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Direct Testimony and Schedules
Laura E. Krollman

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 ________

EMPLOYEE COMPENSATION AND BENEFITS

November 1, 2021

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I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Laura E. Krollman, 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 Director – Human Resources.

Q. Please summarize your qualifications and experience.

A. I earned a Bachelor of Arts degree in Accounting from the College of St. Scholastica. I have 21 years of experience with the Company. During my first four years at Minnesota Power, I worked in the internal audit department, where I had the opportunity to work on a variety of operational and financial audits. I have spent the last 17 years in human resources, where, over the last ten years, I led a variety of human resources functions, including benefits, compensation, and talent acquisition. In my current position, I am responsible for all areas of human resources including the development, implementation, and ongoing administration of the Company's employee compensation programs, executive compensation programs, employee benefits, learning and organizational development programs, talent acquisition, employee and labor relations, and payroll and human resource information systems.

Q. What is the purpose of your testimony?

A. The purpose of my Direct Testimony is to describe the compensation and benefits provided to the employees of Minnesota Power. For Minnesota Power to continue providing safe, reliable, and cost-effective electricity and deliver 100 percent carbon-free energy by 2050, the Company needs to ensure it has a skilled workforce that can respond to the needs of its customers. As described throughout my Direct Testimony, Minnesota Power has undertaken a comprehensive workforce review, reduced staffing levels accordingly without sacrificing safety or reliability, and acted on a number of cost-saving measures. The Company continues to request the recovery of only reasonable expenses through rates. It is critical to Minnesota Power's talent strategy that the compensation and benefits offered by the Company remain market-competitive, and my testimony explains how the Company's benefit design changes, reduction of employees, and rate recovery request are all aligned to that objective.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes. I am sponsoring the following exhibits:

- MP Exhibit ___ (Krollman), Direct Schedule 1 – Employee Counts;
- MP Exhibit ___ (Krollman), Direct Schedule 2 – BenVal Study Excerpt; and
- MP Exhibit ___ (Krollman), Direct Schedule 3 – Summary of Compensation and Benefit Costs.

Q. Are you sponsoring other schedules in the rate filing?

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

II. OVERVIEW OF THE COMPANY'S WORKFORCE AND COMPENSATION

Q. Please briefly describe Minnesota Power's workforce.

A. By the end of 2022, Minnesota Power expects to provide jobs to 1,063 full-time and part-time employees, including 441 employees represented by unions (referred to as bargaining unit employees) and 622 non-bargaining unit employees. Minnesota Power's employees perform a variety of functions that support the Company's ability to supply retail electric service to more than 145,000 customers and wholesale service to 15 municipalities in Minnesota.

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

A. Overall, Minnesota Power has been successful in its employment efforts because of its ability to attract and retain high-quality people who demonstrate our shared values; however, we continue to face challenges as described throughout this testimony. Over the last few years, Minnesota Power instituted a process of evaluating and aligning its workforce in light of the ongoing system transformation toward its carbon-free vision, including changes to its generation portfolio. As discussed in the Direct Testimony of Company witness Todd Z. Simmons, this process of generation workforce alignment will continue as the Company's overall generation fleet transformation continues. Additionally, the Company was forced to make some difficult decisions related to operating and maintenance expenses following the outcome of the Company's 2016 Rate Case in Docket No. E015/GR-16-664 ("2016 Rate Case"). Since the 2016 Rate Case, the Company's employee headcount has decreased by 92 (full-time and part-time when comparing January 2017 to 2022 test year), or approximately eight percent of our workforce, at a time when customer expectations and system needs continue to increase. As explained later in my testimony, the Company managed this reduction in headcount through both attrition and layoffs.

Q. Please describe, generally, what precipitated these decisions to modify the Company's workforce?

A. As I previously stated, the changes in the Company's portfolio of generation resources, and specifically the retirement of Boswell Energy Center Units 1 and 2 ("BEC 1" and "BEC 2," respectively) drove some of the decreases to the Company's workforce.

Some decreases, however, resulted from the outcome of Minnesota Power's 2016 Rate Case. Minnesota Power strives to have the right people doing the right process and prioritizing the right work, all within the Company's revenue limitations. As I explain later in my testimony, it was necessary to use a thoughtful, systematic approach to reduce employee headcount while ensuring Minnesota Power remained able to deliver safe, reliable, and cost-effective electricity. Just as it was important to reduce headcount in a measured approach, it is increasingly important and necessary to retain the Company's remaining employees, to fill open positions for specific needs, and to plan for the Company's aging workforce. Part of ensuring we are at the appropriate headcount has been made more difficult due to COVID-19. For 2021, we are currently below our budgeted headcount, which is largely an impact from filling only the most critical roles during the initial months of the pandemic, which still has a lagging effect on headcount.

Q. With the changing workforce, what are the Company's Diversity, Equity, and Inclusion initiatives?

A. As a trusted energy provider and one of the largest employers in our region, we are committed to being part of the solution for making both individuals' lives and our society better. We have focused our efforts on three key areas:

- *Workforce*: Increasing employee diversity enriches the company culture. ALLETE employees, like the communities the Company serves, operate in an increasingly diverse society, and our workforce needs to reflect the diversity of the communities we serve, promote inclusivity and be equitable.
- *Supply chain*: As explained in the Direct Testimony of Company witness Daniel W. Gunderson, through investments and purchasing decisions, we support the participation of diverse businesses in our procurement processes and participate in the development of a healthier and more equitable economic system.
- *Community citizen:* As a leader and essential resource in our communities, the Company has a responsibility to be responsive to community needs through the thoughtful distribution of grants. We strive to strengthen our ability to recognize and respond to these diverse needs in order to maintain the highest quality of life in increasingly diverse communities.

Q. Specific to workforce, what steps has Minnesota Power taken to further Diversity, Equity, and Inclusion efforts?

A. Minnesota Power is listening, engaging with others, and planning specific steps towards meaningful changes in workplaces, such as:

- Establishing a recruiting framework to advance diversity in hiring, which includes removing unconscious bias in hiring, leveraging mentorships, and modifying job templates to increase diverse applicants;
- Soliciting feedback from employees through pulse surveys and listening sessions;

- Initiating “Respect in Workplace – Impact vs. Intent” discussions to further foster an inclusive workplace and requiring annual discrimination and harassment training;
- Collaborating with local leaders and colleges to identify partnership opportunities and to share best practices around internships, recruiting efforts, and community cultural events; and
- Working with the Duluth Workforce Development Board, Northeast Minnesota Office of Job Training, and members of our Yellow Ribbon[1] committee to further advance talent attraction efforts, as explained later in my testimony.

We appreciate and value diverse backgrounds, ideas, and opinions and we will continue to encourage and embrace diversity, equity, and inclusion. Focusing our efforts in these areas will enable Minnesota Power to improve inclusive practices and demonstrate our core belief that our employees, our company, and our communities are most effective and successful when they reflect a Company culture of diversity, equity, and inclusion.

Q. What is Minnesota Power’s objective with regard to compensation and benefits?

A. The compensation and benefits provided to Minnesota Power’s employees are designed to support the Company’s obligation to serve retail customers in its service area with safe, reliable, and cost-effective electricity. It is essential that the Company attract and retain well-qualified employees to fulfill these objectives by compensating them appropriately and competitively. The Company’s objective, therefore, is to provide market-competitive compensation and benefits. Compensation and benefits must be high enough to attract excellent employees while remaining in line with competitors, and also balancing the cost impact to customers of such compensation and benefits.

[1] The State of Minnesota certifies companies that unite key areas within an organization to create a comprehensive network that proactively supports military service members, veterans and military families. Minnesota Power was named a Yellow Ribbon company by the State of Minnesota in 2016, the first company headquartered in Duluth to receive the recognition, and has a standing internal committee to coordinate Yellow Ribbon-related efforts.

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

A. Minnesota Power uses a number of surveys and information sources to compare its compensation and benefit levels to other employers. The Company examines both utility specific data and non-utility compensation data because a number of the Company's positions are not unique to the utility industry. For example, Minnesota Power employs personnel in accounting, human resources, finance, engineering, and information technology, none of which is unique to utilities. The Company uses compensation market surveys from organizations including: ALM Law Department, Aon Hewitt, CompData Utilities, Culpepper, EAPDIS Energy Technical Craft Clerical, Foushee Environmental, Willis Towers Watson, and Western Management Utilities. Based upon regular salary analysis completed by the Company, employee total cash compensation is as follows:

- Total cash compensation for management employees is consistently near the market median or 50th percentile when target performance is achieved for purposes of incentive compensation;
- For non-management, non-bargaining unit employees, total cash compensation is generally within 4-6 percent below market for the reasons I discuss below. For non-management, non-bargaining unit employees who participate in the Annual Incentive Plan ("AIP"), their total cash compensation is generally within 2-3 percent below market. Compensation levels for non-bargaining unit employees are adjusted based on annual review of compensation market data and trends, as well as for job performance, experience, and internal comparisons between employees performing similar work for the Company; and
- For bargaining unit employees, compensation and benefits are negotiated, and adjustments are made in accordance with the terms of the labor contract.

For benefits, similar to compensation, Minnesota Power uses market surveys and benefit consulting data analyses to compare its benefits to those offered by general industry and utility industry companies. Minnesota Power routinely participates in the Willis Towers Watson Energy Services BenVal ("BenVal") Study, and also uses a number of *ad hoc* surveys such as Mercer National Survey of Employer-Sponsored Health Plans ("Mercer Survey"), the Kaiser Family Foundation Employer Health Benefit Survey, the Employee Benefits Survey by the Society for Human Resource Management, and the Willis Towers Watson Benefits Data Source U.S. Survey.

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

A. In the past, Minnesota Power's compensation and benefit program has been effective in recruiting and retaining employees. However, recruiting and retaining employees with specialized or high demand skills has been difficult, and we anticipate it will become increasingly more so. Specifically, the Minnesota Department of Employment and Economic Development ("DEED") continues to emphasize that the economic environment in Northeast Minnesota, which includes Duluth, faces two main challenges: (1) a tightening labor market, and (2) an aging population. Additionally, motivating individuals to move to Northeast Minnesota presents its own challenges as the area as a whole undergoes its own overall redevelopment and significant changes in industry.

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

A. A tightening labor market forces Minnesota Power and other Northeast Minnesota employers to compete for a dwindling number of applicants with the necessary skills, particularly in the specialty areas of science, technology, engineering, skilled trades, and accounting/finance. Despite higher unemployment rates in Northeast Minnesota as compared to the rest of the state, the number of qualified job seekers per vacancy has consistently declined over recent years. In addition, based on number of qualified applicants applying for positions, Minnesota Power assesses the number of qualified job seekers is low. Additionally, we are finding that the compensation package we are able to offer is, at times, not sufficient to attract qualified applicants, which has been happening more frequently than in prior years.

