Direct Testimony
Jennifer J. Cady

Before the Minnesota Public Utilities Commission

State of Minnesota

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

Docket No. E015/GR-23-155

Exhibit _____

RATE CASE OVERVIEW

November 1, 2023

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I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Jennifer Jae Cady, and my business address is 30 West Superior Street, Duluth, Minnesota, 55802.

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

A. I am employed by ALLETE, Inc. ("ALLETE"), doing business as Minnesota Power ("Minnesota Power" or the "Company"). I am currently the Vice President of Regulatory and Legislative Affairs.

Q. Please summarize your qualifications and experience.

A. I have been employed by Minnesota Power for 12 years and have regulatory experience in the electric industry that includes customer program development, renewable project development, resource acquisition, integrated resource planning, integrated distribution planning, and rate design.

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

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

United States military for 20 years. I am originally from Hibbing, Minnesota and have been a lifelong Minnesota resident.

Q. What testimony do you provide in this proceeding?

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

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

A. Minnesota Power proposes an Interim Rate increase net of riders of $63.8 million (8.6 percent overall) and a General Rate increase net of riders of $89.1 million (12.0 percent overall). Including rider costs being transferred to base rates, the Company seeks an Interim Rate increase of $102.6 million (13.8 percent) and a General Rate increase of $127.9 million (17.2 percent). Volume 1, Direct Schedule A-1 (IR) and Volume 3, Direct Schedule A-1 summarize Minnesota Power's proposed Interim Rate and General Rate revenues, respectively. The support for these requests is set forth in my testimony, as well as the testimony of the other witnesses testifying on behalf of Minnesota Power, and this overall filing.

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

A. Minnesota Power has a long history of limiting rate increase requests to only those times when increased cost recovery from our customers is absolutely necessary. For example, we were able to avoid rate cases for more than a decade between 1994 and 2008, and then again for another seven years between our 2009 and 2016 rate case filings. While we filed a rate case in 2019, we worked with stakeholders to withdraw that case during the height of the COVID-19 pandemic by addressing only those changes associated with a single expiring sales contract. Our last rate case, submitted in 2021 and based on a budget developed in the summer of 2021, did not capture the high inflation levels that began in the summer of 2022 or the costs of additional utility resources—namely, our people—necessary to deliver safe and reliable electric service while decarbonizing our system. Our current rates also do not reflect a representative level of sales on a year-

over-year basis, and as such, our current rates do not provide an opportunity or ability to recover our authorized rate of return.

Further, the Company must undertake significant investments now and in the years ahead to support the transmission and generation changes necessary to achieve Minnesota's clean energy and climate goals. These investments require attracting and retaining both debt and equity investors, which in turn require solid credit metrics and ratings as well attractive returns on both debt and equity, in order to make the investments that ultimately serve Minnesota Power customers. Finally, as Minnesota Power is working to comply with new environmental compliance obligations, appropriate cost recovery mechanisms are required moving forward.

As a result, the main drivers of Minnesota Power's current rate increase request are:

1. The need to recover increased capital and operating and maintenance ("O&M") expenses as compared to the levels currently in rates, supporting high quality utility service to customers;
2. Revenue changes and increased risk profile due to a significant concentration of highly cyclical industrial customers; and
3. The need to ensure the Company's costs are being recovered through the appropriate cost recovery mechanism, including by transferring completed projects and updated production tax credits from rider recovery to base rates and by utilizing appropriate mechanisms to account for new state and federal environmental requirements.

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

A. Minnesota Power is unique among its peers in regards to its customer concentration and the nature of its largest customers' industries, which creates significant financial risk to the Company. Minnesota Power serves the natural-resources-based economy of northern Minnesota, and its industrial customers primarily operate in the highly cyclical, globally competitive industries of taconite mining and paper manufacturing. These factors increase Minnesota Power's risk in multiple ways:

