCEEDING STATE ENERGY GOALS AMID CHANGE SINCE THE COMPANY'S LAST RATE CASE

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

A. In this section of my testimony I discuss how Minnesota Power arrived at the place it is today. I begin by discussing Minnesota Power's *Energy**Forward*** strategy and carbon-free vision, along with the Company's ongoing leadership in implementing state energy policy and regulatory goals set forth by the Commission. Additionally, I explain relevant changes to the Company since the last completed rate case, filed in 2016. These include changes to the resource mix, customer operations, and financial standing. I then address Minnesota Power's perspective on why this policy alignment and recent operational changes are relevant considerations in this rate proceeding.

A. Minnesota Power's Vision and Actions Align with State Energy Policy

Q. What is Minnesota Power's understanding of Minnesota's Energy Policy goals directed by the state legislature?

A. The State of Minnesota has a number of energy policy objectives codified in state statute. State policy guidance related to customers includes regulation to assure reliable electric service at just and reasonable rates,[3] a goal for retail electric rates to be at least five percent below the national average for each customer class,[4] and a specific directive to ensure competitive electric rates for energy-intensive trade-exposed customers.[5] Energy policy goals related to the climate include Greenhouse Gas Emissions reduction targets,[6] renewable energy standards — including a solar energy standard[7] — and energy conservation goals, including the recently passed Energy Savings and Optimization Policy Goal.[8]

[3] Minn. Stat. § 216B.03 (2021).
[4] Minn. Stat. § 216C.05 (2021).
[5] Minn. Stat. § 216B.1696 (2021).
[6] Minn. Stat. § 216H.02 (2021).
[7] Minn. Stat. § 216B.1691 (2021).
[8] Minn. Stat. § 216B.2401 (2021).

Q. What is Minnesota Power's understanding of the Commission's policy goals?

A. The Commission has reinforced and refined state energy policy through its orders. In the January 8, 2019 Order Establishing Performance-Incentive Mechanism Process in the proceeding titled *In the Matter of a Commission Investigation to Develop Performance Metrics, and Potentially, Incentives for Xcel Energy's Electric Utility Operations*, Docket No. E002/CI-17-401 (the "*Performance Metric Investigation*"), the Commission set forth the following regulatory goals:

1. Environmental protection;
2. Adequate, efficient, and reasonable service;
3. Reasonable rates; and
4. Opportunity for utilities to earn a reasonable return.[9]

The Commission described its desired outcomes of the policy goals as follows:

1. Environmental performance, including carbon reductions and beneficial electrification;
2. Reliability, including both customer and system-wide perspectives;
3. Affordability;
4. Customer service quality, including satisfaction, engagement, and empowerment; and
5. Cost effective alignment of generation and load, including demand response.[10]

Further, in May 2020, the Commission issued a Notice in the Matter of an Inquiry into Utility Investments that May Assist in Minnesota's Economic Recovery from the COVID-19 Pandemic[11] that required all rate-regulated utilities to provide a list of

[9] *In the Matter of a Commission Investigation to Identify and Develop Performance Metrics, and Potentially, Incentives for Xcel Energy's Elec. Util. Operations*, Docket No. E002/CI-17-401, ORDER ESTABLISHING PERFORMANCE-INCENTIVE MECHANISM PROCESS at 11-12 (Jan. 8, 2019); *See also In the Matter of a Commission Investigation to Identify and Develop Performance Metrics, and Potentially, Incentives for Xcel Energy's Elec. Util. Operations*, Docket No. E002/CI-17-401, ORDER ESTABLISHING PERFORMANCE METRICS, at 1-2 (Sept. 18, 2019).

[10] *Id*. at 12.

[11] *In the Matter of an Inquiry into Util. Inv. that May Assist in Minn.'s Economic Recovery from the COVID-19 Pandemic*, Docket No. E,G-999/CI-20-492, NOTICE OF REPORTING REQUIRED BY UTIL. (May 20, 2020).

possible investments that would meet conditions set by the Commission. These conditions can be interpreted as considerations of priority for the Commission, and the Notice requested possible investments that: provide significant utility system benefits; are consistent with approved resource plans, triennial conservation plans, and existing Commission orders; reduce carbons or other pollutants in the power sector or across economic sectors; increase access to conservation and clean energy resources; create jobs or otherwise assist in the economic recovery for Minnesotans; and use woman, veteran, or minority owned businesses as much as possible.

Q. What is Minnesota Power's understanding of the Department of Commerce's position on state policy goals?

A. The Minnesota Department of Commerce ("Department") produces a State Energy Policy and Conservation Report, informally referred to as the Quadrennial Report, which documents major emerging trends and issues in Minnesota's energy supply, consumption, conservation, and costs.[12] The most recent Quadrennial Report, issued on March 1, 2021, states that "Commerce is dedicated to ensuring that Minnesota has a reliable energy system well into the future – an energy system that meets the State's economic needs, provides energy resources at costs that are reasonable, and minimizes environmental impacts from production and consumption." The Report further states that the Department works to ensure Minnesota meets the laws and goals established by the legislature.[13]

The Report also includes content on the COVID-19 Pandemic response, noting that the Department "continues to monitor emerging trends in the energy sector with a focus on relief and recovery efforts for low-income households and businesses affected by civil unrest."

The specific energy policy goals outlined in the Quadrennial Report include:

[12] Minn. Stat. § 216C.18 (2021).
[13] Div. of Energy Res., *Energy Policy and Conservation Quadrennial Report, 2020*, COM. DEPT., https://mn.gov/commerce-stat/pdfs/20210301_quad_report.pdf (Mar. 1, 2021).

- Derive 25 percent of total energy used in the State from renewable sources by 2025;
- Reduce greenhouse gas emissions statewide to a level at least 15 percent below 2005 base levels by 2015, 30 percent by 2025, and 80 percent by 2050;
- Save 1.5 percent of average annual retail sales each year through energy conservation;
- Generate 1.5 percent of public utility retail electric sales from solar energy by 2020 and 10% of all retail electric sales from solar by 2030; and
- A preference for renewable energy in integrated resource planning processes.[14]

Q. To what extent has Minnesota Power aligned itself with these state policy goals?

A. Each of the goals outlined above are also Minnesota Power's shared goals, and the Company has already been pursuing and achieving them for many years. As previously noted, our *Energy**Forward*** initiative is focused on the holistic sustainability of our customers, the climate, our communities, and the Company itself. Below, I discuss how Minnesota Power is meeting state policy goals for the holistic benefit of our customers, the climate, and the communities we serve.

1. Customers

Q. To what extent is Minnesota Power meeting the policy goals of providing reliable and efficient service?

A. Minnesota Power recognizes the high value its customers place on safe, reliable, and affordable service and strives to provide that to all customers across its service territory in northeastern and central Minnesota. As described in the Company's most recent Safety, Reliability and Service Quality ("SRSQ") report,[15] Minnesota Power customers experience a high level of reliability with respect to their electric service. Specifically, in 2020, residential customers experienced average service reliability of 99.97115 percent; commercial customers experienced average service reliability of 99.99480

[14] *Id*.
[15] *In the Matter of Minn. Power's 2020 Safety, Reliability and Serv. Quality Standards Report*, Docket No. E015/M-21-230, SAFETY, RELIABILITY AND SERV. QUALITY STANDARDS REPORT (Apr. 1, 2021).

percent; and industrial customers experienced average service reliability of 99.9991 percent. Minnesota Power has maintained this high level of reliability amongst significant change in the Company's regional baseload generation footprint and increases in extreme weather in recent years. Additional discussion on system reliability can be found in the Direct Testimony of Company witness Mr. Gunderson.

Q. Are Minnesota Power's rates consistent with the policy goal of providing reasonable and affordable rates?

A. Yes. Minnesota Power's rates are competitive among all utilities across the nation, especially considering the significant amount of decarbonization that has taken place in Minnesota Power's energy supply since we formerly had one of the highest carbon intensities in the nation in 2005. Though rates for all customer classes have risen over this period, the rate increases for industrial customers have outpaced the national average, while rates for residential customers have remained well below the national average. According to the United States Energy Information Administration ("EIA"), Minnesota Power's residential customers paid approximately 15 percent less than the national average in 2020, and its industrial customers paid approximately five percent more than the national average. If the industrial customers were not receiving the Energy Intensive Trade Exposed ("EITE") Rider discount, which amounts to approximately a three percent reduction in their rate, the overall industrial class rate would have been approximately eight percent above the national average. As discussed later in this testimony, the Company is requesting the Commission discontinue the separate EITE Rider concurrent with the implementation of final rates in this case.