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

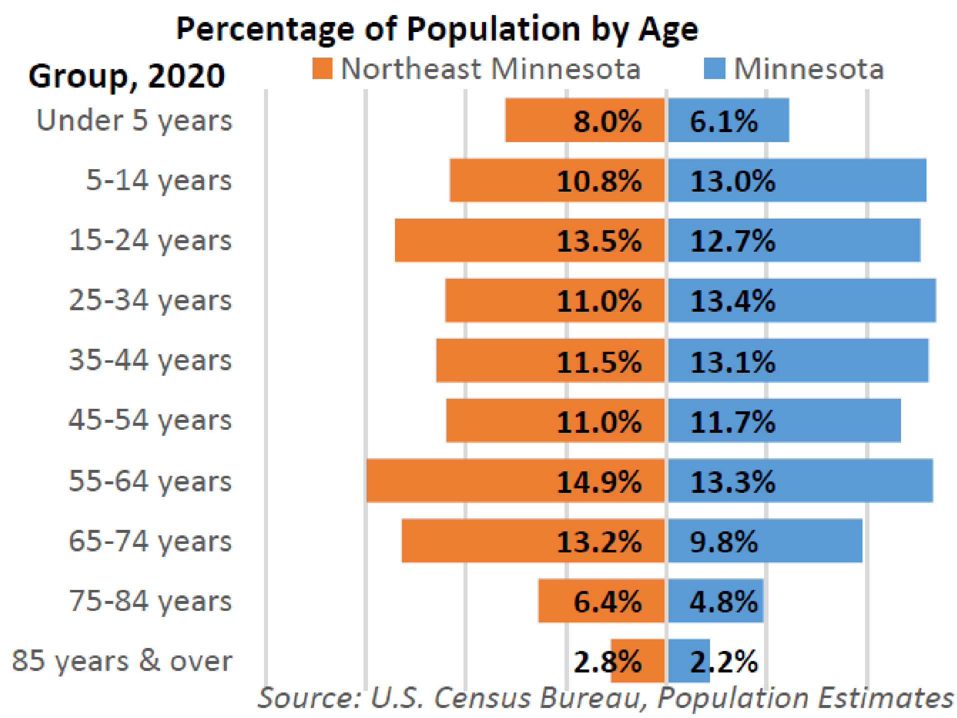
A. Of the six planning regions into which DEED divides the state, Northeast Minnesota is the least populated. As illustrated in Table 1, Northeast Minnesota has experienced a decrease in population since 2010, losing 2,687 people, a 0.8 percent decrease, even though the population of the state of Minnesota as a whole has grown by 353,417 people, a 6.7 percent increase. Approximately 70.5 percent of the Company's employees work in St. Louis County, which has experienced decreasing population since 2010.

Table 1. Northeast Minnesota and State of Minnesota Population Change 2010-2020

Table 1. Population Change 2010-2020				
	2010 Population	2020 Estimates	*2010-2020 Change*	
			Number	*Percentage*
Northeast Minnesota	**326,225**	**323,538**	***-2,687***	***-0.8%***
Aitkin Co.	16,202	15,848	*-354*	*-2.2%*
Carlton Co.	35,386	35,769	*383*	*1.1%*
Cook Co.	5,176	5,417	*241*	*4.7%*
Itasca Co.	45,058	45,268	*210*	*0.5%*
Koochiching Co.	13,311	12,059	*-1,252*	*-9.4%*
Lake Co.	10,866	10,639	*-227*	*-2.1%*
St. Louis Co.	200,226	198,538	*-1,688*	*-0.8%*
Central Minnesota	684,001	728,784	*44,783*	*6.5%*
Northwest Minnesota	553,805	571,239	*17,434*	*3.1%*
Southeast Minnesota	494,684	512,691	*18,007*	*3.6%*
Southwest Minnesota	395,643	390,321	*-5,322*	*-1.3%*
Twin Cities Metro	2,849,567	3,130,769	*281,202*	*9.9%*
State of Minnesota	**5,303,925**	**5,657,342**	***353,417***	***6.7%***
				Source: U.S. Census Bureau, Population Estimates

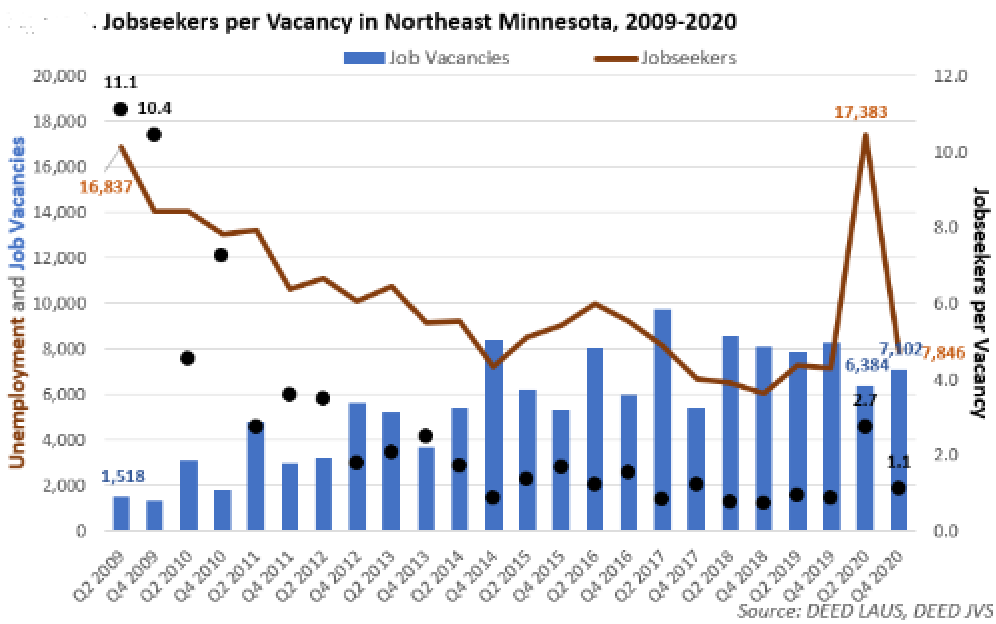
In addition to the negative growth rate, the Northeast Minnesota region also has an aging population. Figure 1 shows that Northeast Minnesota has a much older population than the state as a whole, with 22.4 percent of residents aged 65 years and over, compared to 16.8 percent statewide, and a lower percentage of people in the 25 to 64 year-old age group than the state as a whole.

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



As a result of the declining and aging population, Northeast Minnesota has a tight labor market. Prior to the coronavirus crisis, the number of available workers declined and the region's labor market tightened through the fourth quarter 2019. One clear demonstration of this is the ratio of unemployed jobseekers per vacancy, which in 2019 stood at 0.9-to-1 in Northeast Minnesota, meaning that there was less than one job seeker per vacancy. After briefly rising to 2.7 in the second quarter of 2020, the ratio sat near one at the end of the year again, indicating a return of tight labor market conditions. According to recent job vacancy survey results, there were 7,846 openings reported by employers compared to 7,102 unemployed jobseekers in the region. These statistics are reflected in Figure 2.

Figure 2. Jobseekers per Vacancy 2009-2020 – Northeast Minnesota



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

A. Yes. Northeast Minnesota is a great location for outdoor enthusiasts to work, play, and live. However, for those who are not drawn to an outdoor lifestyle or do not have a tie to the region, it can be difficult to convince people to make the initial move to this region to work. Convincing an experienced hire to move to Northeast Minnesota can be even more difficult when the hire has a trailing family member who is already working in the other market and wants to continue working. Job applicants may be reluctant to move to the region due to the climate, lower wage perceptions, housing concerns, an evolving industry landscape, or the desire to stay in larger cities where there are more employment opportunities and more diverse cultural choices, such as large community centers, places of worship, restaurants, and grocery stores.

Q. Have the remote work opportunities presented over 2020 and 2021 resolved these concerns?

A. No. While we have identified and provided remote work opportunities for certain roles, the Company has many roles that cannot be completed entirely remotely. Therefore, these challenges remain as the Company works to maintain a viable workforce.

Q. How does Minnesota Power's workforce compare to the demographics of Northeast Minnesota?

A. Minnesota Power's workforce has similarly challenging demographics. In the 2016 Rate Case, the Company anticipated that 20 percent of its employees would be retiring in the next five years, through 2021. That expectation aligned with what occurred. The Company now anticipates that approximately 19 percent of its employees will be retiring in the next five years, through 2026, assuming an average retirement age of 60.

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

A. Minnesota Power is taking several steps to respond to these challenges. Because it is currently difficult to find qualified new employees, the Company is also focusing its attention on retention of skilled employees.

In addition to our ongoing efforts to work with local schools and offering internships, the Company has undertaken many initiatives to recruit and retain employees. First, it has embraced alternative work arrangements and hybrid work. Alternative work schedules and working from remote locations can help employees balance work with other commitments, such as families or educational opportunities. Second, the Company continues to offer its tuition reimbursement program, which allows employees to obtain additional education so they can grow into new jobs. Third, the Company is supporting initiatives and group programs that provide opportunities for professional development, including internal training, engaging with industry and local peers, encouraging on-the-job training through engagement on cross-functional and project teams, multiple robotics volunteer teams that aim to connect employees with young people interested in science, technology, engineering, and mathematics. Fourth, the Company has reclassified the pay for some positions and added intermediate pay levels to ensure that employees are paid competitively and consistent with the market for their skills. Fifth, the Company has thoughtfully designed benefits packages, and incentive and bonus plans, to help ensure that skilled employees stay at the Company.

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

A. Yes. The Company continues to partner with the Duluth Workforce Development Board and the Northeastern Minnesota Office of Job Training and their regional partners, all of which are devoted to attracting, managing, placing, enriching, and retaining the talent community for Northeast Minnesota. In addition, Minnesota Power took a leadership role, engaging several subject matter experts from within the Company, in the Commission's Energy Utility Diversity Stakeholder Group ("EUDG")[2]. Minnesota Power has also proactively sought out and participated in opportunities, beyond general job boards or career fairs, to collaborate with and learn from other stakeholders in the utility industry to expand the Company's hiring reach and increase diversity in its workforce.

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

A. For decades, Minnesota Power has supported veterans, military members, and their families in various ways. In 2016, the Company took an additional step, becoming the first Duluth-based company to earn Yellow Ribbon Company designation from the State of Minnesota. Minnesota Power is extremely proud of this designation, which recognizes the Company's ongoing commitment to its military-connected employees, their families, and the community.

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[2] EUDG Stakeholder Report Submitted to the Minnesota Legislature on January 15, 2020 and filed in Docket No. E,G-999/CI-19-336.

Q. How does one qualify for "Yellow Ribbon" status?

A. To earn a Yellow Ribbon designation, a company must build relationships with local military leaders, identify employees with military connections, and commit to hiring, supporting, and retaining veterans. A Yellow Ribbon company must also intentionally unite key areas within the company for the purpose of actively supporting its military-connected employees.

Q. How did Minnesota Power become involved in supporting the military community?

A. Minnesota Power has a long history of supporting its service members, which includes the participation of a company leader serving on the Duluth Area Chamber of Commerce and its Military Affairs Committee for several years, providing pay differential to employees who are activated for military duties, and recognizing and supporting military-connected employees and their families. Thousands of Minnesotans have served and continue to serve our country, and a support system between companies, cities, and counties is critical to allow for a successful transition into the workplace for deployed service-members, and recognition and honor for all veterans. Achieving Minnesota's Beyond the Yellow Ribbon Company certification was an organic, employee led process, which is a natural progression in a historic relationship between utilities and veterans. Utilities have long valued the skills and contributions from military service in the energy industry; military personnel often have technical skills that are closely translatable to a utility environment.