- Nearly 70 percent of Minnesota Power's retail sales are to industrial customers in three industries: taconite mining, paper/pulp, or pipeline industries.
- Approximately 56 percent of Minnesota Power's retail sales are generated by only two customers: U.S. Steel and Cleveland-Cliffs, Inc.
- Recent mining company efforts to acquire U.S. Steel could put more than 55 percent of Minnesota Power's retail sales in the hands of a single customer.
- Taconite mining customer sales have been highly variable and largely unpredictable in recent years, with customer contracts guaranteeing only a very small percentage of total annual sales revenue with increasingly small opportunities to make up for lost load in the wholesale markets.
- Paper and pulp customer power purchases from Minnesota Power have declined steadily in recent years.
- Minnesota Power's load factors remain at more than 80 percent due primarily to these industrial customers, which require highly dependable, dispatchable resources. This drives the composition of the Company's generation mix and while the high load factor means customers benefit from the efficient use of the system, it also means that the Company can suffer intense sales downturns during difficult economic conditions.

Although Minnesota Power has mitigated rate impacts as much as possible for our customers while also significantly decarbonizing our system, the Company's current financial circumstances necessitate this rate proposal to align rates with current costs and revenues and to address continuing changes in customer energy needs.

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

A. A financially stable and healthy utility is critical to customers for several reasons. First, our customers rely on Minnesota Power to provide safe, reliable, and environmentally-sound electric service, as well as excellent customer programs and services. While we have shown we can weather many challenges, Minnesota Power's risk profile has become more (not less) volatile in recent years, creating increased risks to its ability to meet all of our customers' needs in a given year.

Second, as discussed by Company witness Mr. Joshua D. Taran, credit ratings and increased perception of the risks associated with the Company increase its costs of obtaining the capital necessary to finance utility infrastructure and investments, which are required for a transition to a clean energy future. While this case is not driven by capital in-service amounts by themselves, we continue to invest in infrastructure projects that are currently before the Commission for approval or in the planning stages for upcoming construction. We must have access to capital—including during market downturns or our own customer downturns—as well as the ability to obtain capital at reasonable costs for customers. This Company has had the first-hand experience of its negative financial outlook affecting its access to financial markets and capital during market downturns. Our requests in this case are designed to avoid such situations in the future, and to help ensure a reasonable cost of capital for our customers. Therefore, when we refer to risk associated with the Company or the Company's risk profile, we mean both risks to the Company's economic well-being and the corresponding risks to the customers we serve.

Finally, a healthy utility can offer enhanced programming to customers, support customers in their individual energy goals and circumstances, and also be a positive presence within the communities it serves. For instance, a financially-sound utility can provide assistance to energy-insecure and low-income customers; address individual renewable energy goals and support customers as the clean energy transition progresses; and sponsor programs that help customers improve their energy efficiency and attain their conservation goals. A healthy utility can also support the larger communities it serves by investing in local projects and serving as a good community partner for local governments and organizations. The Company's ability to manage the unique risks it faces can therefore directly impact the customers and communities that it serves.

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

A. Yes. As I noted, much of this case is focused on aligning our cost recovery with current revenues and costs, and to help align that cost recovery with the appropriate ratemaking

mechanisms. To do that, it is important to smooth the unique risks and benefits of Minnesota Power's large industrial customer concentration, to moderate the downside risks to the Company or the risks of triggering a rate case due to lost sales, and to moderate the unique risks to customers of missing out on the benefits of increased sales in between rate cases. Therefore, the Company is proposing a customer rate stabilization mechanism. As described further in Company witness Mr. Frank L. Frederickson's testimony, the proposed rate stabilization mechanism reduces the risk that a test year will under- or over-predict test year sales, reduce the risk of a rate case triggered by a downturn in large power operations in a given year, and increase rate predictability for customers as increases and decreases in revenues will be tracked for future vetting and recovery. Further, as discussed in the Direct Testimony of Company witness Mr. Taran, ALLETE's credit rating agencies and credit ratings would likely favor the mechanism, as the proposed mechanism shares both the rewards and risks of industrial customer volatility with all customers.

Q. How is your Direct Testimony organized?

A. The remainder of my Direct Testimony is organized as follows:

- In Section II, I describe Minnesota Power and our customers;
- In Section III, I discuss how Minnesota Power is executing the energy policy of the State of Minnesota;
- In Section IV, I describe changes since the Company's last rate case;
- In Section V, I provide an overview of the requests in this case, including revenue requirements, revenue allocation, and rate design;
- In Section VI, I provide an introduction of witnesses in this case; and
- In Section VII, I conclude my Direct Testimony.