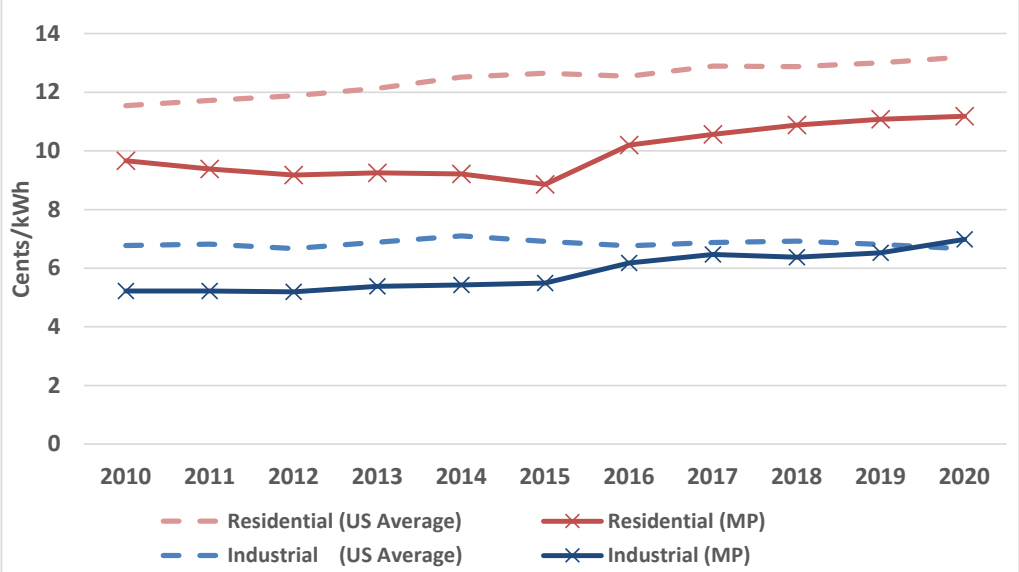
Q. Are Minnesota Power's rates consistent with the policy goal of providing reasonable and affordable rates that are five percent below the national average for all customer classes?

A. Yes. According to the EIA, Minnesota Power's average electric rate (revenue/kWh sold) is 8.04 cents/kWh; this is 24.5 percent lower than the U.S. average of 10.66 cents/kWh. Thus, the Company has maintained reasonable and affordable rates for all classes despite rapid system decarbonization and the development of a plethora of new

programs and services for customers, including electric vehicle ("EV"), solar garden, energy conservation, and affordability programs.

However, the data by class provides a clearer picture of what is driving these low rates. Minnesota Power's residential rates in 2020 were almost 15 percent lower than the national average and 17 percent lower than the state average, and commercial rates are three percent lower than the national average and two percent lower than the state average. The Company's average industrial rates in 2019[16] are about four percent lower than the national average and 13 percent lower than the state average. The chart in Figure 3 below shows the historical and projected average rates for Residential and Industrial customers relative to national averages, per the EIA.

Figure 3. Industrial and Residential Average Rates: MP vs. US Average



[16] Industrial sales and revenues were strongly affected by the COVID-19 recession with lower than normal operating rates, and 2020 data is not a representative comparison when gauging general competitiveness with the State or US.

Q. What steps has Minnesota Power taken to assist customers over the last several years?

A. Minnesota Power has taken several proactive steps to keep customer rates reasonable and competitive. These actions include, but are not limited to, settling the 2019 Rate Case, the approved extension of the EITE rate, the inclusion of a low-income usage qualified discount as the Company transitions from the current Inverted Block Rate structure to a future default Time-of-Day rate for residential customers, and voluntarily offering protections for customers during the COVID-19 pandemic. Taken together, these actions represent a holistic, creative, and forward-looking approach to mitigating rate increases and protecting customers as Minnesota Power continues its clean energy transition in the midst of a global pandemic.

Q. What actions did Minnesota Power take in regards to its last filed rate case in 2019?

A. On November 1, 2019, Minnesota Power filed its Petition for Authority to Increase Electric Rates in Minnesota with the Commission. On March 13, 2020, Governor Walz declared a peacetime state of emergency in response to the spread of the COVID-19 pandemic and issued executive orders directing Minnesotans to stay at home.[17] Minnesota Power immediately began working to develop creative solutions to reduce the administrative burdens of a rate case and the Company's overall rate increase, while still supporting a financially stable utility. On April 23, 2020, Minnesota Power filed a request to suspend the rate case in an effort to offer immediate rate relief to retail customers and ultimately withdrew the 2019 Rate Case in collaboration with other Company stakeholders and the Commission's approval. The proposed solution (of moving asset based margins from base rates to the Company's fuel adjustment clause) was intended to ease the administrative and safety burdens associated with litigating the

[17] Minn. Stat. § 12.31, subd. 2; Minn. Exec. No. 20-01 (Walz), Emergency Executive Order 20-01 Declaring a Peacetime Emergency and Coordinating Minnesota's Strategy to Protect Minnesotans from COVID-19 (Mar. 13, 2020); Minn. Exec. 20-20 (Walz), Emergency Executive Order 20-20 Directing Minnesotans to Stay at Home (Mar. 25, 2020); Minn. Exec. 20-33 (Walz), Emergency Executive Order 20-23 Extending Stay at Home Order and Temporary Closure of Bars, Restaurants, and Other Places of Public Accommodation (Apr. 8, 2020).

2019 Rate Case and allowed Minnesota Power and other stakeholders to focus on more pressing needs associated with the COVID-19 pandemic.

Q. How else did Minnesota Power act to protect residential and commercial customers during the COVID-19 Pandemic?

A. Protecting the health and safety of Minnesota Power' employees, families, customers, and communities is of the utmost priority to the Company. As early transmission of the COVID-19 virus caused growing uncertainty and concern throughout the region and nation, Minnesota Power took several proactive and voluntary steps to provide customer protections,[18] including:

- Immediate suspension of disconnections for residential customers facing financial hardship in relation to the coronavirus pandemic;
- Voluntary extension of Minnesota's Cold Weather Rule; and
- Encouraging customers to contact the Company regarding payment plans and options that reflect their unique financial resources and circumstances.

The Company also proactively and voluntarily:

- Waived late payment charges for residential and small business (general service) customers who were affected by the coronavirus pandemic;
- Suspended disconnections for small business (general service) customers facing financial hardship in relation to the coronavirus pandemic; and
- Waived reconnection fees during normal business hours for residential and small business (general service) customers previously disconnected for non-payment. These reconnections will continue to be prioritized to ensure prompt action for those seeking to reinstate service.

In anticipation of the Governor's peacetime emergency ending, which included provisions for regulated utilities, the Company submitted to the Commission a

[18] *In the Matter of an Inquiry into Actions by Elec. and Nat. Gas Util. in Light of the COVID-19 Pandemic Emergency*, Docket No. E,G999/CI-20-375, RESPONSE LETTER (Mar. 30, 2020).

thoughtful approach to transitioning back to normal operations.[19] This approach demonstrates our continued commitment to working with customers through these challenging times.

Q. How else does the Company maintain affordable electric service for residential customers?

A. Minnesota Power recently attained approval to be the first Minnesota utility to transition to a default time of use rate design for all residential customers, which will help customers manage their bills and reduce their energy costs by shifting energy usage to times when energy pricing is lower. The Company also has robust and effective programs for energy conservation to assist customers in reducing usage and keeping the average total bill for a residential customer low, even as rates increase.

Q. How is the Company keeping rates affordable for its low-income residential customers specifically?

A. Energy affordability is a shared priority between the Company, its customers, other stakeholders, and the State of Minnesota. However, the Company recognizes that broad assistance like the Low Income Home Energy Assistance Program ("LIHEAP") currently only reach about one-third of eligible households. As such, Minnesota Power has made it a priority to increase outreach efforts to expand the LIHEAP pool and bring these much-needed dollars to customers in its service territory. Further, the Company has worked collaboratively with low-income advocates to modify its Customer Affordability of Residential Electric program to ensure a best in class low-income affordability program. Additionally, Minnesota Power currently delivers a first-of-its kind in Minnesota Low Income Solar Grant Program to increase equitable access to renewable energy by low-income customers. Finally, energy conservation efforts are foundational to all customer programming, and Minnesota Power offers conservation program resources directly targeted to low income customers through its Energy Partners program. The Energy Partners program helps customers to decrease overall

[19] *In the Matter of an Inquiry into Actions by Elec. and Nat. Gas Util. in Light of the COVID-19 Pandemic Emergency*, Docket No. E,G999/CI-20-375, MINN. POWER'S TRANSITION PLAN (Apr. 1, 2021).