Offering benefits to attract and retain veterans and active-duty personnel is an effective way to offset the tightening labor market and projected retirements. Recruiting military personnel presents an especially relevant opportunity for Minnesota Power since Duluth has a significant military presence as it hosts the Minnesota Air National Guard's 148th Fighter Wing unit. Accordingly, in 2016 the Company revised its policies and procedures and developed an action plan to better attract and retain military-connected personnel and to ensure their benefits are market-competitive. This action plan is reviewed and updated annually and includes input from the Yellow Ribbon committee and executive leadership. As of June 30, 2021, Minnesota Power had 62 employees self-identify either as a veteran or an active service member, and 68 employees signed up for the volunteer pool. The Yellow Ribbon designation not only demonstrates the Company's commitment to these employees, but also includes military-related volunteer opportunities for the Company's employees, strengthening its ties to the community, all of which further assists the Company's commitment to personnel retention.

Minnesota Power's efforts to support veterans, military-connected employees and their families have been recognized through a number of awards from the Employer Support of the Guard and Reserve ("ESGR"), a Department of Defense program established to promote cooperation between service members and their employers. In 2017, Minnesota Power was recognized with the ESGR Above and Beyond Award. Individual leaders within the Company have also been recognized by ESGR for their support of employees over the years, to include leaders receiving the Seven Seals Award (2016), and two Patriot Awards (2013 and 2015).

Q. Please summarize Minnesota Power's approach to its workforce development and retention efforts.

A. Following the challenging period of workforce realignment following the outcome of the 2016 Rate Case, it is increasingly important to retain current employees, attract new employees, and replace employees as they retire. Although Minnesota Power's location and the events of the last few years have made it difficult to attract and retain talent, the Company is addressing those challenges by developing new policies and enhancing its initiatives to emphasize retention. Going forward, the Company will maintain the skilled and properly compensated workforce that is necessary for it to continue to provide safe, reliable, and cost-effective electricity.

III. EMPLOYEE COMPENSATION

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

A. In this section of my Direct Testimony, I will describe the components of the cash compensation paid to the Company's employees and the costs of each component. I also describe the importance of each component, and how the costs of each component have changed over the last few years, resulting in the amounts included in Minnesota Power's 2022 test year.

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

A. Minnesota Power's cash compensation program includes base compensation and incentive compensation. Base compensation is the main component and is part of all employees' compensation. For non-bargaining unit employees, the Company sets base compensation based on a number of factors, including market data, internal equity (i.e., comparisons between employees performing similar work for the Company), and individual performance. For bargaining unit employees, base compensation is determined by the terms of collective bargaining agreements, which specify progressions and negotiated salary increases.

Minnesota Power's non-bargaining unit cash compensation program also includes two other performance-based pay vehicles — High Performance Awards and Spot Bonuses — and two incentive programs. One of the incentive programs is AIP, which applies to 127 supervisors and key employees of Minnesota Power and ALLETE's corporate operations. Minnesota Power also has a Long Term Incentive Plan ("LTIP"), which is a separate incentive compensation program that applies to 25 management employees of Minnesota Power and ALLETE's corporate operations. The AIP is designed to drive short-term action by rewarding employees for aligning and executing common goals, while the LTIP is designed to drive long-term performance and retain and engage executive talent. Eligibility for the LTIP is limited to employees who are director level and above, in alignment with market data, and the ability such employees have to affect long-term company performance.

Both the AIP and the LTIP are designed such that, as an employee's job responsibilities increase, a greater percentage of that employee's total compensation is tied to job performance and the Company's performance. Incentive compensation through the AIP and LTIP is not guaranteed until the point of an individual participant's retirement, but instead constitutes part of an employee's total potential annual compensation. The Company is only requesting recovery of the first 20 percent of our employees' AIP, as explained in Section III.B of my testimony. The Company is not requesting recovery of LTIP.

Q. Have there been any changes to Minnesota Power's compensation programs since the 2016 Rate Case?

A. No material changes have been made to the structure or elements of the cash compensation programs. However, in 2020, the Company added an option for employees to receive recognition through a credit that can be applied towards Company apparel and merchandise. This program not only recognizes employees, but provides additional brand recognition when employees are in the community, whether it be at job fairs, customer events, or at jobsites. This new recognition tool program is limited to $250 per recognition event. With the decrease in Minnesota Power's headcount in the past few years and the challenges of attracting and retaining qualified employees for the Company's workforce discussed above, cash compensation programs and other recognition programs are even more important in attracting and retaining talent.

Q. What is the total cash compensation, including Spot Bonuses, for both bargaining unit and non-bargaining unit employees?

A. Table 2 shows the total cash compensation, including Spot Bonuses, from 2017 actuals to the 2022 test year.

Table 2. Compensation, including Spot Bonuses – All Employees

	2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Projected Year	2022 Test Year
Cash Compensation						
Total Company	$71,270,283	$65,261,292	$60,980,647	$62,149,250	$62,960,332	$68,384,774
MN Jurisdictional[3]	$62,551,895	$57,081,662	$54,279,793	$54,855,401	$55,539,012	$60,762,381
Spot Bonuses						
Total Company	$69,598	$511,114	$179,529	$71,371	$9,500	$53,000
MN Jurisdictional[3]	$60,433	$457,307	$160,942	$62,227	$8,210	$44,384
Cash Compensation, including Spot Bonuses						
Total Company	$71,339,881	$65,772,406	$61,160,176	$62,220,621	$62,969,832	$68,437,774
MN Jurisdictional[3]	$62,612,328	$57,544,969	$54,440,735	$54,917,628	$55,547,222	$60,806,765

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

A. Table 3 shows the employee count from 2017 actuals to the 2022 test year.

Table 3. Minnesota Power Employee Count 2017 – 2022

Employee Count	Year-End 2017	Year-End 2018	Year-End 2019	Year-End 2020	2021 Projected Year-End	2022 Test Year Year-End
Full-time and Part-time	1,138	1,036	958	967	1,000	1,063
Temporary and Intern	13	1	11	4	16	21

A. <u>Base Compensation</u>

Q. Please describe the Company's objectives in establishing base compensation.

A. Minnesota Power's objective for base compensation is to compensate employees equitably and fairly for the skills, experience, and abilities they possess and provide to the Company, so the Company can deliver safe, reliable, and cost-effective electricity to customers. This means the Company seeks to ensure employee compensation is competitive with the current external market and that there is internal equity among similar positions in the organization.

[3] 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.

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

A. Minnesota Power targets the mid-point of the market range for employees in all positions. At the time of hiring, an employee's base compensation is initially set based on a particular employee's education, training, experience, job responsibilities, and market conditions. Every year thereafter, the Company evaluates the base compensation of all of its employees to determine whether adjustments are necessary.

Q. Is the determination of base compensation different for bargaining unit employees than for non-bargaining unit employees?

A. Yes. For bargaining unit employees, annual base compensation adjustments are determined through collective bargaining. For non-bargaining unit employees, external market data, economic trends, years of experience, and individual job performance are all taken into account to determine base compensation adjustments.

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

A. There are two unions with which the Company has collective bargaining agreements: the International Brotherhood of Electrical Workers ("IBEW") Local 31 and IBEW Local 1593. In 2022, Minnesota Power expects to have approximately 439 employees in Local 31 and two employees in Local 1593.

Q. Does the Company's base compensation for the 2022 test year reflect issues specific to bargaining unit employees?

A. Yes. Under the Company's collective bargaining agreement with Local 31, members' salaries increased 2.85 percent in 2021 lasting through April 30, 2022, and 2.75 percent in 2022 lasting through April 30, 2023. The terms for any future adjustments to base compensation have not been negotiated. Under the Company's collective bargaining agreement with Local 1593, members' salaries increased 2.85 percent in 2021 lasting through June 30, 2022, and 2.75 percent in 2022 lasting through June 30, 2023. The terms for any future adjustments have not been negotiated. The 2022 test year compensation figure in Table 2 above takes into account the status of these collective bargaining agreements.

Q. How did the Company develop the base compensation for the 2022 test year?

A. The base compensation for the 2022 test year was determined beginning with the budgeted employee headcount as of December 31, 2021, budgeted hourly wage for bargaining unit employees and budgeted annual salaries for non-bargaining unit employees. As Table 3 shows, the 2022 test year assumes approximately 60 more Company employees than are in the 2021 projected year. As of the time of filing, the Company is actively and diligently hiring for these positions, and the Company expects to have hired employees for these positions by the end of 2022. These positions have been identified as strategic hires in areas that support the Company's continued ability to provide safe, reliable, and cost-effective electricity to our customers where additional resources are necessary to support these efforts. More specifically, positions that are needed to help us execute our *Energy**Forward*** strategy to advance towards our vision of providing 100 percent carbon-free energy to customers by 2050, address increasing risk related to cyber security and meet regulatory requirements.

Further, while the Company has taken an active approach to control employee headcount since our 2016 Rate Case, as 2020 progressed, it became apparent that the overall base compensation and headcount budgeted for 2021 was inadequate to meet the Company's needs. Accordingly, Minnesota Power made specific, strategic, and deliberate increases to employee headcount over 2021 to ensure employee count levels are more consistent with the Company's need to meet customer expectations and execute our carbon-free vision. Thus, the 2022 test year includes an adjustment to remedy this disparity that the Company has experienced since 2020.

Finally, the base compensation amount for 2022 was also adjusted upward by a three percent merit adjustment for the non-bargaining unit employees and 2.75 percent for the bargaining unit employees. The net effect of these three adjustments is an increase in total cash compensation including spot bonuses of approximately $5.5 million Total Company ($5.3 million MN Jurisdictional) from the 2021 projected year to the 2022 test year as shown in Table 2 above.

Q. Please describe the fluctuations in the Company's employee headcount shown in Table *3* above.

A. Table 3 illustrates that employee headcount decreased very significantly from 2017 to 2019. As I mentioned above, the decrease in headcount over this period was driven by two things. First, the retirement of BEC1 and BEC2, as part of the continuing decarbonization of the Company's power supply, as well as other efficiencies, brought headcount down.

Second, it was necessary to align Minnesota Power's workforce with the revenue and cost levels resulting from the 2016 Rate Case. To accomplish that alignment, we had to cut costs in many areas, one of which was through decreasing headcount. It was difficult, but through a combination of attrition, leveraging technology investments, layoffs, and very limited hiring, the Company was able to manage and contract its workforce without affecting reliability, safety, or service. However, this also put increasingly high demands on the remaining employees — demands that were not sustainable in the long term due to additional overtime expenses and employee well-being.

Q. How did the Company assess the most appropriate way to implement the decrease in employee headcount starting in 2017?

A. Minnesota Power undertook a strategic workforce review to ensure that it had the right people, for the right positions, at the right time, with the right skills, and at the right cost. This was done on a department-by-department level. The Company identified such things as:

1) The work/processes that were needed to achieve the Company's strategic objectives (including process improvement opportunities);
2) Peer companies' headcount so that the Company's headcount could be benchmarked to them;
3) The skills and competencies needed to do the work;

4) The positions needed to complete the work (which could be a combination of new and existing positions) and what positions are no longer required; and

5) Ways to streamline the Company's organization.