Q. Please summarize your Direct Testimony.

A. First, I provide an overview of ALLETE, Inc. and the Minnesota Power electric utility. Specifically, I highlight how Minnesota Power serves one of the most unique customer mixes of any utility in the country, consisting mostly of large industrial users on

Minnesota's Iron Range, and how the Company's economic environment affects this rate case.

Second, I outline how Minnesota Power is executing state energy policy by delivering value for customers, decarbonizing its system for the changing climate, and supporting its customers and communities during the clean energy transition.

Third, I provide an overview of changes that have occurred since the Company's last completed rate case, including a discussion of increased inflation and other cost pressures affecting the Company's business; increased investments and workforce needs associated with the clean energy transition; the outlook for our taconite mining customers; and certain disconnects between our current costs and cost recovery mechanisms.

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

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

II. MINNESOTA POWER AND OUR CUSTOMERS

Q. Please describe ALLETE.

A. ALLETE is a reliable provider of competitively priced energy services in the upper Midwest. ALLETE is comprised primarily of regulated energy businesses with some additional non-utility, energy-focused businesses. Relative to its size, ALLETE is the largest investor in renewable energy in the country. Minnesota Power is an operating division of ALLETE and comprises the majority of ALLETE's activities. In fact, net income from Minnesota Power's regulated operations was 69 percent of budgeted total consolidated ALLETE net income in 2022. The remaining 31 percent of ALLETE's budgeted consolidated net income comes primarily from the following wholly-owned subsidiaries: ALLETE Clean Energy; BNI Energy; New Energy Equity; Superior Water, Light & Power Company; and an investment in the American Transmission Company. The Direct Testimony of Company witness Mr. Taran identifies ALLETE's other businesses and subsidiaries in more detail.

Q. Please describe the Minnesota Power public utility.

A. Minnesota Power is a public utility operating division of ALLETE. First incorporated in 1906, Minnesota Power has been serving northern Minnesota for over a century and currently provides electricity to more than 150,000 residential and commercial customers, 14 municipal systems, and some of the nation's largest industrial customers across a 26,000 square mile service area located in central and northern Minnesota.

Q. How does Minnesota Power serve its customers?

A. Minnesota Power currently utilizes a diverse combination of wind, hydro, solar, coal, biomass, and small amounts of natural gas generation, totaling nearly 2,400 megawatts ("MW") of capacity, to serve its customers. Since 2013, Minnesota Power has decreased its thermal generation through coal plant retirements or remissioning, while adding a substantial volume of renewable energy to the power supply. In fact, Minnesota Power has nearly tripled its renewable energy generation since 2014. As described in further detail in the Direct Testimony of Company witness Ms. Julie I. Pierce, Minnesota Power added significant renewable power purchases in 2020, which resulted in the Company

being the first utility in the state to deliver 50 percent renewable energy to customers. Minnesota Power has most recently added approximately 20 MW of additional solar generation in 2022 and 2023 in northern Minnesota, which aided in the local economic recovery from the COVID-19 pandemic and provided unique investment in a community impacted by a facility ceasing coal operations by leveraging the use of local labor and locally manufactured solar panels. Around the same time, the Company implemented additional diversity, equity, and inclusion procurement practices. Most recently, the Commission approved Minnesota Power's 2021 Integrated Resource Plan ("IRP"), under which the Company will add another 700 MW of new renewable resources to its power supply by 2030.

Minnesota Power's transmission system operates on voltages generally between 115 kilovolts ("kV") to 500 kV and serves local loads across Minnesota Power's service territory, which spans more than 26,000 square miles of central and northeastern Minnesota. As Company witness Mr. Daniel W. Gunderson describes in his Direct Testimony, Minnesota Power's transmission system is also critical in supporting the larger regional transmission system's overall reliability. Minnesota Power's distribution system is comprised of 6,216 miles of distribution lines and 201 distribution substations, reaching from International Falls in the north to Royalton in the south, and from Duluth in the east to as far west as the Long Prairie and Park Rapids communities. Much of this area consists of rural communities, which present unique issues when planning for investment in the distribution system.[1]