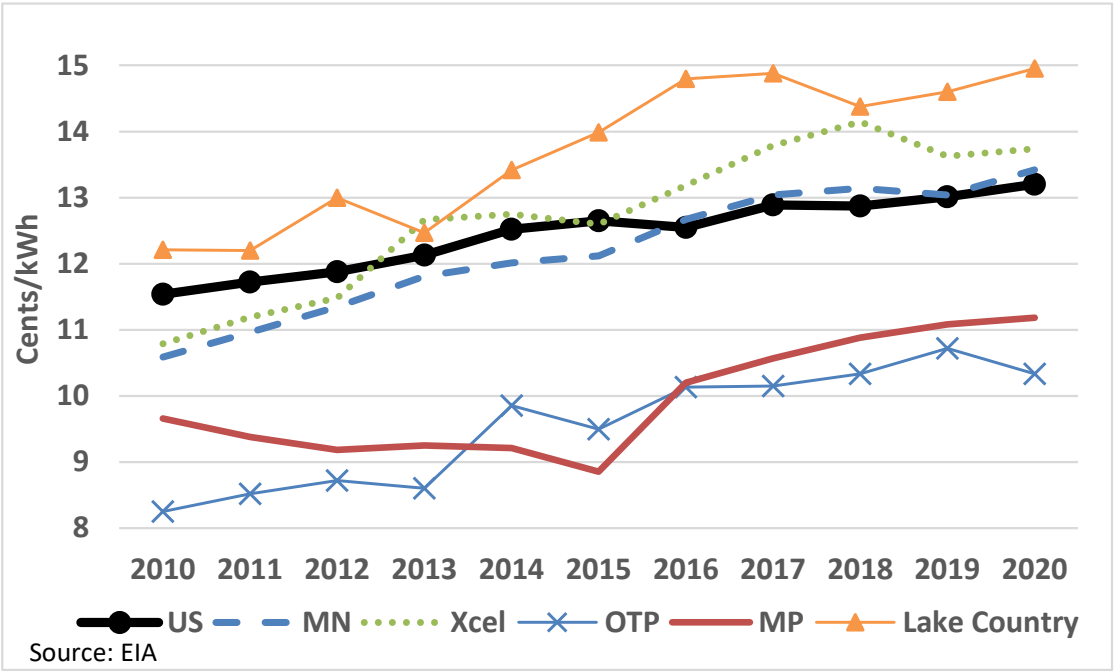
energy consumption and lower their electric bills. Finally, the residential time of use rates I discuss above include specific discounts for low-income customers that will help these customers continue to realize some of the lowest electric rates in the State.

Q. How have Minnesota Power's residential rates changed over the past decade relative to other utilities in the State and nation?

A. Minnesota Power's average residential rate has increased by only about 1.5 percent per year, on average, from 2010 to 2020. Over the same timeframe, the average residential rate in the State of Minnesota increased by 2.4 percent per year, while the pace of general inflation (as measured by the Consumer Price Index) has averaged 1.7 percent per year. In short, both the rate of inflation and the average residential rate increases in Minnesota have outpaced Minnesota Power's residential rates.

To illustrate this, Figure 4 plots the last decade of residential rates for the nation, state, and several Minnesota utilities, and demonstrates that Minnesota Power's residential rates are currently almost 17 percent lower than the state average. Further, Minnesota Power's residential electric rates have not kept pace with general inflation over the last decade, so the Company's electric rates have actually decreased by 0.2 percent annually on an inflation-adjusted basis. This further underscores the reasonableness of Minnesota Power's residential rates.

Figure 4. Minnesota Residential Electric Rates



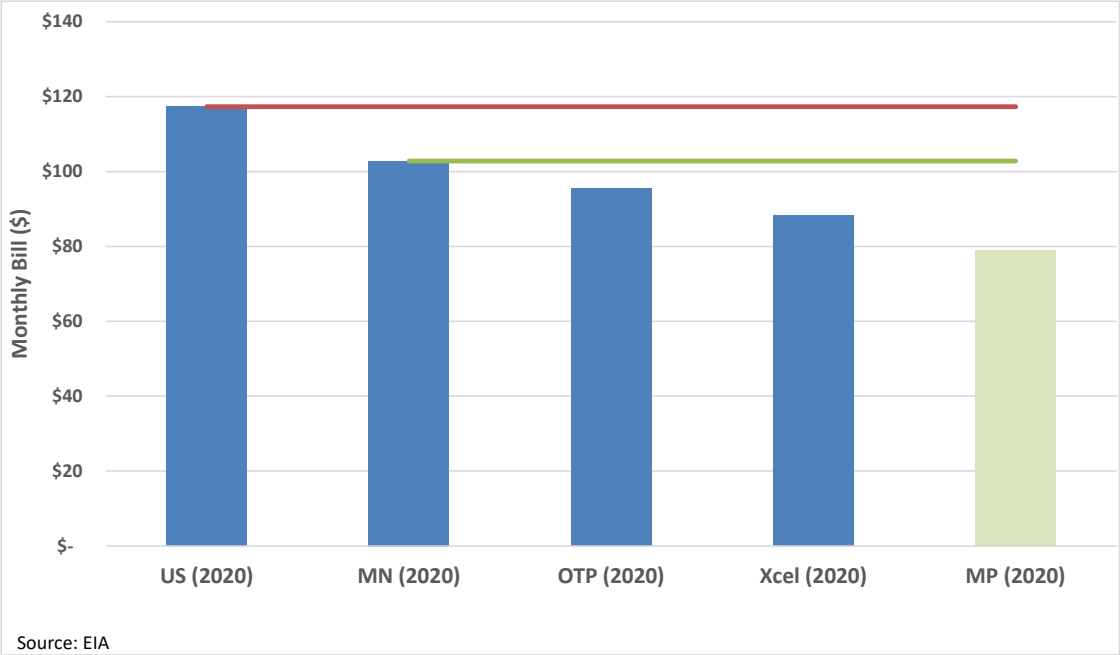
Source: EIA

Q. Can you also provide a look at total bills for residential customers?

A. Yes. As noted above, Minnesota Power residential customers have historically enjoyed the lowest rates among investor owned and cooperative utilities in Minnesota for all residential customers, regardless of economic status. Further, Minnesota Power's unique northern lakeside climate[20] and long history of success in energy conservation have led customers to consume less electricity than others in the State, keeping total bills low. The average Minnesota residential customer used almost 9,200 kWh in 2020, while the average Minnesota Power residential customer used just over 8,400 kWh. Figure 5 below shows how this relatively low per-customer usage, combined with some of the lowest rates in the State, has translated to extremely affordable monthly bills for Minnesota Power's residential customers when compared to other electricity providers in the State and across the nation.

[20] Minnesota Power's cool climate limits cooling (air conditioning) load in the summer, but does not appear to add significant space heating load in the winter, possibly due to the prevalence of natural gas heating.

Figure 5. Average Monthly Residential Bill Comparison



Source: EIA

Q. How have Minnesota Power's efforts, in total, supported Minnesota Power customers?

A. Despite operating within O&M levels that have been held constant for over a decade and within base rates last set in the 2016 Rate Case, the Company has remained laser-focused on customers and undertaken extensive efforts to keep rates affordable while also achieving state energy policy objectives. However, the Company cannot sustain these efforts indefinitely and, as discussed in more detail below, cannot materially reduce or contain costs any further without additional workforce and/or customer impacts. To this end, the Company depends on customer, regulatory, and investor partnership to maintain and improve the Company's financial health and integrity.

2. Climate

Q. What is Minnesota Power's current power supply strategy?

A. Minnesota Power has been advancing a transformation of its power supply to a cleaner energy future through its *Energy**Forward*** strategy. In 2005, Minnesota Power's energy supply had one of the highest carbon intensities in the nation, with a power supply that consisted of 95 percent coal generation. Today, Minnesota Power is delivering 50

percent renewable energy to customers and was the first Minnesota utility to achieve this milestone. As part of this transition, Minnesota Power has either retired, refueled, or remissioned seven of its nine coal-fired generating units. In our 2021 Integrated Resource Plan ("2021 IRP"),[21] the Company is going even further and has committed to achieve an 80 percent reduction in carbon emissions by 2035 compared to 2005 levels and has a stated goal of delivering 100 percent carbon-free energy by 2050. This transformation has made Minnesota Power a state and regional leader in decarbonization, while at the same time providing affordable and reliable electric service for customers.

Q. What changes to its generation fleet and infrastructure has Minnesota Power made in recent years?

A. The Company accomplished this carbon intensity reduction through a reduction in coal generation and replacement with renewable energy. Specifically, Minnesota Power has idled, remissioned, phased-out, and retired 600 MW of coal fired generation on its system in the past decade, which is a very significant transformation for a utility with an approximate system peak of 1650 MW. The Company also entered into contractual relationships with Silver Bay Power Company to enable its idling of an additional 130 MW of coal fired generation in the region in 2019. Just prior to filing the last completed rate case in 2016, the Company refueled the Laskin Energy Center to natural gas, ceased operations at Taconite Harbor Energy Center Unit 3 (75 MW capacity) and economically idled of Taconite Harbor Energy Center Units 1 and 2 commenced in the fall of 2016 (150 MW of capacity). Minnesota Power is proposing in the 2021 IRP to move forward with the retirement of Taconite Harbor Energy Center Units 1 and 2 in 2021. The Company has also reduced its purchase of power from the Milton R. Young Unit 2 lignite coal plant from 227.5 MW to 80 MW as of 2014, with a complete phase out planned by 2026. Finally, the Company retired Boswell Energy Center ("BEC") Units 1 and 2 on December 26 and 27, 2018, and in 2021, BEC Unit 3 ("BEC3")

[21] *In the Matter of Minn. Power's Application for Approval of its 2021-2035 Integrated Res. Plan*, Docket No. E015/RP-21-33, 2021 INTEGRATED RESOURCE PLAN (Feb. 1, 2021).

changed operations to be economically dispatched in the Midcontinent Independent System Operator ("MISO") market.[22]

Q. How has Minnesota Power further advanced its mix of renewable generation resources since the 2016 Rate Case?

A. Since the 2016 Rate Case, Minnesota Power has added significant renewable generation to its power supply portfolio, and at the end of 2020 became the first Minnesota utility to reach a milestone of providing 50 percent of its power from renewable resources. The transformation of Minnesota Power's generation fleet continues to include more renewable resources, fewer coal resources, and adds an efficient, dispatchable natural gas resource to provide cost effective, lower carbon emission energy to balance customer needs at times of low renewable generation.