The Company then compared the skills and competencies of the existing employees to the needed skills and competencies. The Company examined creative ways to accomplish critical work with fewer employees and the Company made staffing decisions, including layoffs, based on these analyses. Where possible, work that was not critical or time-sensitive was deferred, and the Company did not hire for positions that could be temporarily left unfilled. The thoughtfulness and thoroughness of this approach ensured that the Company made the necessary reductions to support the strategic business needs of the organization without sacrificing its core obligation to provide safe and reliable electric service.

Q. What methods did the Company use to implement reductions in employee headcount in 2017 and 2018?

A. In implementing the results of the strategic workforce review, Minnesota Power tried to avoid layoffs and severance by utilizing attrition to manage employee count. The Company was largely able to do this by being thoughtful about what positions needed to be filled and encouraging all critical positions to be filled by internal candidates. The Company hired external candidates only when the positions that needed to be filled could not be successfully staffed by internal candidates. In 2018, for example, the Company hired only six external candidates. In addition, during that time, the Company was able to maintain very low voluntary turnover, which is key to sustaining its internal talent pipeline. From 2016 through 2018, the Company had fewer than 32 voluntary departures each year, which, compared to industry peers, is very low as a percentage of employee headcount.

Q. What types of cost savings have been achieved through this reduction in employee headcount?

A. Employee cutbacks resulted in a reduction in associated costs — principally compensation and benefits, but also associated employee expenses such as training and meals. As a result of the 2017-2018 reductions, and notwithstanding the anticipated increase in employee headcount for the 2022 test year, Minnesota Power estimates an overall reduction in expenses of approximately $10.6 million Total Company ($8.4 million MN Jurisdictional) comparing 2017 actuals to the 2022 test year.

Q. How has your projected headcount compared to actual headcount in 2020 and 2021?

A. As described earlier in my testimony, we are currently below our budgeted headcount, largely due to a delay in hiring as all but critical hiring was paused for most of 2020 due to the economic impacts of the COVID-19 pandemic. While we are now actively hiring, there remains a lag in our budgeted and actual headcount, which is reflective of difficulty hiring and on-boarding in the current remote environment. We remain committed to filling these roles, as we know that many employees have been handling duties beyond the scope of their job for a year or two, which is not sustainable for the long term, and has resulted in significant burnout and overtime expenses.

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

A. A three percent base pay increase is necessary to remain consistent and competitive with the market. This budget represents a three percent increase across the non-bargaining unit employees; however, the actual increases provided to employees vary based on demonstrated performance in their position, and where the employee compensation is compared to market for each position. According to the 2021 – 2022 WorldatWork Salary Budget Survey, average merit compensation increases in 2022 are projected to increase 3.3 percent. Willis Towers Watson’s 2021 General Industry Budget Survey predicts an overall adjustment of three percent, and Korn Ferry’s survey projects a 3.1 percent adjustment.

It is necessary to provide market- and industry-competitive compensation to retain and engage employees in an increasingly challenging labor market. Minnesota Power's proposed three percent base pay increase is reasonable and consistent with historical adjustments and recent Company performance. Additionally, the base pay increase is lower than the recently-updated inflation rate for 2021.

The Company's average non-bargaining unit annual performance increase for 2020 through June 2021 is 3.3 percent annualized. During the same period, the average budgeted increases for companies with competing talent remained at an average or above three percent. Minnesota Power will not be a viably attractive employer if it lags behind other employers competing for talent in the same shrinking labor pool. Below-average base compensation increases will result in the Company paying below the market median and losing the foundational element of attractive employment — competitive wages. Additionally, Minnesota Power is facing a new challenge not previously seen in the Northland. While certain individuals will continue to work in roles that require on-site or in-person employment, the transitional nature of 2020 and 2021 has brought about competition for talent from companies not located in the Northland, or even in Minnesota. For roles that cannot be performed remotely, certain employees are finding opportunities to work for companies that are not facing the same cost constraints of Minnesota Power while retaining their northern Minnesota lifestyle.

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

Q. How is Minnesota Power's AIP designed?

A. The AIP is designed to motivate key employees to accomplish short- and medium-term strategic and operational goals that benefit customers and the Company. The AIP is an important part of the Company's overall total compensation structure and is designed using the most common criteria for incentive programs — a mixture of financial, operational, and strategic goals.

Without the AIP, the Company's total cash compensation would be below the market median of total cash compensation, making it more difficult to recruit and retain quality leadership. Minnesota Power generally sets compensation levels so that when target performance is achieved under the AIP, the resulting total cash compensation (base salary plus annual incentive pay) is near the 50th percentile of the competitive total cash compensation market level. Below-target level performance would result in no or lower awards being paid and thus below-market compensation. In other words, each participant in AIP has a portion of his or her base compensation at risk; in order to earn market-competitive compensation, they must meet their AIP goals. If the Company did not offer this incentive plan, the Company's compensation package would not be competitive.

Q. What are the 2022 AIP goals?

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

Operational and Values. Our 2022 operational and values goals were designed to demonstrate continuous safety improvement, as well as ALLETE's commitment to the environment and customer service as measured by goals relating to safety leading and lagging indicators, environmental stewardship, and system reliability. There are two metrics for this category: safety and reliability. The safety metric uses both lagging indicators and a leading indicator. The lagging indicators for the safety metric are Total Recordable Incident Rate and Severity Rate, as determined by the Occupational Safety & Health Administration. These indicators compare the Company's safety performance with the three-year average of other peer utilities. The leading indicators for the safety metric are based on behaviors designed to reduce injuries. The reliability metric has three components: the System Average Interruption Duration Index ("SAIDI"), the System Average Interruption Frequency Index ("SAIFI"), and the Customer Average Interruption Duration Index ("CAIDI"). These three components provide a way to measure unplanned outages and their duration. The Company's SAIDI, SAIFI, and CAIDI performance is then compared to the three-year average of other peer utilities. If there is a willful disregard of environmental, reliability, or any Federal Energy

Regulatory Commission regulation or standard, it would result in a reduction to or a non-payout for this goal.

Strategic. There are two key strategic goals: Advancing all dimensions of the Company's sustainability journey towards a zero carbon future while advancing customer competitiveness.

Financial. The two financial metrics of the 2022 AIP goals are related to ALLETE's net income and cash from operating activities.

Q. How do these 2022 AIP goals benefit customers?

A. *Operational and Values.* The operational and values metrics benefit customers by increasing the safety and reliability of the Company's electric system. The safety metrics incentivize AIP participants to reinforce Minnesota Power's commitment to continuing its safety journey with steady progress towards Zero Injury. Reduced injuries result in greater productivity, reduced costs, and reinforce a culture employees are attracted to and want to belong to, benefiting all customers. The reliability metrics — SAIDI, SAIFI, and CAIDI — incentivize AIP participants to continue providing reliable electricity for all of the Company's customers. The SAIDI, SAIFI, and CAIDI goals are designed to benefit customers by reducing the number and duration of service outages.

Strategic. The strategic goals are directly focused on customers by incentivizing the execution of the Company's *Energy**Forward*** strategy to decarbonize the electric system while also growing and retaining customers through ensuring the competitiveness of electric rates. Retaining and growing customers benefits all of Minnesota Power's customers by sharing in the costs of the electric system.

Financial. Net Income was selected as one of the financial metrics in AIP goals because it is a widely-tracked performance measure that reflects revenue generation and expense management. Cash flow was selected as the other financial metric because it indicates the Company's ability to internally generate funds for capital projects, dividend payments, pay compensation and benefits, and repayment of debt. These financial metrics benefit customers because achievement of these targets requires prudent management of Company costs and reduces the cost of capital for utility operations, which in turn supports a financially healthy utility that can continue to provide efficient electric service at cost-effective rates.

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

A. Yes. While some Minnesota Power employees have target maximum payout levels that exceed 20 percent of their base salaries, the Company is proposing to limit the level of incentive compensation recovered in rates to 20 percent of individual base salaries. This level is consistent with what the Commission approved in the 2016 Rate Case.

Q. Does Minnesota Power have any other proposals related to the recovery of AIP?

A. Yes. The Company proposes to continue to provide customer refunds in the event that actual AIP payouts are lower than the level approved in rates. This is consistent with past practice approved by the Commission. In fact, in 2019, AIP payouts were lower than the level approved in Minnesota Power's 2016 Rate Case and refunds were paid to customers in early 2021.

Q. What is the AIP expense in the 2022 test year?

A. The AIP costs for the 2022 test year are shown in Table 4.

Table 4. 2022 Test Year AIP Request

	Total Company	**MN Jurisdictional**
Total Cost without the 20 percent cap	$3,063,415	$2,723,722
Total Cost with the 20 percent cap	$2,084,265	$1,853,147

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

A. Yes. Minnesota Power's AIP is an important component of its total compensation program. Without AIP, Minnesota Power's total cash compensation would be below market median, and it would be difficult to attract and retain qualified leaders.

Eliminating AIP would require the Company to increase management level and key employees' base compensation to remain at a market-competitive level, but without the performance-based incentive the AIP provides. This would mean that the Company would be required to pay this increased level of base compensation even in years when an employee's performance does not meet the expectations set forth in its AIP goals. Thus, the AIP also provides the Company with flexibility to manage the compensation of its employees and to align its compensation with the achievement of Company goals that benefit customers.

The vast majority of companies, both in the utility sector and in other sectors, provide some form of short-term incentive as a component of their total compensation. Similarly, a report by WorldatWork in partnership with Vivient Consulting, published in 2018, found that 96 percent of privately held companies have a short-term incentive, up from 94 percent in 2015. That report also stated that the average spending for a short-term incentive increased from five to six percent over a two-year period. Finally, in 2020, all of the 15 member companies of the Edison Electric Institute closest in size to ALLETE offered a short-term incentive as part of their total compensation package.

C. High Performance Awards and Spot Bonuses

Q. Does Minnesota Power offer any other pay-for-performance compensation programs?

A. Yes. Unlike incentive plans, which are forward-looking and tie to achievement of pre-determined goals, performance awards recognize work that already has been achieved. As described previously, Minnesota Power's non-bargaining unit employees that are not eligible for an incentive plan are generally below market for total cash compensation. Therefore, to remain competitive, retain employees, and drive performance, the Company has established performance awards for which non-bargaining unit employees can be eligible. These performance awards help the Company recognize, engage, and retain top talent at a fraction of the expense of employing a short-term incentive plan or of increasing base compensation to close the compensation gap. These performance awards may include High Performance Awards paid through payroll, Spot Bonuses paid through payroll, Spot Bonuses paid via gift cards or Minnesota Power store credit. From time to time, collective bargaining agreements or specific Company transactions may provide for one-time payments over and above standard compensation — these one-off arrangements are separate from Spot Bonuses and High Performance Awards.

Q. How does Minnesota Power administer these performance awards?

A. High Performance Awards are performance-based payments that are designed to reward the top ten percent of non-bargaining unit, non-management employees for sustained exceptional performance that contributed in a material way to achievement of ALLETE's strategic or operational goals. High Performance Awards generally range from $2,000 to $5,000 (gross award) per individual. High Performance Awards are typically justified when an employee has, over a sustained period of time, led large, key, complex projects; led compliance initiatives; led product development; or been instrumental in achieving department objectives or large-scale process improvement.