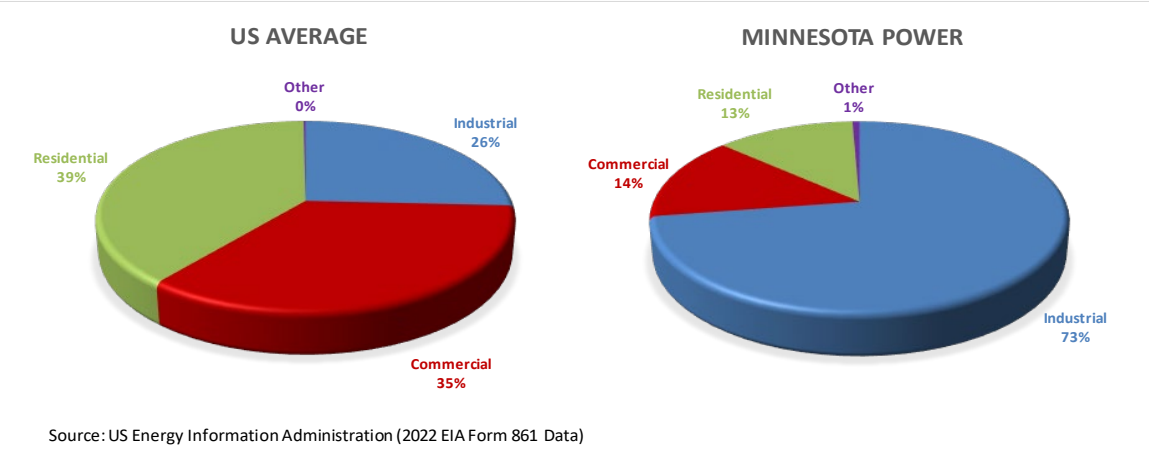
Through its generation, transmission, distribution, and customer experience assets, Minnesota Power strives to always remain customer focused as it delivers safe, reliable, affordable, and increasingly clean electricity to customers and communities across northeastern and central Minnesota.

[1] Detailed information about Minnesota Power's distribution system can be found in the 2023 Integrated Distribution Plan filed in Docket No. E015/M-23-258 on October 16, 2023.

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

A. In 2022, Minnesota Power's retail customer mix included approximately 125,200 residential, 23,800 commercial, 400 industrial customers and 1,000 public authorities and lighting customers, with programs and services for each customer class. As noted previously, Minnesota Power's system is dominated by industrial customers, with approximately 73 percent of retail kilowatt-hour ("kWh") energy sales delivered to this customer class alone in 2022, while only 13 percent of sales to the residential class and 14 percent of retail sales to commercial customers. For comparison, the average utility in the United States sells just 26 percent of its retail kWh energy sales to industrial customers and sells 39 percent and 35 percent of retail kWh energy sales to residential and commercial customers, respectively, as shown in Figure 1 below.

Figure 1. Minnesota Power's Customer Concentration is Unique



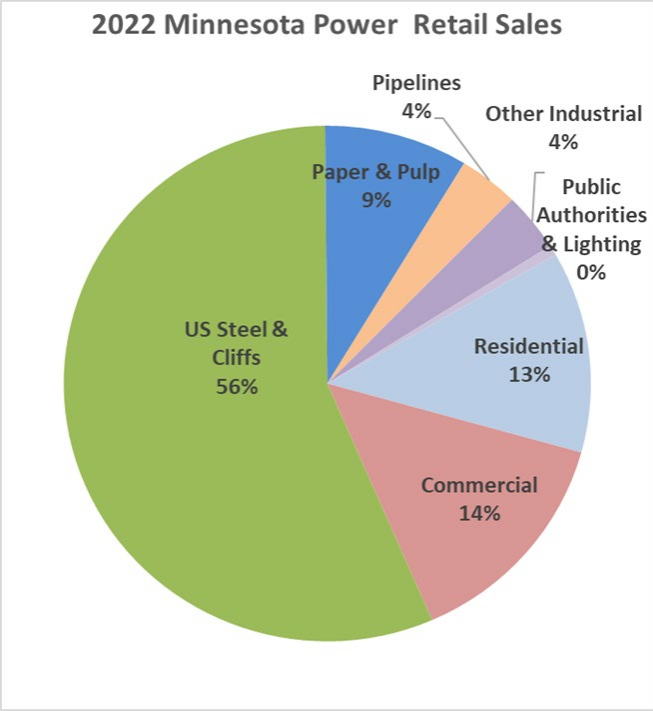
Source: US Energy Information Administration (2022 EIA Form 861 Data)