In partnership with the Minnesota National Guard, in 2017 Minnesota Power commissioned its first utility scale solar array, a 10 MW project on Camp Ripley, near Little Falls, Minnesota. At the time of commercial operation, it was the largest solar array on any National Guard base in the country. In addition, the Company has also been keeping pace with Minnesota's Solar Energy Standard by also adding its Community Solar Garden (1 MW) as well as continuing the SolarSense rebate program for customer-sited solar projects. In addition, the Company received Commission approval in May 2021 to add approximately 20 MW of additional solar generation to support economic relief and recovery within Minnesota Power's service territory in response to the COVID-19 pandemic.

Finally, the Company received Commission approval for two significant renewable power purchase agreements ("PPA") from which customers started to receive energy in 2020: (1) 250 MW of additional wind generation from the Nobles 2 wind facility that commenced commercial operations December 2020; and (2) 250 MW of carbon-free

[22] *In the Matter of an Investigation into Self-Commitment and Self-Scheduling of Large Baseload Generation Facilities*, E999/CI-19-704, COMPLIANCE FILING (Mar. 2, 2020).

capacity and energy and 133 MW energy only purchase from Manitoba Hydro ("Manitoba Hydro PPA").

Q. Are any of these carbon-reduction achievements a driver of this rate case?

A. Yes. As described further in the Direct Testimony of Ms. Pierce, a critical component of Minnesota Power's achievement of providing customers with half of their energy from renewable sources in 2020 is the initiation of the Manitoba Hydro PPA. On February 1, 2012, the Commission approved the Manitoba Hydro PPA.[23] The term of the agreement is from June 1, 2020 through May 31, 2035, and Minnesota Power is seeking recovery of the previously approved demand costs of the Manitoba Hydro PPA in this rate case. As described later in my testimony, the Company has already mitigated the immediate impact of the capacity payment associated with the Manitoba Hydro PPA for customers by negotiating a delay in the beginning of capacity payments from June 1, 2020 to January 1, 2022.

Q. What are the key additional power supply actions proposed in the 2021 IRP?

A. Through its 2021 IRP, Minnesota Power outlined a bold vision for a sustainable path to achieve a carbon-free power supply by 2050. The 2021 IRP was informed by a first-of-its-kind stakeholder engagement process and outlines specific steps to facilitate a power supply that is 70 percent renewable in 2030, reduces carbon emissions 80 percent by 2035, and results in a generation mix that is coal-free by 2035 — all while helping to ensure reliable and affordable power for Minnesota Power customers and committing to a Just Transition[24] for host communities. Specific near-term steps to reduce carbon and advance renewable energy include:

- Retiring the currently-idled Taconite Harbor Energy Center in 2021;

[23] *In the Matter of Minn. Power's Request for Approval of a Power Purchase Agreement with Manitoba Hydro Co.*, Docket No. E015/M-11-938, ORDER (Feb. 1, 2012).

[24] According to the Just Transition Alliance, a coalition of environmental justice and labor organizations founded in 1997, a "Just Transition" is a principle, a process and a practice. The principle of Just Transition is that a healthy economy and a clean environment can and should co-exist. The process for achieving this vision should be a fair one that should not cost workers or community residents their health, environment, jobs, or economic assets. Any losses should be fairly compensated. The practice of Just Transition means that the people who are most affected by pollution — the frontline workers and the fence line communities — should be in the leadership of crafting policy solutions. The Just Transition Alliance's website can be found at http://jtalliance.org.

- Adapting operations at BEC3 to economic dispatch within the MISO market in 2021;
- Implementing the Demand Response Product C for industrial customers in 2022;
- Constructing three solar projects totaling 20 MW in 2022;
- Advancing 200 MW of new wind resources by 2025; and
- Maintaining leadership in both electrification and energy conservation efforts.

Longer-term steps outlined in the 2021 IRP include:

- Retiring BEC3 by December 31, 2029;
- Adding 200 MW of solar that leverage the Boswell site or other Minnesota Power facilities by 2030;
- Working collaboratively with customers to pursue up to 50 MW of long term demand response by 2030; and
- Developing and implementing transmission solutions to facilitate the early retirement of BEC3, and investigating options to refuel or remission BEC Unit 4 ("BEC4") as coal operations cease by 2035.

Q. How is Minnesota Power performing with respect to its Conservation Improvement Program ("CIP") Goals?

A. Minnesota Power has consistently met or exceeded its CIP goals, including in 2020. The Next Generation Energy Act of 2007 established a minimum annual energy savings goal for utilities equal to 1.5 percent of (CIP eligible or non-CIP-exempt) gross annual retail sales. The approved energy savings goal is calculated based upon the most recent three-year weather normalized average, excluding sales to CIP-exempt customers. For Minnesota Power, the 2020 approved kWh savings goal equates to 2.09 percent of CIP eligible retail sales. Minnesota Power exceeded both the minimum and calculated savings goals for 2020 by achieving 2.57 percent savings as a percentage of adjusted sales, despite a year with significant challenges during the COVID-19 pandemic. This is an ongoing success story for both Minnesota Power and our customers as we have exceeded our CIP goals every year since 2010, when the 1.5 percent energy-savings goal went into effect, and continue to expand energy savings. This strong performance

with energy conservation programs has helped keep customers' total bills lower in a rising rate environment.

Q. Is Minnesota Power supporting Commission policy goals around transportation electrification?

A. Yes. Minnesota Power offers several programs designed to reduce the barriers to EV adoption while optimizing system benefits. Specifically, the Company offers rates for both commercial and residential EV charging, a smart charge rewards program to incentivize off-peak charging, rebates to reduce the upfront cost of purchasing EV chargers, and an EV education and outreach program to provide customers with tools and resources to increase general awareness and acceptance of EVs. The Commission also recently approved a proposal from the Company to install 16 new EV charging stations across its service territory to increase accessibility of EV charging in rural Minnesota.[25]

Q. Is Minnesota Power taking any other steps to promote conservation, demand side management, and beneficial electrification?

A. Yes. The Company has undertaken a broad array of resource management efforts, conservation promotion programs, pricing tools, advanced rate design initiatives, and education and outreach efforts consistent with the State's interest in environmental protection. Minnesota Power is proposing to redesign the dual fuel program to support beneficial electrification through improved interruptible service, evolving its demand response programs, and investing in customer focused infrastructure that enables complex rate designs that will support increased integration of renewable energy and customer participation in smart energy management.

[25] *In the Matter of Minn. Power's Elec. Vehicle Charging Infrastructure Inv.*, Docket No. E015/M-21-257, ORDER APPROVING PROPOSAL AS MODIFIED, AUTH. DEFERRED ACCT., AND REQUIRING REPORTING (Oct. 22, 2021).

3. Community

Q. What recent efforts has Minnesota Power taken to support the communities it serves?

A. The Company's basic and most critical function is providing safe, reliable, economic, and environmentally responsible energy to customers. In doing so, we improve the safety, security, and quality of life for the region. Minnesota Power also greatly values the communities it serves and contributes to the overall health of its region through a number of efforts, including by providing jobs and community support, economic development efforts, and overall service to its communities. Because the Company considers these to be important and valuable contributions to northern and central Minnesota, I highlight these community and regional benefits to the State of Minnesota in this section of my testimony.

Q. How does the Company support the health of the regional economy?

A. Minnesota Power currently employs approximately 1,000 people and provides an annual payroll of approximately $68 million (Total Company). The Company is one of northeastern Minnesota's only publicly traded corporations with a local headquarters. Therefore, Minnesota Power contributes to the regional economy as a large employer and solid financial contributor, as well as by maintaining a strong philanthropic presence.

In addition to the Company's direct contribution to the regional economy, Minnesota Power has also provided economic development support to the communities it serves for nearly three decades. The Company actively engages with community partners on business expansion projects to encourage business startups, expansions and locations, and workforce attraction. Specifically, the Company has worked to diversify the regional economy to buffer economic downturns from any single industry through its economic development efforts.

Q. How does Minnesota Power engage with the communities it serves?

A. Community engagement is one of the Company's core values and it underscores Minnesota Power's commitment to help the businesses and people of the region we serve to prosper. Civic and community engagement by employees take many forms, including contributions of time and talent to regional organizations like the United Way, direct financial contributions to community organizations and for scholarships, and sharing our expertise with students and community groups. In addition, this engagement comes through employees serving on governing boards of local not-for-profit entities and government appointments to public and quasi-public entities to support local and regional services, infrastructure, and economic development/business growth entities. Minnesota Power employees are located throughout our service territory in northeastern Minnesota, serving numerous roles that are integral to the communities where our employees live and work.

Additional information about Minnesota Power's community involvement can be found in the Company's 2020 Corporate Sustainability Report, available online at https://www.allete.com/Content/Documents/Sustainability/2020/ALE-Sustainability-Report.pdf.