For example, Minnesota Power provided a High Performance Award to an employee who oversaw the request for proposal process, facilitated interviews, and led the transition to a new vendor, which included moving away from a vendor that had provided services to Minnesota Power for over 20 years. The programs that were the subject of this process directly support residential customer programs. This High Performance Award recognized the significant amount of work, attention to detail and program expertise needed to find and transition to a new vendor that is able to support the evolving needs of Minnesota Power customers in this area, which include establishing new processes and procedures to meet aggressive energy savings targets and better adjust to changes in the industry and state. Because High Performance Awards are a form of recognition and reward for the top long-term performers in each department, they are each reviewed by the Chief Executive Officer ("CEO").

Spot Bonuses are performance-based pay that are paid either through payroll or, if in small denominations, as gift cards or Minnesota Power company store merchandise credits (new in 2020). Spot Bonuses recognize employees' accomplishments of going above and beyond normal job duties, or delivering exceptional performance on particular projects. In recent years, the Company has paid numerous Spot Bonuses in the range from $50 to $250 via gift card or merchandise credit. Less frequently, Spot Bonuses in higher amounts, from $350 to several thousand dollars (gross award paid through payroll), have been awarded. Higher amount awards are provided in limited circumstances where performance has greatly exceeded expectations or a significant customer-value milestone has been achieved.

Non-bargaining unit employees are eligible for High Performance Awards, Spot Bonus as cash through payroll or gift cards, and company store merchandise credit. Bargaining unit employees are eligible for Minnesota Power company store merchandise credit. Employees who are eligible to receive AIP are not eligible to receive High Performance Awards but are eligible to receive Spot Bonuses (gift cards, Minnesota Power store merchandise credit, or cash through payroll).

Q. What costs for High Performance Awards and Spot Bonuses (through payroll and gift cards/merchandise credits) are included in the 2022 test year?

A. Minnesota Power's 2022 test year budget includes $350,880 Total Company ($311,972 MN Jurisdictional) for High Performance Awards and $53,000 Total Company ($44,384 MN Jurisdictional) for Spot Bonuses paid through payroll, paid through gift cards or merchandise credit.

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

A. Performance-based compensation is essential to retaining qualified and talented employees. This is especially important when we are not able to increase base compensation at a rate equivalent to the overall Northland and Minnesota marketplace, but also to encourage employees to undertake significant efforts for the benefit of our customers that may require an additional investment of their time or energy. Eliminating these programs would likely require the Company to increase base compensation for non-bargaining, non-management employees to remain market-competitive. This request is consistent with the approach the Company took in the 2016 Rate Case. In that case, the Commission concluded that the Company's proposed test year budget for Spot Bonuses was reasonable and that Spot Bonuses help to address the below-market compensation of important employees, to the benefit of both the Company and its customers.

D. Long-Term Incentive Plan

Q. Please describe Minnesota Power's LTIP.

A. Qualifying executive management employees are eligible to receive annual grants of restricted stock units and performance shares. The performance shares encourage employees to develop and implement business strategies that provide long-term value to the Company and its customers. The restricted stock units encourage executives to own stock in the Company and to stay with the Company because they deliver rewards over time. The grants contain forfeiture provisions for certain types of employment terminations.

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

A. Similar to AIP, each participant in LTIP has a portion of his or her base compensation at risk. Thus an LTIP participant's total direct compensation is comprised of three components: (1) base compensation; (2) AIP award based on performance; and (3) LTIP award based on performance and retention.

Q. Is Minnesota Power seeking to recover any portion of the LTIP?

A. No. Although LTIP provides important compensation and incentives to key employees, the Company did not include any portion of the LTIP in the 2022 test year consistent with prior Commission decisions.

IV. EMPLOYEE BENEFITS

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

A. In this section of my testimony, I explain the benefits that Minnesota Power offers to its current employees. I also describe components of the Company's benefits program that are no longer available to employees, but for which the Company continues to incur costs. Finally, I describe why each component of the benefits program is important, and how the costs of the components have changed over the last few years and for the 2022 test year.

Q. What benefits does Minnesota Power offer its employees?

A. To keep pace with market trends and to remain competitive, the benefits offered by Minnesota Power have evolved over time. Because of this evolution, and in recognition of how benefit changes can affect the Company's workforce, not all employees are eligible for all benefits. Minnesota Power offers a package of employee benefits including medical and dental for active employees and eligible retirees; group life insurance for active employees and eligible retirees; retirement income; vacation pay; sick pay; disability benefits; flexible compensation plan; health, dependent care, and transportation reimbursement accounts; employee stock purchase plan; employee resource program; tuition reimbursement; service and retirement awards; employee-paid voluntary benefits; and executive benefits. For bargaining unit employees, the design and level of all benefits, except for health care benefits, is determined through collective bargaining. For non-bargaining unit employees, the Company establishes the level of all benefits except for health care benefits. As explained below, a Board of Governors makes recommendations about the health care benefits for both bargaining unit and non-bargaining unit employees.

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

A. As with compensation, it is important for Minnesota Power to offer competitive benefits so it can attract and retain a qualified and skilled workforce. The Company regularly monitors external trends, gathers employee input about the value its programs provide, and takes active steps to ensure both ongoing compliance with legal requirements and the prudent use of resources to maximize overall program value.

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

A. As with compensation, Minnesota Power uses market survey and benefit consulting data analysis to compare benefits among general industry and utility industry companies. Minnesota Power routinely participates in the Willis Towers Watson Energy Services BenVal study. The BenVal study's comparative analysis of benefit plan values is illustrated on a series of color graphs using relative value indices. A relative value index is determined by dividing an individual company's benefit plan value by the average benefit plan value for all of the companies participating in the comparison. An excerpt of the 2021 BenVal study is provided in MP Exhibit ___ (Krollman), Direct Schedule 2. As shown in that exhibit, Minnesota Power's benefits overall are slightly below the 50th percentile when compared to the other similar-sized utility companies surveyed.

A. Health and Welfare Benefit Plans.

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

A. Minnesota Power offers to eligible employees health and welfare benefits including the following: medical; dental; health savings account; medical, dependent and transportation reimbursement accounts; term life insurance; accidental death & dismemberment ("AD&D") insurance; and flexible credits. The Company also offers an employee resource program and other voluntary benefits as part of the health and welfare benefit package.

1. Health Care

Q. Please describe Minnesota Power's health care plans.

A. Minnesota Power's health care plans for active employees are self-funded and self-administered. Contributions on behalf of the Company and employees are made to trust funds that hold, invest, and distribute the funds to pay claims and other expenses of the plans.

The health care plans are administered by a Board of Governors, which makes recommendations about what the plans should include. The Board of Governors is comprised of three representatives from each of the following groups: management, non-bargaining unit, non-management employees, and bargaining unit employees, plus one retiree representative. The Board of Governors' recommendations are made to the Negotiating Committee, which consists of representatives of Company management and of bargaining unit employees. The Negotiating Committee also negotiates with the CEO for the funding. The Negotiating Committee negotiates and approves the details of the health and dental care plans for all employees.

Q. Does the Board of Governors plan on making any material changes to the health care plans in the 2022 test year?

A. No. Higher than expected health plan expenses over the past three years have resulted in significant increases to the premiums, the deductibles, and out-of-pocket expenses in 2018 and 2019. These cost increases were unsettling for both the employees and the Company. Recognizing the unsustainability of such increases, in 2019 the Board of Governors systematically reviewed all the features of the health care plans, including whether the Company's plan should remain as a self-insured funding arrangement, and did a complete benchmarking analysis, which served as the basis for the changes outlined in this section of my testimony. In 2021, the Board of Governors reviewed the benefits and cost associated with joining a multi-employer plan and, based on the review, determined it was not cost competitive to change from our self-funded plan.

Q. Did the Medical Plan have unexpected expenses or savings resulting from COVID-19?

A. At the start of the pandemic, the health plans saw a decrease in costs related to outpatient visits, as participants were initially deferring care. However, providers quickly shifted to virtual visits and outpatient visits were as expected by July 2020. While services shifted to a virtual setting, the costs of the visits remained similar to the cost of an in-person visit. The active and pre-65 medical plans have incurred $439,353 in COVID-19 related care as of September 7, 2021, with costs expected to continue into 2022. In 2021, we saw an uptick in COVID-19-related in-patient care, with in-patient stays resulting in at least $20,000 of plan expenses.

Q. Please summarize the key components of the Company's health care plans that the Company will offer in 2022.

A. In 2022, Minnesota Power plans to continue to offer all full-time employees, as well as eligible part-time, temporary, and intern employees, a choice between two High Deductible Health Plans with a Health Savings Account design (these are known as Consumer Driven Health Plans or "CDHPs") and a third co-pay plan, which provides a similar actuarial value to participants, but provides some first dollar coverage for participants. The introduction of this third plan in 2019 was based on feedback received from participants and from benchmarking data. According to the 2019 Large Employers Health Care Strategy and Plan Design Survey, in 2019, the number of employers offering a CDHP as the only option dropped nine percent, from 39 percent to 30 percent, reflecting a move by employers to offer health plan choices for employees. Each plan's monthly premium rate is determined based on plan design and the cost sharing arrangement between participants and the Company. Since the new co-pay plan is similar in cost to the CDHPs, there is no expected increase in the 2022 test year costs relating to this change.

The CDHPs require a participant to meet a deductible prior to coverage for medical expense and the co-pay plan requires a co-pay for office visits; however, in accordance with the Patient Protection and Affordable Care Act ("PPACA"), preventive services are covered at 100 percent for all plans regardless of the deductible or copay. For all other expenses in the CDHP, once a deductible has been met, a co-insurance cost sharing applies to medical expenses. In the co-pay plan, certain office visits, prescriptions, and emergency care have a co-pay that does not accrue towards the deductible. For each plan, a participant's medical and prescription expenses, not including monthly premiums, are limited by an annual out-of-pocket maximum. The amount of the deductible and the annual out-of-pocket maximum vary between the plans.

While the prescription coverage is the same under both CDHP options, it is different in the co-pay plan. Minnesota Power's CDHP plans distinguish between preventive prescriptions and non-preventive prescriptions because a portion of preventive prescriptions are covered prior to the participant meeting the medical plan deductible, while non-preventive prescriptions are covered under the co-insurance only after a prescription specific deductible has been met. Under the co-pay plan, participants pay a fixed co-pay based on the type of prescription. Under both plans, participants receive the highest level of coverage when using the nationwide in-network providers. Services from out-of-network providers may have higher costs for the participant.

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

A. Since 1962, active employees have been making contributions to fund the health care plans. For the past several decades, employees have contributed to the costs of the health care plans in the form of monthly premiums, deductibles, and co-insurance. Monthly employee premiums historically have been designed to cover, on average, 25 percent of the health care plans' disbursements for claims and administrative costs. This cost-sharing arrangement is in place for both bargaining unit employees and non-bargaining unit employees; for bargaining unit employees, the cost-sharing arrangement is subject to change based on negotiations between the Negotiating Committee and the Company.

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

A. Monthly premium contributions for all employees are determined by the Negotiating Committee. A summary of the monthly premiums for each plan, for 2022, is provided in Table 5.

Table 5. 2022 Health Care Monthly Premiums

Plan Type	Single	Family
Active employee CDHP #1	$201	$489
Active employee CDHP #2	$105	$317
Active employee co-pay plan	$201	$489

These premiums are designed to achieve the desired cost share levels discussed above. The Negotiating Committee, in consultation with the Company's benefit consultant, Lockton, reviews the health plan claims experience and forward looking expense projections on an ongoing basis and has the authority to adjust premiums as needed to keep the plan solvent. All participants in the plans are subject to premium increases or decreases at the discretion of the Negotiating Committee.

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

A. Consistent with previous years, participants are responsible not only for premium contributions but also for deductibles, medical co-pays and co-insurance, and separate prescription drug co-pays or co-insurance. To illustrate, details on co-insurance, co-pays, and deductible coverage levels for the CDHP option #1 are provided in Table 6.

Table 6. Company CDHP Option #1 for 2022

	Single Person Coverage	Family of 2+
Annual medical and pharmacy deductible	$3,200	$6,200; no individual family member can pay more than $3,200 in deductible.
Medical co-insurance	20%	20%
Prescription co-insurance (non-preventive)	after $2,800 pharmacy deductible limit has been satisfied, prescription co-pay applies	after $2,800 pharmacy deductible limit has been satisfied, prescription co-pay applies
Prescription co-insurance (preventive)	10% (not subject to deductible)	10% (not subject to deductible)
Maximum Out of Pocket	$4,000	$8,000; No individual family member can pay more than $4,000 in out of pocket maximum.

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

A. Minnesota Power's health care plans have not been immune to the rising costs associated with providing health care. According to the 2020 Mercer Survey, rising costs have impacted all companies that provide health care benefits to employees. The Mercer Survey notes that average expected total health benefit cost per employee is expected to rise by 4.4 percent for 2021, which is largely in line with the average annual growth costs over the past six years. The Board of Governors has ensured that the increase in costs associated with benefit design changes, including cost increases related to coverage requirements imposed by the PPACA, is shared between the Company and employees according to the 75-25 split described above.

Additionally, in an effort to reduce health care costs, the Board of Governors reviewed alternative ways to offer insurance. For example, the Board reviewed fully-insured group health plan products and performed a comprehensive review of potential self-insured and fully-insured vendors to ensure that the Company was offering appropriate coverage while working with the best vendor available. Based on this analysis, the Board of Governors recommended remaining self-insured as the coverage that was available elsewhere did not result in cost savings and was more restrictive than our current coverage in terms of both the number of plans to choose from and available design alternatives. The Board also recommended switching to UnitedHealthcare as the medical plan insurance carrier. This change in health insurance provider delivers participants with a more engaging and holistic health plan experience that will allow participants easier access to the information they need to make better health care decisions.

Q. Were the CDHPs implemented on the same schedule for active employees as for retirees?

A. No, active employees shifted to the CDHPs sooner. For retirees, the plan options are different based on several items.

- Pre-65 Retirees: Eligible participants retiring after December 31, 2018, but before age 65, can go only into either one of the CDHPs. Participants who retired on or before December 31, 2018 had the option to remain in the Preferred Provider Organization ("PPO"), but the Board of Governors intends to eliminate the existing PPO plan by the end of 2022; or
- Post-65 Retirees: Participants and their dependents who are over age 65 are covered on the fully insured Medicare Advantage plan that coordinates with Medicare.

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

A. On a per-employee basis, Minnesota Power's health care costs are comparable to many other utilities and other companies nationwide. In 2022, the Company's total cost of providing health care coverage to its active employees is expected to be $15,929 per employee. Of this total cost, the Company contributes, on average, $12,171 per employee, with employees contributing the rest or approximately 25 percent. According to the Company's benefits consultant, Lockton, the 2021 average cost for the utilities it studied to provide high-deductible health care coverage was $14,632 per employee.

Q. What is the Company's request for the costs of active employee health care in the 2022 test year and how does that compare to prior years?

A. Table 7 below compares the active employee health care costs in the 2022 test year to 2017-2020 actuals and the 2021 projected year.

Table 7. Active Employee Health Care Costs 2017 – 2022

Year	Total Company	MN Jurisdictional
2017 (Actual)	$8,869,519	$7,717,626
2018 (Actual)	$8,206,384	$7,180,874
2019 (Actual)	$7,332,051	$6,523,274
2020 (Actual)	$7,054,148	$6,228,756
2021 (Projected Year)	$7,998,595	$7,059,000
2022 (Test Year)	$7,963,722	$7,080,648

Q. Please explain the fluctuations in health care costs shown in Table 7.

A. Costs went down from 2017 to 2018 because of the reduction in employee headcount. On a per employee basis, costs increased substantially in 2019 because of an unusually high amount of medical claims and an unusually high cost per claim, but since we have less participants on the plan, Total Company costs decreased. Since 2019, and as explained later, the cost savings measures the Company put in place has resulted in relatively stable per employee cost; however, the number of participants on the plan has increased, resulting in higher 2021 and 2022 test year expenses.

Q. Why are healthcare costs per participant increasing?

A. There are many external factors that have contributed to the increase in cost per participant. Two of the most notable items are the national trend of increasing health care costs and prescription drug costs, along with changes required under the PPACA. Nationally, health care costs and prescription drug costs are rising, both in terms of the cost of service for specific services and in increased utilization of health care services by participants. According to PricewaterhouseCoopers' Health Research Institute, medical costs are expected to trend up 6.5 percent in 2022, just slightly lower than the seven percent estimated increases in 2021 and higher than it was between 2016 and 2020. Increased prescription costs and an increase in the number of specialty drugs (which can cost as much as $100,000 per prescription) have contributed to increased expenses for the Company. While the long-term impact of having the right prescription should lead to lower long-term costs, new high-cost prescriptions on the market did contribute to an overall increase in health care costs per participant for the Company in recent years. In addition, the Company's health care plans continue to experience an increase in the number of large claims, defined as claims over $50,000. Comparing the plan through July 2021 to July 2020, we have had an increase in the number of high cost claimants, and an increase in the cost of the high claims. This increase in large claims not only affects the cost of the Company's health care plans, but in cases where the large claims exceed the Company's stop loss insurance amount, they affect future stop loss premiums.

Q. What steps has the Company taken to control health care costs?

A. As discussed, Minnesota Power offers plans that encourage employees to be wise consumers of health care, by designing plans that incentivize wise use of health care services. Additionally, in 2020, the Company changed health plan providers to UnitedHealthcare in an effort to get the best negotiated rates with local health care providers. The Board of Governors also feels that the change to UnitedHealthcare provides participants better tools and programs designed to help control health care cost by improving the overall health and well-being of our employees. Enhancements include proactive outreach to participants to help modify behaviors and better manage specific health care concerns, and educational materials that provide transparent cost comparison tools to allow participants to get the right health care at the right price. With these cost saving measures in place, the Company has been able to keep the per employee cost relatively flat since 2019.

2. <u>Dental Care</u>

Q. Please describe Minnesota Power's dental plan.

A. Minnesota Power's dental plan provides two dental plans options; the first is a base plan that offers basic, preventative, and restorative dental care with an annual benefit limit of $1,250 per participant. This plan does not offer orthodontic coverage. The second buy-up plan was introduced in 2020 after a comprehensive review of benchmarking data, employee feedback, and attraction and retention considerations. The buy-up dental plan has an annual limit of $1,500 per participant, with up to $1,000 lifetime orthodontic coverage per child. The Company's dental plan is administered by the Board of Governors and is self-funded and self–administered. Funding for the dental plan is provided by employee and Company contributions. For the base plan, employee contributions fund approximately 40 percent of the costs of the dental plan and Company contributions fund approximately 60 percent of the costs. For the buy-up plan, employee contributions fund approximately 46 percent of the costs of the dental plan and Company contributions fund approximately 54 percent of the costs. Table 8 summarizes the 2022 monthly premiums.

Table 8. 2022 Employee Dental Plan Monthly Premiums

Plan Type	Single	Family
Base Plan: Full-time active employee	$16.20	$42.12
Buy-up Plan: Full-time active employee	$21.20	$58.12

Q. What dental care costs are included in the 2022 test year?

A. The 2022 test year includes $410,879 Total Company ($365,318 MN Jurisdictional) in dental care costs for active employees.

3. Other Components of the Health and Welfare Benefit Plans

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

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

Q. What is the flexible compensation plan?

A. The flexible compensation plan works in concert with the Company's other health and welfare benefit programs. This plan allows before-tax dollars to be set aside to pay for benefit expenses. It is available to both bargaining unit and non-bargaining unit employees. Non-bargaining unit employees also receive "flex credits" to be applied toward benefit expenses. The flexible compensation plan complies with the requirements of Section 125 of the Internal Revenue Code.

The flex credits that are part of the flexible compensation plan are available to non-bargaining unit employees after one year of service to use towards eligible health and welfare benefits in the amount of two percent of their base salary. At the time of eligibility, the salary used to calculate flex credits is the employee's current base salary. For each year thereafter, flex credits are updated on January 1 during the annual benefit election period and are recalculated based on their October 1 salary of the prior year. Rather than providing all employees with one type of additional benefit, the flexible compensation plan allows the Company's employees to tailor benefit dollars to meet their own individual needs. Employees can use the flex credits and/or before-tax dollars to offset the cost of the following benefit plans: employee term life insurance, AD&D insurance, accident insurance, whole life insurance, vison, medical reimbursement account, dependent care reimbursement account, and transportation reimbursement account. If the employee does not have sufficient flex credits to offset the entire cost of these benefits, the employee may use before-tax dollars through pay conversion to pay the remaining costs. The Company-provided flex credits are the costs shown in MP Exhibit ___ (Krollman), Direct Schedule 3.

Q. Please describe the reimbursement account programs.

A. The medical reimbursement account, dependent care reimbursement account, and transportation reimbursement account allow employees to contribute before-tax dollars to pay for eligible health, daycare, and parking/bus expenses, respectively. The costs associated with these plans are administrative costs only and are included in the "Reimbursement Accounts" category.

Q. What is the employee resource program?

A. The employee resource program is an essential component to Minnesota Power's health and welfare benefit package. This program provides outside counselors, resources, and referrals to assist employees and their family members. It is designed to confidentially help in resolving personal and work related problems that may be adversely affecting employees. It is also used to provide on-site group and individual counselling sessions for employees that have been involved in a tragic event, such as loss of a co-worker. This comprehensive package is offered free to all employees and their families.

Q. Please describe the life insurance program.

A. The Company provides core life insurance to active bargaining unit and non-bargaining unit employees. The amount is two times annual salary for non-bargaining unit employees and bargaining unit employees represented by IBEW Local 31, and one times annual salary for bargaining unit employees represented by IBEW Local 1593. This amount is included in MP Exhibit ___ (Krollman), Direct Schedule 3. In addition, employees can purchase additional voluntary life insurance coverage for themselves and their eligible children and spouses.