This report highlights the wide array of volunteerism, philanthropy, and leadership we provide to communities across our service area. Specifically in 2020, the Corporate Sustainability Report outlines ALLETE's focus on responding to the impacts of the COVID-19 pandemic through its corporate giving. These efforts included supporting the Feeding Our Communities campaign to fight hunger by supporting local food banks and donations to support a number of non-profit organizations on the front lines of the pandemic in northern Minnesota.

Q. What efforts has the Company undertaken in regards to increasing diversity, equity, and inclusion?

A. Minnesota Power contends that equity — in all of its forms — plays a critical role in ensuring security, comfort, and quality of life for customers and in the overall health of

our communities. Minnesota Power has been a forerunner in several key areas, including gender diversity in leadership and veteran outreach and support. ALLETE currently has a corporate board of directors in which seven of our 11 directors, including the board chair and lead director, are female. And in 2020, the Minnesota Census of Women in Corporate Leadership recognized the Company for its commitment to gender diversity on its board of directors. Additionally, the State of Minnesota designated the Company as a Yellow Ribbon Company in 2016 for its support of military service members, veterans, and their families, both within the Company and in the communities it serves.[26] Minnesota Power was the first company headquartered north of the metro area to receive this designation. In 2020, ALLETE's president and CEO committed to further advancing diversity, equity, and inclusion ("DE&I") efforts along with other Edison Electric Institute companies.

Throughout 2021, Minnesota Power leaders developed a framework to strengthen DE&I efforts and identified three key areas where the Company will take action: workforce, supply chain, and Minnesota Power as a community citizen. Additional information on Minnesota Power's DE&I efforts can be found in the Direct testimonies of Company witnesses Laura E. Krollman and Mr. Gunderson.

Q. Is the Company also supporting workforce and economic transitions in the communities affected by the move away from coal generation?

A. Yes. As Fresh Energy noted earlier this year, "Minnesota's transition away from fossil fuels creates very real local and regional challenges as fossil fuel jobs disappear and power plant host communities suffer losses to their local tax base."[27] Minnesota Power has long recognized this potential dynamic and worked with its stakeholders in Cohasset

[26] More information on Minnesota Power's DE&I efforts can be found in ALLETE's 2020 Corporate Sustainability Report available at the following link: https://www.allete.com/Content/Documents/Sustainability/2020/ALE-Sustainability-Report.pdf.

[27] Justin Fay, *Taking stock of meaningful progress at the Minnesota Legislature*, FRESH ENERGY: 2021 LEGISLATIVE SESSION, https://fresh-energy.org/taking-stock-of-meaningful-progress-at-the-minnesota-legislature (June 23, 2021).

and surrounding communities to develop a Just Transition of the workforce, economic base, and other support for these communities.

In particular, the Company has been an active participant in the Midwest Governors Association's ("MGA") initiative, "Preparing Midwestern Communities for Power Plant Closures,"[28] which focuses on bringing Midwestern policy leaders together to create economic opportunity in the energy sector. This effort is a focal point of Minnesota's Governor and MGA current Chair Tim Walz's agenda. Within the scope of the initiative is assessing the problem of closures, developing solutions to the problems, and developing plans to support the effected communities and their workforce. The effort brings together utilities, community leaders, workers, and energy advocates.

Minnesota Power is also co-funding a regional application with the Department of Iron Range Resources & Rehabilitation for the federal Economic Development Administration's "Build Back Better Regional Challenge" that focuses on three Minnesota Power host communities (Cohasset, Hoyt Lakes, and Taconite Harbor). The application is a collaboration with a wide array of community partners to attract transformational federal investment in these communities to accelerate economic recovery and enhance economic resiliency into the future.

B. Economic Changes Since the Last Completed Rate Case

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

A. Previously, I addressed changes made to our generation fleet and customer programs since the last completed rate case, filed in 2016. In this section of my testimony, I discuss the changes the Company has experienced regarding customer load and the overall financial position of the Company over the same time period.

[28] Midwestern Governors Ass'n, *Preparing Midwestern Communities for Power Plant Closures*, https://midwesterngovernors.org/power-plant-closures/ (last visited Oct. 30, 2021).

1. Sales Changes

Q. How has the Company been impacted by customer changes since the last rate case?

A. Minnesota Power is and has been heavily impacted by downturns in the taconite and paper industries due to the Company's unique customer mix and industrial customer concentration.[29] In fact, in December 2017, Blandin Paper permanently shut down its Paper Machine #5 in Grand Rapids, Minnesota, which was approximately a material MW reduction in load for Minnesota Power. More recently in April 2020, U.S. Steel Corporation stated it would idle its Keetac facility in response to the sudden and dramatic decline in business conditions resulting from the COVID-19 pandemic. Keetac resumed production in December 2020 after nearly eight months of idling. In June 2020, Verso Corporation indefinitely idled its Duluth paper mill. The idling of Keetac and Verso resulted in a loss of approximately one million kWh in sales on an annual basis, which is roughly equivalent of losing Minnesota Power's entire residential customer class. The idling of Keetac and Verso resulted in a reduction of approximately $32 million of electric revenue annually (net of associated expense savings such as fuel costs).[30] These changes underscore the ongoing business risks facing the Company, which are reflected in our credit ratings.

Q. How have Minnesota Power's retail and resale energy sales changed since the 2016 Rate Case?

A. In the 2016 Rate Case, the Commission approved a 2017 test year retail sales forecast that was about 256,000 MWh (2.8 percent) higher than Minnesota Power's supplemental test year projections. In turn, actual sales in 2017 were about 471,000 MWh (5.2 percent) below the level established in rates.

Further, as Company witnesses Benjamin S. Levine and Ms. Pierce describe in their Direct Testimony, since the 2016 Rate Case, Minnesota Power has experienced

[29] Revenue from industrial customers was approximately 62 percent of Minnesota Power's total retail revenue in 2020. *See* Form FERC Form 1 for ALLETE, Inc. (2020).

[30] In Docket No. E015/M-20-814, Minnesota Power filed a Petition for Approval to Track and Defer Lost Large Industrial Customer Sales Resulting From the COVID-19 Pandemic. On May 13, 2021, the Commission issued an Order denying the request.

significant lost sales to retail, wholesale, and bilateral sales counterparties. Specifically, residential and commercial sales have continued a decade-long steady decline due to conservation and limited growth in new customers. In 2020, COVID-19 caused a sharp decrease in overall residential and commercial sales. The residential class consumed about 30,000 MWh (2.8 percent) more in 2020 due to many customers spending more time in their home, but this was more than offset by a 5.3 percent (63,000 MWh) contraction in commercial energy sales (on a weather-normalized basis).

Sales to mining customers were quite strong prior to COVID-19. In fact, 2018 taconite production was one of the strongest years on record, but actual sales to mining customers were still notably lower than the level set in the Company's 2016 Rate Case. While the Company recently expanded sales to Silver Bay Power Company following the idling of their coal-fired generation in late 2019, the paper sector has experienced significant, permanent loss of customer loads previously mentioned above. Blandin indefinitely idled its Paper Machine # 5 in December of 2017, and Verso idled its production at the Duluth Mill in June of 2020. The Duluth Mill has since been purchased by ST Paper, but ST Paper is converting the mill to a new kind of production and therefore is expected to take electric service at significantly lower levels for the next several years and will no longer utilize steam service from Minnesota Power.

The energy needs of the Company's wholesale customers, including Minnesota municipal customers and Superior Water Light and Power, have also decreased due to the expiration of Minnesota Power's resale full-requirements power supply contract with Brainerd Public Utilities and the closure of the Husky refinery in Superior, Wisconsin, following the facility explosion on April 26, 2018.[31] Further, the cancellation of Xcel Energy's contract with Laurentian Energy Authority in July 2018 resulted in lost sales to Hibbing and Virginia Public Utilities due to their use of self-generation that was previously sold to Xcel Energy.

[31]The refinery has since been purchased by Cenovus Energy Inc. and is expected to restart in 2023 https://www.fox21online.com/2021/01/28/husky-to-receive-more-funding-for-rebuild-projecting-2023-restart/.

Overall, both industry- and business-specific changes among our customers, along with broader macroeconomic downturns, have served to reduce customer sales. Company witnesses Mr. Levine and Ms. Pierce discuss the changes to retail and resale sales and off-system power sale contracts, respectively, in their Direct Testimony.

Q. Can you describe in more detail why Minnesota Power is not able to mitigate the loss of industrial sales and revenue in 2020?

A. Yes. As a result of Minnesota Power's uniquely high industrial customer concentration, economic cycles like that which occurred in 2020 have drastically larger impacts to Minnesota Power's revenue than a typical utility would experience. The modest increase in Minnesota Power's residential sales due to COVID-19 (about 30,000 MWh) was only enough to offset about 2.5 percent of the combined industrial and commercial sales loss. By contrast, EIA data shows the average U.S. Investor-Owned Utility was able to offset nearly one third of the industrial and commercial sales losses with increased sales to the residential sector.