Q. What are the other voluntary benefits?

A. Minnesota Power also provides the opportunity for employees to purchase voluntary benefits to complement the Company-provided benefits, such as AD&D insurance, whole life insurance, vision, and accident insurance.

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

A. The costs are included in MP Exhibit ___ (Krollman), Direct Schedule 3. In 2019, Minnesota Power solicited bids for the administration of its employee resource program and reimbursement accounts. In response to these bids, the Company chose UnitedHealthcare in 2020. The transition to UnitedHealthcare for program administration was coordinated with the overall transition to UnitedHealthcare that I described above. The prior contracts for benefit plan administration were cost-competitive so there is no material cost savings recognized with switching these programs to UnitedHealthcare; however, having both the medical plan and these other benefits plans with UnitedHealthcare simplifies administration for the Company and provides a more streamlined process for participants.

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

A. Yes. Program administration costs are an essential component of the Company's overall benefit program.

B. Other Benefits

Q. Please describe other benefits Minnesota Power offers.

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

Long Term Disability Plan. A Company-provided disability plan provides a benefit for qualified active employees who become unable to work.

Service Awards. Awards are provided to employees for years of service with the Company. These service awards are included in the employee expenses schedules described in the Direct Testimony of Company witness Joshua G. Rostollan with additional detail in Volume 3, Schedule H – 7.

Retirement Awards. Awards are provided to employees at retirement. These awards are given as gift cards, similar to spot bonus gift cards. Retirement awards are included in the employee expense schedules described in the Direct Testimony of Company witness Mr. Rostollan with additional detail in Volume 3, Schedule H – 7.

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

A. Yes. They are an important component of the Company's benefit program, and especially support employee growth, retention, and recognition. The costs are set forth on MP Exhibit ___ (Krollman), Direct Schedule 3.

C. Retirement Benefits

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

A. Minnesota Power provides eligible employees the following retirement benefits: (1) a defined contribution plan ("DC Plan"), which has features of both an employee stock ownership plan and a 401(k) retirement savings account, and which covers both non-bargaining unit and bargaining unit employees; (2) defined benefit pension plans ("DB Plans") for certain employees based on their hiring date; and (3) Other-Post Employment Benefits ("OPEB"), such as retiree medical, dental, and life insurance for eligible employees. Consistent with industry trends, Minnesota Power continues to migrate away from the defined benefit plan model to the defined contribution model. The defined contribution model encourages employees and the Company to have a shared responsibility in building retirement savings. Also in the defined contribution model, the Company's expenses and contributions are less volatile than in the defined benefit plan model. As described below, the DB Plans are now closed to all new hires. Nevertheless, the DC Plan and the DB Plans both continue to be very important components of the Company's overall benefits program.

1. Defined Contribution Plan ("DC Plan")

Q. Please describe Minnesota Power's DC Plan.

A. Retirement benefits provided through the DC Plan are funded with Company contributions in the form of ALLETE common stock and/or cash, and with employee cash contributions.

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

A. Yes, for all non-bargaining unit employees and for bargaining unit employees not eligible for a defined benefit plan, Minnesota Power provides a contribution and a match for contributions to the 401(k) component of the DC Plan. For non-bargaining unit employees hired after September 30, 2006, the Company contributes six percent of eligible wages and matches up to five percent. In other words, if an employee elects to set aside five percent, the Company's total contribution, including match, is 11 percent.

For bargaining unit employees hired after January 31, 2011, the contribution is seven percent of eligible wages and the match is up to five percent. For employees hired before these dates, the contribution and match percentages vary based on factors such as date of hire, age, and bargaining unit status.

Q. What is included in Minnesota Power's 2022 test year for annual DC Plan costs?

A. The costs set forth in the 2022 test year for the DC Plan are the estimated Company contributions and matches to employee accounts. The estimated Company contribution and match are based on plan contribution design and estimated employee earnings and contributions.

Q. How do Minnesota Power's costs for the DC Plan in the 2020 test year compare to prior years?

A. Table 9 compares DC Plan costs in the 2022 test year to 2017-2020 actuals and the 2021 projected year.

Table 9. DC Plan Costs 2017 – 2022

Year	Total Company	MN Jurisdictional
2017 (Actual)	$7,592,625	$6,606,563
2018 (Actual)	$7,101,658	$6,214,199
2019 (Actual)	$6,268,691	$5,577,211
2020 (Actual)	$5,374,492	$4,745,633
2021 (Projected Year)	$6,398,042	$5,646,464
2022 (Test Year)	$6,828,196	$6,071,037

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

A. The DC Plan costs went down from 2017 actuals to the 2019 year because of the decrease in overall employee headcount. From 2020 year to the 2022 test year, the headcount has remained relatively flat; however, costs increase for two reasons. First, the Company anticipates a higher percentage of its employees will be receiving benefits through the DC Plan. Because the DB Plans are closed to all new hires, all new employees hired accrue 100 percent of their retirement benefits through the DC Plan. Second, the Company's contributions to the DC Plan are based on a percentage of employees' salaries. As salaries increase, Company and employee contributions correspondingly also increase.

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

A. First, certain costs associated with administrating the plan, including legal, recordkeeping, and audit services, are paid for by the participants. The Company monitors these expenses closely, and in 2018 the Company switched recordkeeping providers to Empower, which resulted in lower administrative costs for participants. Second, the bargaining employee component costs of the DC Plan result from the bargaining process. Third, the Company pays close attention to ensure that DC Plan costs remain market-competitive because they are an important benefits component that employees value as part of the compensation and benefits package offered by the Company.

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

A. Providing a competitive retirement plan is an essential element of the Company's benefit package. This is one of the top benefits for both prospective employees and for retention: both prospective and current employees expect that their employer will provide a DC plan with a company contribution and match, and they are highly attentive to the amount of the company contribution and match. If the Company did not offer the DC Plan, it would be exceedingly difficult to attract and retain qualified employees. According to the Willis Towers Watson Benefit Data Source 2019 report, 100 percent of utilities and energy companies, as well as nearly all equivalently-sized companies across all industry sectors, offer some form of defined contribution plan. Additionally, 90 percent of sponsors recognize that their DC plans are important, or very important, for maintaining a competitive organization, while nearly as many view their DC plans as an important tool for attracting talent. According to the 2019 Employee Benefit survey by the Society of Human Resource Management, nearly all employers offer some type of retirement plan, with 93 percent offering a traditional 401(k) or similar defined contribution retirement saving plan. For these reasons, the DC Plan is an indispensable element of the Company's retirement plans, and therefore its costs should be included in rates.

2. Defined Benefit Pension Plans ("DB Plans")

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

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

- Plan A – "non-bargaining plan": As a cost-savings measure, all benefits in Plan A were frozen effective November 30, 2018, and Plan A was merged into Plan C on December 31, 2018, thus Plan A no longer exists;
- Plan B – "bargaining plan" for active bargaining unit employees as of January 31, 2011; and
- Plan C – "inactive plan," for all non-bargaining participants; retired participants, including surviving spouses; and bargaining unit participants or retirees, including surviving spouses, who were no longer represented by the union contract as of December 31, 2015.

Q. Please describe Minnesota Power's DB Plans.

A. Minnesota Power's DB Plans are all traditional defined benefit plans that use final average pay and credited service in the benefit calculation. For non-bargaining unit employees hired prior to October 1, 2006, the credited service is capped as of September 30, 2006, and final average earnings was frozen as of November 30, 2018. For bargaining unit employees hired prior to February 1, 2011, employees continue to accrue credited service and final average pay components while eligible for the plan. Minnesota Power's actuary, Mercer Survey, calculates the Company's pension expense using actuarial analyses. As of Mercer's actuarial analysis performed in 2021, approximately 171 non-bargaining unit employees (approximately 25 percent of all non-bargaining unit employees) and 335 bargaining unit employees (approximately 72 percent) were eligible for the DB Plans.

Q. What DB Plan Expenses are included in Minnesota Power's 2022 test year and how do these expenses compare to prior years?

A. Table 10 compares DB Plans expenses in the 2022 test year to 2017-2020 actuals and the 2021 projected year.

Table 10. DB Plans Expenses 2017 – 2022

Year	Total Company	Total MN Jurisdictional
2017 (Actual)	$5,984,482	$5,207,271
2018 (Actual)	$3,519,301	$3,079,512
2019 (Actual)	$1,669,392	$1,485,247
2020 (Actual)	$4,028,477	$3,557,112
2021 (Projected Year)	$5,408,571	$4,773,225
2022 (Test Year)	$3,588,541	$3,190,618

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

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

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

Q. How do the overall DB Plan expenses for the 2022 test year break down among Plans B and C?

A. The amount of the DB Plan expenses for each plan is set forth in Table 11.

Table 11. DB Plans Expenses For 2022 Test Year

	Total Company	**MN Jurisdictional**
Plan B – Bargaining Unit Employees	$5,502,888	$4,892,689
Plan C – Inactive Participants as of December 31, 2015 and Non-Bargaining Unit Employees	$(1,914,347)	($1,702,071)
TOTAL	$3,588,541	$3,190,618

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

A. The benefits from these changes are described in the Direct Testimony of Company witness Mr. Cutshall. His testimony describes a number of steps that Minnesota Power has taken since the 2016 Rate Case to manage the costs of the DB Plans.

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

A. Nearly 93 percent of employees eligible for the DB Plans also contribute to the 401(k) plan, at an average deferral rate of at least 12.8 percent. These employees' contributions to their 401(k) plans demonstrate that the Company's employees are paying for a portion of their retirement costs and that these costs are not being borne entirely by the Company's customers.

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

A. No. While the Internal Revenue Code allows private sector employees to make pre-tax contributions to a 401(k) plan, it does not allow private sector employees to make contributions to a defined benefit plan on a pre-tax basis. Rather, private sector employees must do so with after-tax dollars. Thus, requiring employees to contribute to defined benefits plans would impose a significant tax disadvantage to private sector employees.

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

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

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

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

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

A. For 2022, the estimated costs for the DB Plans are $3,588,541 Total Company ($3,190,618 MN Jurisdictional) (based on Mercer's actuarial analysis) covering an estimated 171 non-bargaining unit employees, 335 bargaining unit employees, and 1,900 retirees. For the DC Plan the costs are $6,828,196 Total Company ($6,071,037 MN Jurisdictional), covering an estimated 622 non-bargaining unit employees and 441 bargaining unit employees.

Q. Were defined benefit plans common when Minnesota Power established its plan in 1952?

A. Yes. Defined benefit plans were very common in 1952 and were an expected benefit for employees. Since that time, these plans have become far less common, and now it is very unusual for a private sector company to offer a defined benefit plan retirement benefit to employees. Consistent with these structural changes in retirement benefits expectations, Minnesota Power has eliminated its DB Plans for new non-bargaining unit employees hired after September 30, 2006 and for new bargaining unit employees hired after January 31, 2011.

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

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

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

A. As previously described, Minnesota Power uses market survey and benefit consulting data analysis to compare its retirement benefits program to those offered by peer utilities and companies across other sectors. Minnesota Power routinely participates in the Willis Towers Watson Energy Services BenVal Study. An excerpt from the 2021 version of that study is provided in MP Exhibit ___ (Krollman), Direct Schedule 2. As shown on the BenVal graphs, the Company's benefits overall are slightly below the 50th percentile when compared to the other utility companies in the survey.