Additionally, the opportunity to mitigate the risk of loss of industrial customer load through wholesale market sales is nowhere near as meaningful as it was a decade ago. As described by the Direct Testimony of Company witness Ann E. Bulkley, since Minnesota Power's last fully litigated rate case, cash flows have been negatively affected by the fluctuation in industrial customer sales and the inability to replace those sales in the MISO market. As described by the Direct Testimony of Company witness Ms. Pierce, the current low cost wholesale market environment presents a significant financial risk to the Company as options for replacing retail customer capacity and energy sales revenue are limited. This inability to recover 100 percent of the lost large industrial customer base rate revenue creates a difficult cost recovery equation for Minnesota Power in meeting its ongoing fixed-cost requirements.

2. Financial Position of the Company

Q. Please provide an overview of the Company's financial position since its last completed rate case.

A. As further explained in Mr. Cutshall's Direct Testimony, since the Company's 2016 Rate Case, ALLETE has experienced a reduction in its credit rating from both Moody's & Standard & Poor's; experienced the impacts of the Tax Cuts and Jobs Act; navigated customer load fluctuations, reductions, and loss; cut costs extensively; and weathered the impacts of the COVID-19 pandemic.

Q. What did Minnesota Power do to address these issues?

A. Minnesota Power has worked hard to weather these economic cycles through a combination of prudent business management, cost cutting, off-system energy sales, and additional efforts to add new customers and meet the needs of our current customers. Specifically, Minnesota Power has managed our employee levels and compensation costs such that salaries and wage expenses used to develop the 2022 test year are lower than those the Company incurred in 2010, during the tail end of the Great Recession. Company witnesses Mr. Cutshall and Joshua G. Rostollan address these efforts in more detail. However, while we are proud that Minnesota Power has managed to maintain these low O&M levels for more than a decade, despite the need for significant capital investments for the transformation of our power supply, rising market costs of employee compensation and benefits, and overall marketplace inflation, they are not sustainable. There is little more to cut, and we continue to face the risks of future economic downturns or changes in our industrial customers' industries, in addition to higher demands on both people and infrastructure from growing customer expectations, increasingly frequent extreme weather events, and overall system transformation needs.

Further, as Company witness Ms. Pierce explains, Minnesota Power also utilizes a power marketing strategy to optimize the revenue from its assets and maximize the value returned to its customers. This strategy was successful for over a decade, in particular due to a successful ten-year Large Market Contract that alone provided a majority of the margins returned to Minnesota Power customers. However, that contract

has now expired. In addition to the ongoing trend of low market prices described above, Minnesota Power's remissioning, retirement, and idling of 600 MW of coal-fueled generating facilities in the past several years leaves fewer dispatchable assets to source long-term wholesale sales. As a result, reducing customer costs through marginal cost sales to the wholesale power market is no longer adequate to replace lost customer revenue, and the Company is requesting a significantly lower off-system sale margin be reflected in the Company's revenue. Company witness Ms. Pierce discusses these strategies in her Direct Testimony.

Q. What was the net outcome of the Company's 2016 Rate Case?

A. Combining the outcome of the 2016 Rate Case with the outcome of the EITE docket that was largely decided concurrently, the amount of costs Minnesota Power was able to recover actually went down compared to the levels set in the Company's 2010 rate case. While the 2016 rate case revenue deficiency approved by the Commission was $12.0 million (+ 1.86 percent), the combined outcome of the rate case and EITE docket was a revenue decrease of -$3.5 million or -0.55 percent.

Q. How does O&M expense used to develop the 2022 test year compare to previous years?

A. The Company has managed its operations such that the O&M expense used to develop the 2022 test year are lower than its O&M expense in 2010, while inflation alone has increased costs on average 1.7 percent annually over the same period, as Mr. Rostollan describes further in his testimony.

As noted previously, Minnesota Power has prudently maintained the same O&M levels for over a decade despite the need for significant capital investments, growing customer expectations for new programs and services, the transformation and decarbonization of our system through our *Energy**Forward*** strategy, rising market costs of employee compensation and benefits, and overall marketplace inflation. Despite aggressive and unsustainable cost reductions over the last several years, Minnesota Power has made great strides in meeting the policy goals of the State of Minnesota.

Q. Has Minnesota Power earned its allowed rate of return in these years?

A. No. In Minnesota Power's 2016 Rate Case, the Commission found that an equity ratio of 53.81 percent and a 9.25 percent ROE were appropriate, resulting in an overall rate of return of 7.06 percent. Since Minnesota Power's 2019 Rate Case was withdrawn prior to going through the entire rate case process, Minnesota Power's authorized capital structure and rate of return have remained unchanged from the 2016 Rate Case. However, Minnesota Power's 2020 unadjusted MN Jurisdictional rate of return was 6.38 percent, and the projected 2021 unadjusted MN Jurisdictional rate of return is 5.97 percent. These returns are materially below the authorized level due to incurred costs that were not included in rates, as well as a loss of load compared to the sales forecast approved in the last rate case. These issues are expected to continue in the 2022 test year and purchased power expenses are materially increasing due to the start of a long-term capacity purchase with Manitoba Hydro to deliver renewable hydro power. Without rate relief, the Company's 2022 test year MN Jurisdictional rate of return is projected to be only 3.86 percent.

Q. At what level have Moody's and S&P set the Company's credit ratings and outlook since the 2016 Rate Case?

A. As discussed further in Mr. Cutshall's Direct Testimony, after the 2016 Rate Case decision was announced on January 30, 2018, both Moody's and S&P downgraded ALLETE and revised ALLETE's credit ratings to a negative outlook. The downgrades were attributed to several factors, including the outcome of the 2016 Rate Case, the enactment of the Tax Cuts and Jobs Act of 2017, and Minnesota Power's ongoing financial and business risk associated primarily with its high concentration of iron mining and paper mill customer load. In other words, our good work on behalf of customers has not mitigated the difficult effects of our current rate structure and business risks on the Company. Additionally, these risks are not offset by the ability to sell power in the MISO region, as I described above.

Q. How has the credit rating downgrade affected the Company overall?

A. As described in more detail by Mr. Cutshall, in general, credit ratings affect a company's ability and cost to issue debt: the stronger a company's credit ratings, the greater the number of willing investors and the less fees and interest a company will need to pay in order to issue debt. A company's creditworthiness is also directly correlated to its cost of equity. Overall, ALLETE's credit ratings downgrade resulted in a higher cost of debt, decreased its attractiveness to investors, and increased its overall business risk. These downgrades add to the challenges the Company faces in today's efforts to continue its utility transformation.

C. Relevance to the Rate Case

Q. How does the prior discussion regarding policy achievements and economic changes for the Company factor into the request for cost recovery and a reasonable rate of return in this proceeding?

A. The fundamental purpose of a rate case is to establish rates that are just and reasonable, based in large part on a review of the prudency of Company expenditures. Minnesota Power respectfully submits that when, as here, the utility has made significant investments to meet and exceed state policy goals; has undertaken substantial cost cutting to ensure that its business is managed efficiently; is working to enhance customer service quality and reliability; is a responsible and supportive regional citizen and employer; and is proposing rates that are affordable — especially relative to comparable utilities — then the expenditures to achieve those results should be considered reasonable and prudent investments.

While Minnesota Power has made incredible strides in transforming its energy system, there is still more to do to transition to a carbon free future. A financially healthy utility is a critical component of the regulatory compact, and a fair outcome in this rate case will ensure Minnesota Power has the sound financial foundation from which continued energy system transformation can occur. This requires both a reasonable authorized rate of return, as well as the recovery of reasonable costs in order to have the opportunity to earn that rate of return. Even in a robust economy with record low unemployment,

full customer production and substantial internal cost reductions made by the Company, current rates and revenues have been insufficient for Minnesota Power to attain its authorized rate of return for the past several years, and the gap between actual and authorized rate of return will grow wider going forward.

Q. Why is Minnesota Power's financial position since the 2016 Rate Case relevant to this proceeding?

A. Minnesota Power's financial position is relevant to this proceeding because it speaks to the challenging conditions the Company has endured. Without reasonable rate relief, the Company's financial metrics and overall financial integrity will continue to be challenged as we reach a critical inflection point in our system's transformation to a power supply that goes beyond 50 percent renewable. Additionally, a supportive regulatory framework is instrumental to avoid a further decline to the Company's credit rating, which would place ALLETE's S&P rating one notch above a "junk" rating and just one notch higher at Moody's. If credit supportiveness from the Minnesota regulatory framework continues to decline, ALLETE could be downgraded even further.

Q. What does this mean for the Company going forward?

A. There is much less room to maneuver going forward, with industrial customer volatility combined with reduced opportunity to offset retail sales losses through MISO or off-system power sales contracts. In periods when the Company's taconite customers idle production, as happened in 2001, 2008-2009, 2015-2016, and early 2020, the Company's opportunity to earn its authorized return is even lower. Additionally, the Company will not have the same ability to accelerate O&M cuts again. Minnesota Power cannot afford to reduce employees further and does not believe that current levels are sustainable, nor that current levels — let alone further reductions — are in the best interest of its workforce, the regional economy, or its customers. Minnesota Power asks the Commission to factor all of these considerations into its deliberations, and in particular, into its review of cost recovery and rate of return in this proceeding, which

in turn affect the Company's ability to serve customers and access capital in the market at reasonable costs to customers.