3. Other Post-Employment Benefits

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

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

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

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

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

A. There are two plans — a pre-65 retirement health plan and a post-65 retirement health plan. This is because retirees age 65 and older are required to participate in Medicare, whereas retirees under age 65 are not. In the pre-65 retirement health plan, participants who retired prior to December 31, 2018 may choose between a PPO option and the two CDHP options, while participants who retired after that date may choose only between the two CDHP options. Retirees over age 65 are required to have Medicare Plans A and B to continue coverage and are only offered a Medicare Advantage plan. Monthly premium rates are unique to each of the plans and are determined based on plan design and the cost-sharing arrangement between participants and the Company that is negotiated by the Board of Governors. Participants contribute to the overall cost of the health care claims and administrative expenses through the payment of premiums, deductibles, and co-insurance. The plans require a participant to meet a deductible prior to coverage for medical expenses; however, in accordance with the PPACA, preventive services are covered at 100 percent regardless of the deductible amount. Once a deductible has been met, a co-insurance cost sharing applies to medical expenses. Participants' medical and prescription expenses, not including monthly premiums, are limited by an annual out-of-pocket maximum.

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

A. The retiree dental plan provides basic, preventative, and restorative dental care. The plan covers two cleanings per year and up to an annual benefit limit of $1,000 per participant. No orthodontic coverage is provided. Retiree contributions fund about 40 percent of the costs of the plan and Company contributions fund about 60 percent of the costs.

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

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

1. Beginning on February 1, 2011, new employees were no longer eligible for OPEB health benefits;
2. Effective January 1, 2012, the age requirement for retiree health eligibility for those not already eligible was increased to age 55, up from age 50;
3. In 2013, health cost sharing for post-65 retirees was changed from 75 percent Company/25 percent retiree to 70 percent Company/30 percent retiree;
4. Post-employment life insurance for non-bargaining unit participants was eliminated unless the employee retired prior to January 1, 2016;
5. Minnesota Power added a high-deductible consumer-directed health plan option in 2014 and a second high-deductible consumer-directed health plan option in 2017;
6. Effective January 1, 2018, the pre-65 PPO retiree health plan is no longer available to new retirees. Retiree medical-eligible participants retiring after January 1, 2018 must choose one of the pre-65 consumer directed health plan options. Any retiree that elected the pre-65 PPO retiree health plan prior to January 1, 2018 is eligible to keep PPO coverage for a maximum period of five years, i.e., through age 65 or December 31, 2022 if earlier, at which time any pre-65 retirees with PPO coverage will be transitioned to a consumer-directed health plan;
7. Minnesota Power provides retiree life insurance to bargaining unit employees represented by IBEW Local 31 because it is obligated to do so under the

collective bargaining agreement. Bargaining unit employees represented by IBEW Local 1593 do not have retiree life insurance. For bargaining unit employees represented by IBEW Local 31, during 2017 renegotiations of the collective bargaining agreement, the Company negotiated to increase the life insurance benefit for active employees from one times annual base salary to two times annual base salary, while reducing the life insurance benefit for employees retiring after December 31, 2018 from half of annual base salary to a flat $20,000. This shift allowed the Company to align with benchmarking data for life insurance, while providing cost savings; and

8. Effective January 1, 2020, for the post-65 group the Company offers a Medicare Advantage Plan rather than a Medicare Supplement Plan. The Medicare Advantage Plan design shifts more first dollar coverage responsibility to the participants. For the test year, it is estimated that these two actions saved $6.3 million Total Company, $5.6 million MN Jurisdictional.

Q. Does Minnesota Power provide other OPEBs?

A. Other than the retiree medical and dental benefits described above, bargaining unit employees represented by IBEW Local 31 are eligible for Company-provided retiree life insurance benefits. The Company previously provided retiree life insurance for non-bargaining unit employees, but on August 28, 2014, this benefit was discontinued for employees retiring after December 31, 2015.

Q. What costs are included in the 2022 test year for OPEB?

A. Minnesota Power's 2022 test year includes a negative $6,173,505 Total Company, (negative $5,488,944 MN Jurisdictional) in OPEB costs. This negative amount, or income, reduces customer rates. In his Direct Testimony, Company witness Mr. Cutshall discusses how the 2022 test year OPEB expense was calculated. As he describes, the higher negative expense in the 2022 test year OPEB amount as compared to the 2021 projected year is in part based on the cost savings from past benefit reductions that will continue to be reflected in the expense for several more years and income from the OPEB trusts investments. Costs would have increased if not for steps taken by the Company to control the rising costs of OPEB.

4. <u>Other Executive Retirement Benefits</u>

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

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

Q. What has Minnesota Power included in the 2022 test year for SERP and EDA costs?

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

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

A. Yes. In addition to the costs outlined above, Minnesota Power incurs costs for a now-closed Executive Investment Plan ("EIP") and for legacy employment agreements (also sometimes referred to as "interest on benefits and other budgeted awards").

Q. Please describe the Executive Investment Plan.

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

Q. Please describe the legacy employment agreements.

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

Q. What is the total amount of the compensation and benefit costs for which the Company is not seeking recovery in the 2022 test year?

A. Minnesota Power is foregoing compensation and benefit costs for the 2022 test year totaling $6.068 Million Total Company, as set forth in Table 12.

Table 12. Employee and Retiree Compensation and Benefit Costs Not Included in the 2022 Test Year ($ in millions)

Category	2022 Test Year (Total Company)	2022 Test Year (MN Jurisdictional)
AIP in excess of 20%	$0.979	$0.871
LTIP	$1.973	$1.754
SERP – Retirement	$1.413	$1.256
SERP – Annual Restoration Plan	$0.233	$0.207
Executive Deferral Account	$1.342	$1.193
Executive Investment Plan	$0.019	$0.017
Executive Investment Plan – Survivor Benefits	$0.058	$0.052
Legacy Employment Agreements	$0.051	$0.045
TOTAL	**$6.068**	**$5.395**

V. CONCLUSION

Q. Does this complete your testimony?

A. Yes.

2020 Employee Headcount	January	February	March	April	May	June	July	August	September	October	November	December
Total Full-Time / Part-Time Actual	969	972	972	977	977	977	967	970	967	963	969	967
Total Full-Time / Part-Time Budget	1020	1020	1020	1020	1020	1020	1020	1020	1020	1020	1020	1020
Difference (budget - actual)	51	48	48	43	43	43	53	50	53	57	51	53
Difference (percent)	5.00%	4.71%	4.71%	4.22%	4.22%	4.22%	5.20%	4.90%	5.20%	5.59%	5.00%	5.20%

2021 Employee Headcount	January	February	March	April	May	June	July	August	September	October	November	December
Total Full-Time / Part-Time Actual	969	967	971	974	976	974	979	986	998			
Total Full-Time / Part-Time Budget	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000	1000
Difference (budget - actual)	31	33	29	26	24	26	21	14	2			
Difference (percent)	3.10%	3.30%	2.90%	2.60%	2.40%	2.60%	2.10%	1.40%	0.20%			

2022 Employee Headcount	January	February	March	April	May	June	July	August	September	October	November	December
Total Full-Time / Part-Time Budget	1,005	1,010	1,015	1,020	1,025	1,030	1,035	1,040	1,045	1,051	1,057	1,063

PUBLIC DOCUMENT
NON-PUBLIC DATA EXCISED

Willis Towers Watson BenVal Results

Group A

Compared to Small Utility Companies (revenue range up to $2,500 million)

[TRADE SECRET DATA BEGINS

[redacted]

TRADE SECRET DATA ENDS]

Summary of Compensation and Benefit Costs		2017	2018	2019	2020	2021	2022	2022	
	FERC Accounts	Actual, Total Company	Actual, Total Company	Actual, Total Company	Actual, Total Company	2021 Projected, Total Company	Test Year, Total Company	Test Year MN Jurisdictional	
Compensation, including Spot Bonuses	Multiple	71,339,881	65,772,406	61,160,176	62,220,621	62,969,832	68,437,774	60,806,765	
Compensation		71,270,283	65,261,292	60,980,647	62,149,250	62,960,332	68,384,774	60,762,381	
Spot Bonuses		69,598	511,114	179,529	71,371	9,500	53,000	44,384	
High Performance Awards	92000	267,594	194,670	132,652	157,751	248,859	350,880	311,972	
Defined Benefit Pension Plans	92608	5,984,482	3,519,301	1,669,392	4,028,477	5,408,571	3,588,541	3,190,618	
Defined Contribution Plan	92606-92607	7,592,625	7,101,658	6,268,691	5,374,492	6,398,042	6,828,196	6,071,037	
Other-Post Employment Benefits	92611-92613	(712,345)	(870,229)	(1,826,073)	(5,720,634)	(4,884,841)	(6,173,505)	(5,488,944)	
Health Care Plans	92605	8,869,519	8,206,384	7,332,051	7,054,148	7,998,595	7,963,722	7,080,648	
Dental Plan	92604	432,562	416,926	379,393	246,489	413,748	410,879	365,318	
Group Life Insurance	92601	228,582	211,140	237,113	215,703	272,996	173,458	154,223	
Flexible Credits	92602	974,578	944,766	789,652	712,611	904,089	851,031	756,662	
Tuition Reimbursement Program	92603	178,534	117,159	53,825	57,282	119,616	63,945	56,854	
Employee Resource Program	92000	16,265	25,218	23,847	15,164	22,000	22,000	19,560	
Reimbursement Accounts	92610	28,457	26,788	20,975	8,864	30,505	30,372	27,004	
Long-term Disability Plan	92614	274,143	304,346	143,663	167,039	476,200	385,827	343,044	
Service Awards	92000	24,544	24,302	15,820	25,540	31,836	29,052	25,831	
Retirement Awards	92000	12,398	19,368	17,656	6,636	16,248	9,372	8,333	
Memorial	92000	3,162	2,438	1,946	568	3,996	-	-	
Severance	92000	526,957	2,093,713	177,238	125,703	40,941	42,921	38,161	
Annual Incentive Plan	92000	3,329,296	4,130,982	2,933,139	3,814,666	2,744,112	3,063,415	2,723,722	Request capped at 20%
Long Term Incentive Plan	92000	2,357,997	2,478,427	2,618,334	2,553,535	1,958,300	1,972,944	1,754,170	Not seeking recovery
Executive Deferral Plan	92000	1,929,102	740,855	1,521,533	1,506,273	1,373,556	1,341,984	1,193,175	Not seeking recovery
Executive Investment Plan	92000	476,399	458,707	435,999	15,671	446,520	19,128	17,007	Not seeking recovery
Executive Investment Plan - Survivor Benefits	92000	74,608	65,577	74,850	60,609	58,198	58,143	51,696	Not seeking recovery
Legacy Employment Agreements	92000	88,231	82,318	72,454	69,335	56,832	51,060	45,398	Not seeking recovery
Supplemental Executive Retirement Plan pension benefit	92615	1,302,116	1,349,334	1,064,560	920,116	995,759	1,413,049	1,256,360	Not seeking recovery
Supplemental Executive Retirement Plan annual restoration plan	92615	137,912	179,963	303,934	250,037	300,451	232,885	207,061	Not seeking recovery