Q. How should this discussion affect the determination of the Company's authorized rate of return?

A. Minnesota Power requests that the Commission examine Minnesota Power's alignment with state policy goals and progress on virtually all fronts, the effects that the last rate case outcome had on the Company and its employees, the significant efforts of Minnesota Power to support recovery of prudent costs that are necessary for provision of utility service, and the Company's need to maintain its current credit rating. The Commission has recently considered similar factors in several cases establishing the authorized rate of return available to Minnesota utilities. In conjunction with the thorough cost of equity modeling submitted by Company witness Ms. Bulkley and the capital structure analysis provided by Company witness Mr. Cutshall, these factors further support the Company's requested overall rate of return of 7.5 percent. Additionally, the Company seeks the opportunity to recover its costs of providing service so that it ultimately has a reasonable opportunity to earn its authorized rate of return.

IV. INTRODUCTION TO THIS FILING

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

A. In this portion of my testimony, I provide a more detailed overview of the Company's requests in this rate case.

A. Revenue Requirements

Q. Please provide an overview of the Company's overall request for additional rate revenues.

A. Minnesota Power's requests recovery of its overall 2022 test year revenue requirement of $724.3 million (MN Jurisdictional), which is an overall rate increase of $108.3 million (MN Jurisdictional), or 17.58 percent. These amounts are based on the Company's projected O&M expense and capital budgets for the 2022 test year, an ROE

of 10.25 percent, and an overall rate of return of 7.5 percent. The Direct Testimony of Company witness Amanda L. Turner provides a detailed account of the Company's revenue deficiency.

Q. What are the primary drivers of the revenue deficiency?

A. The primary drivers of the revenue deficiency are a combination of declining sales, capital investments, and the need to improve our rate of return and recover a greater portion of our total costs. Since the 2016 Rate Case, the Company has experienced significant lost sales to retail, wholesale, and bilateral sales counterparties as described above. We have also made substantial investments in transforming our generation fleet, as well as transmission and distribution system work.

Q. Could Minnesota Power offset its revenue deficiency through reductions to O&M expenditures or decreased capital investment?

A. No. As discussed previously, the Company has already made significant cost reductions following the 2016 Rate Case, and it can no longer sustain the lower expense levels. This is particularly important as the Company positions to continue meeting and exceeding state energy policy goals. The Company has also continued its prudent O&M and capital expenditures in its operations to improve reliability and customer experience as described later in this testimony and by Company witnesses Todd Z. Simmons and Mr. Gunderson.

Q. What rate of return is Minnesota Power seeking in this rate proceeding?

A. Minnesota Power seeks an overall rate of return of 7.5 percent, reflecting a rate of return on equity of 10.25 percent. The Direct Testimony of Company witnesses Ms. Bulkley and Mr. Cutshall further describe the reasonableness of the rate of return requested in this proceeding relative to the Company's unique risk factors and exemplary performance.

B. Cost and Risk Mitigation Efforts

Q. Does this requested revenue requirement reflect any current Company efforts to mitigate rate increases for all customer classes?

A. Yes, several. In addition to the continuing benefits of the efforts described earlier in my Direct Testimony, the Company has also taken several recent steps to reduce the effects of any rate increase on customers.

First, on August 31, 2020, Minnesota Power submitted a petition for Commission approval to begin selling land holdings along traditional hydro reservoirs that are no longer necessary for maintaining hydro operations. As an effort to ensure energy affordability for all customers, the Company proposed that all proceeds go back to customers to mitigate rates. The Company's petition was approved by the Commission at its October 14, 2021 agenda hearing.

Second, a key driver of this case is Minnesota Power's upcoming PPA with Manitoba Hydro to take the next step in our *Energy**Forward*** planning. Under the Company's original 250 MW, Minnesota Power was set to begin making capacity payments to Manitoba Hydro on June 1, 2020, when the Great Northern Transmission Line ("GNTL") went in-service and energy from the PPA began flowing on the line. However, because Manitoba Hydro had permitting delays on its portion of the international power line, the parties negotiated contingencies in the event Manitoba Hydro was not in-service at the same time as GNTL. As part of those contingencies, the parties agreed to delay capacity payments under the 250 MW PPA until January 1, 2022. This delay has served customers well, as it has supported Minnesota Power's efforts to avoid seeking a rate increase until it was critical to do so.

Q. How is the Company mitigating rate increases for low-income residential customers?

A. As Minnesota Power looks to continue to decarbonize its system, encourage beneficial electrification, and ensure affordability for low-income customers, changes to residential rate design were thoughtfully considered — particularly for low-income

customers. The Company conducted the most extensive stakeholder process it had ever initiated to evaluate residential rate design and consulted stakeholders — including with the Citizens Utility Board, the City of Duluth, the City of Royalton, Ecolibrium3, Energy CENTS Coalition, Fresh Energy, the Fond du Lac Band of Lake Superior Chippewa, the Office of Attorney General, and the Department (participating in an observer status only). A key takeaway from the multi-year stakeholder process was agreement that any rate design shift should maintain similar benefits for low-income, low-usage customers as they receive under the current inverted block rate structure. In its August 27, 2021 Order in Docket No. E015/M-20-850, the Commission approved the Company's proposed low-income, usage qualified discount that would continue through the rate design transition to achieve this goal.

Q. How is the Company managing rates for its commercial customers?

A. As previously noted, Minnesota Power's commercial customers have rates that are similar to the state average; however, this class of customers has historically enjoyed the most energy savings from Minnesota Power's class-leading energy conservation programs. The Company's partnership with these customers to meet and exceed energy conservation goals over the last decade has helped reduce their energy usage more than any other class of customers that participate in this important program, reducing the total energy bill for these businesses. For example, on average over the past five years, non CIP-exempt commercial and industrial customers accounted for 55 gigawatt-hours of first year savings achieved through energy efficiency programs each year and accounted for 80 percent of total energy conservation savings over the past five years.

Q. Is Minnesota Power addressing rate mitigation for large industrial customers as well?

Yes. Minnesota Power's strategic accounts management team works directly with our large power customers to optimize their operational energy usage within the Company's approved tariffs and the customers' approved electric service agreements ("ESAs"). Minnesota Power also filed a package of rate mitigation ideas in Docket No. E015/20-492 on August 31, 2020 to highlight numerous initiatives to maintain affordable rates

for customers, including some specifically for its large power customers. As a step to assist its largest industrial customers, Minnesota Power proposed extending the EITE rate until final rates are implemented in this rate case. In its June 30, 2020 Order resolving Minnesota Power's 2019 rate case filing with conditions, the Commission directed the Company to maintain the current EITE customer rider rate discount through February 1, 2021.[32] In the same Order, the Commission also directed Minnesota Power to work with stakeholders to bring forward a proposal by August 31, 2020 to extend the EITE rate discount. In its January 19, 2021 Order, the Commission granted the petition to extend the EITE rates from February 1, 2021 until final rates are implemented in this rate case.[33]

This year, Minnesota Power also received approval for its new Demand Response Product C offering for large industrial customers in Docket No. E015/M-21-28. Participating industrial customers will receive revenue for committing their demand response capacity over the next six years, effectively lowering their rates by $1 to $3 per MWh over the period.

Q. Why is the Company's overall rate request reasonable?

A. Minnesota Power continues to deliver on state energy policy goals as a leader in renewable energy supply; by exceeding the state energy conservation goal every year since its inception in 2010; by reducing carbon dioxide emissions by 50 percent from 2005 levels; and by idling, retiring, or remissioning seven of its nine coal-fired generators. In addition, the Company has improved its low-income customer programs and launched tools to enhance the customer experience. Minnesota Power also leads the state in efforts to support future grid and customer enhancements and is in the process of implementing a system to support advanced time of day rates. The Company has continually executed its major projects on or under budgetary estimates, including

[32] *In the Matter of Minn. Power's Revised Petition for a Competitive Rate for Energy Intensive Trade-Exposed (EITE) Customers and an EITE Cost Recovery Rider*, Docket No. E015/M-16-564, INITIAL ORDER APPROVING PETITION AND RESOLVING RATE CASE WITH CONDITIONS at 4 (June 30, 2020); *In the Matter of the Application of Minn. Power for Auth. to Increase Elec. Serv. Rates in Minn.*, Docket No. E015/GR-19-442, INITIAL ORDER APPROVING PETITION AND RESOLVING RATE CASE WITH CONDITIONS at 4 (June 30, 2020).
[33] *Id*.

the Bison Wind Farms, BEC4 Emissions Control Project, and the completion of the GNTL, which went into service in 2020. On top of all of these performance attributes, Minnesota Power operates with a customer risk profile that is significantly above average, with the ninth highest industrial customer concentration out of 179 investor owned utilities, and is by far the highest concentration of any utility in the State of Minnesota. Finally, the Company is entering this proceeding with the lowest rates for the average residential customer in the state, reflecting years of cost containment on behalf of customers.

The recommended capital structure and rate of return in this request are needed to support and maintain adequate investment-grade corporate credit ratings and financial integrity necessary for Minnesota Power to continue to provide quality electric service. As a result of the Company's recent performance against all the metrics described above and its continued efforts to demonstrate its strong management, customer service, and partnership with all stakeholders, the request before the Commission is both reasonable and prudent.

C. Class Cost of Service and Rate Design

Q. Please describe Minnesota Power's approach to establishing a reasonable rate design.

A. Minnesota Power approaches rate design from an overall cost of service methodology, in which rates are designed so that individual classes of customers pay an appropriate and fair share of the costs associated with delivering safe and reliable electricity. Rate design is further influenced by other factors such as affordability and competitiveness as compared to state and national benchmarks. More information on revenue apportionment and rate design, taking Company witness Stewart J. Shimmin's class cost of service study ("CCOSS") results in to account, can be found in the Direct Testimony of Ms. Leah N. Peterson.

Q. How does the significant transition of Minnesota Power's energy system influence rate design?

A. As the Company has made investments to significantly reduce carbon emissions from its electric supply, renewable energy supply has also advanced to exceed 50 percent of customer energy requirements in 2021. Since renewable energy is variable by nature, it is necessary for customer focused rate designs to support and incentivize controllable customer load to better align with variable renewable generation. This alignment of load with generation helps balance energy supply with demand in the most economical manner for customers. Additionally, the low carbon intensity of the Company's power supply, which is expected to decline even further in the future, creates opportunities for meeting state policy goals for carbon reduction through beneficial electrification. Finally, the need to balance affordability and competitiveness with these advancements in sustainability is important to maintain customer satisfaction with the sustainable energy transformation. Minnesota Power's rate designs are intended to maintain affordable rates for low-income residential customers in addition to keeping rates competitive for industrial customers whose high load factor operation serves to increase the overall economic efficiency of the energy system. The Company also considers how to use rate design to empower customers with more control over their energy usage, as evidenced by its first-in-the-state transition to time varying rates for the residential customer class. Together, these factors also influence efficient and effective rate designs for Minnesota Power customers.

Q. How is Minnesota Power modernizing rate design?

A. As described in the discussion regarding state energy policy above, Minnesota Power has been decarbonizing its power supply while supporting beneficial electrification and the efficient utilization of the electric system. To meet policy goals, support customer desires, and capture system efficiencies, Minnesota Power offers several rate design proposals in this rate case, described further in the Direct Testimony of Company witness Leah N. Peterson. These proposals include:

- Changes to the residential and commercial dual fuel and controlled access rates;
- Updates to its Rider for Large Power Incremental Production Service ("IPS");

- Adding a non-standard residential rate rider for customers who opt-out of AMI meter technology;
- Separating the Transmission Demand Charge on Large Power and Large Light and Power customer bills;
- Adjusting the credit for Demand Response Product A; and
- Updating several riders that affect the Large Light and Power class.

Q. Is the Company proposing any increase to fixed portions of its bill?

A. Yes. Minnesota Power currently has the lowest residential fixed charge in Minnesota, and it has not increased in 12 years. The Company is requesting an increase to the monthly Service Charge for Residential customers. Minnesota Power proposes to increase the Residential Service Charge to $10.00 per month. The current Residential Service Charge of $8.00 has been in place since the effective date of final rates in Minnesota Power's 2008 rate case, November 1, 2009.[34] Additionally, as described by Ms. Leah Peterson, the increase to $10.00 per month results in a significantly lower monthly service charge than with all neighboring distribution cooperatives and is well below the CCOSS levels, which indicate a Residential Service Charge of $27.50 per customer per month would be necessary to recover customer-related service connection costs. The Company's proposed $10.00 per month Residential Service Charge is therefore a gradual increase moving directionally toward the basic cost of service connection.

Q. Does Minnesota Power include the EITE rate discount in its proposed final rates?

A. No, subject to Commission approval, Minnesota Power proposes to cancel the EITE Rider and rate discount effective with final rates.[35] Further, as described more fully in

[34] *In the Matter of Application of Minn. Power for Auth. to Increase Elec. Serv. Rates in Minn.*, Docket No. E015/GR-08-415, ORDER SETTING INTERIM RATE REFUND, AMENDING ORDER AFTER RECONSIDERATION, AND APPROVING COMPLIANCE FILING at 4 (Oct. 29, 2009).

[35] The Company filed a letter in the EITE Rider Docket (Docket No. E015/M-16-564) dated October 7, 2019, requesting that the Commission grant a procedural extension to continue the EITE Rider until new final rates in the present rate case are effective.

the Direct Testimony of Company witness Ms. Peterson, Minnesota Power's non-EITE customers have not had to pay any surcharge associated with the EITE rate discount.

Q. What is the overall result of the Company's rate design proposals in this proceeding?

A. Minnesota Power has demonstrated its ability to remain customer-focused — as evidenced by the number of rate mitigation efforts undertaken — while leading the State in achieving Minnesota's energy policy goals. However, a critical component of the regulatory compact is ensuring both recovery of prudent costs and investments along with a reasonable rate of return. Minnesota Power became the first utility in the State to serve customers from a power supply portfolio that is half-renewable, while also providing innovative and first-of-its-kind offerings like time varying rate design and increased access to solar energy for low-income customers. Despite these milestones achieved on behalf of the State of Minnesota and the customers it serves, Minnesota Power has maintained the same O&M levels for over a decade while only resetting base rates three times in 25 years.

The Company has executed its best efforts to ensure rates remain affordable for all customers, and its residential customers currently enjoy some of the lowest electric rates in the State. This proposed rate increase request includes prudently incurred costs and thoughtful proposals to mitigate the unique risk serving the industries of northern Minnesota creates. For Minnesota Power to continue decarbonizing its system and offering innovative programming to customers at the pace it has, a holistically reasonable outcome in this case that ensures the regulatory compact remains intact is necessary.

V. INTRODUCTION OF WITNESSES

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

A. In this section of my testimony, I identify and introduce the other witnesses presenting testimony on behalf of Minnesota Power in this proceeding.

Q. Please introduce Minnesota Power's other witnesses.

A. In addition to my Case Overview Direct Testimony, the following individuals are providing testimony on behalf of Minnesota Power:

- Patrick L. Cutshall, the Vice President and Treasurer of ALLETE, discusses Minnesota Power's recommended capital structure and overall rate of return. Mr. Cutshall also discusses the Company's proposals for recovery of test year pension and other post-employment benefit costs and their related return on accumulated contributions in excess of net periodic benefit cost;
- Ann E. Bulkley, Senior Vice President at Concentric Energy Advisors, Inc., provides expert testimony on the Company's required return on equity and an assessment of the Company's proposed capital structure;
- Joshua G. Rostollan, Manager – ALLETE Financial Reporting and Budgeting, provides an overview of the Company's budgeting process, including the reasonableness and reliability of the budgets. Mr. Rostollan further discusses Minnesota Power's cost allocation processes and employee expense review;
- Frank L. Frederickson, Vice President of Customer Experience, discusses Minnesota Power's customer focus, including products and services offered to retail customers, the Company's support for its customers and communities, and the relationship between retail customer activity and the overall health of the utility and projected sales and revenue. Additionally, Mr. Frederickson also supports the Company's proposed sales forecast true-up, and discusses Minnesota Power's wholesale customer sales;
- Benjamin S. Levine, Utility Load Forecaster Senior, provides details on the Company's test year sales forecast;
- Julie I. Pierce, Vice President of Strategy and Planning, provides information on Minnesota Power's current power supply strategy;
- Todd Z. Simmons, General Manager – Generation Operations, describes how the Company continues to transform its generating fleet with increasing renewable resources while maintaining efficient, reliable, and cost-effective services for customers. Additionally, Mr. Simmons supports the Generation investments and O&M expenses affecting the 2022 test year;

- Daniel W. Gunderson, Vice President of Transmission and Distribution, discusses the Company's power delivery systems, including related capital investments and O&M expenses affecting the 2022 test year;
- Laura E. Krollman, Director – Human Resources, discusses the compensation and benefits provided to the employees of Minnesota Power, as well as the workforce reductions and compensation cost savings implemented by the Company since the last rate case;
- John D. Armbruster, Manager, Tax, provides testimony to address several tax issues relevant to this rate proceeding, including deferred taxes, tax credits, and property tax;
- Stewart J. Shimmin, Revenue Requirements Lead, presents Minnesota Power's 2022 CCOSS, including the implementation of UIPlanner regulatory software. Mr. Shimmin also discusses the process of jurisdictional separation of costs, the functional assignment and classification of costs, the allocation of costs to customer classes, CCOSS compliance matters, and Minnesota Power's proposed treatment of current cost recovery riders in this case;
- Amanda L. Turner, Costing and Pricing Analyst II, discusses Minnesota Power's revenue requirements analysis and revenue allocation. Ms. Turner also addresses adjustments made in the Company's general rate and interim rate costs of service, and how the Company's riders and trackers bear on the 2022 test year cost of service; and
- Leah N. Peterson, Supervisor – Customer Business Analytics, will provide testimony to support Minnesota Power's proposed rates and rate design for the 2022 test year, addressing the distribution of increased revenue requirements among the classes of service, the design of the Company's proposed rates for retail classes, and billing comparisons reflecting present and proposed rates.

VI. CONCLUSION

Q. Does this complete your testimony?

A. Yes.