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

A. Minnesota Power's large industrial customers are unique in both their high overall percentage of revenue and kWh energy usage on the system, as well as the individual size of the customers relative to a typical utility. As depicted in Figure 2 below, Minnesota Power's large industrial customers primarily consist of taconite producers. The industries that Minnesota Power serves, like the Company itself, are significant

components of the regional economy, as discussed in more detail in the Direct Testimony of Company witness Mr. Frederickson.

Figure 2. Minnesota Power Retail Energy Sales by Customer Class (2022)



Additionally, Minnesota Power's industrial customer operations are unique, as they use large quantities of energy and typically operate around the clock every day of the year. As a result, when the industrial customers are operating, the energy usage pattern of the industrial customer class is relatively stable compared to the other customer classes. This stable usage contributes to more consumption of energy in off-peak hours than other customer classes, which is typically lower cost energy. The size and operations of these industrial customers results in Minnesota Power having one of the highest load factors of any utility in the country, over 80 percent, which allows our system to be used very efficiently, creating additional value for all Minnesota Power customers.

However, the energy usage from this globally competitive and price-sensitive industrial customer class can vary widely from year-to-year, which dramatically increases the risk profile of Minnesota Power compared to other electric utilities in the state and nation,

as further discussed by Company witness Mr. Taran. I also address the relationship between these unique factors and the drivers of this rate case later in my Direct Testimony.

III. MINNESOTA POWER IS EXECUTING STATE ENERGY POLICY

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

A. In this section of my testimony I discuss how Minnesota Power's business activity supports the energy policy of the State of Minnesota, and why this policy alignment and recent operational changes are relevant considerations in this rate proceeding.

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

A. The State of Minnesota has a number of energy policy objectives set forth in state statutes and implemented through Commission administrative rules. State policy guidance related to customers includes regulation to assure reliable electric service at just and reasonable rates,[2] a goal for retail electric rates to be at least five percent below the national average for each customer class,[3] and a specific directive to ensure competitive electric rates for energy-intensive trade-exposed customers.[4] Additional energy policy goals relating to the climate include Greenhouse Gas Emissions reduction targets,[5] renewable energy standards — including a solar energy standard[6] — and energy conservation goals, including the Energy Conservation and Optimization ("ECO") Policy Goal.[7] Most recently, the State of Minnesota enacted a carbon free electricity generation standard, requiring Minnesota electric public utilities to generate or procure sufficient electricity from carbon-free technologies so that 80 percent of total retail electric sales to retail customers in Minnesota are generated from carbon-free energy technologies by 2030, increasing to 100 percent by 2040.[8]

[2] Minn. Stat. § 216B.03 (2022).
[3] Minn. Stat. § 216C.05 (2022).
[4] Minn. Stat. § 216B.1696 (2022).
[5] Minn. Stat. § 216H.02 (2022).
[6] Minn. Stat. § 216B.1691 (2022).
[7] Minn. Stat. § 216B.2401 (2022).
[8] Minn. Stat. § 216B.1691, subd. 2g (2023 Supp.).

Q. Does the State of Minnesota identify other goals for electric utilities and electric utility service?

A. Yes. Fundamentally, the Standard of Service statute in Minnesota requires every public utility to provide "safe, adequate, efficient, and reasonable service."[9] Likewise, the Department of Commerce – Division of Energy Resources ("Department") produces a State Energy Policy and Conservation Report, informally referred to as the Quadrennial Report, which documents major emerging trends and issues in Minnesota's energy supply, consumption, conservation, and costs.[10] The most recent Quadrennial Report, issued on March 1, 2021, states that "Commerce is dedicated to ensuring that Minnesota has a reliable energy system well into the future – an energy system that meets the State's economic needs, provides energy resources at costs that are reasonable, and minimizes environmental impacts from production and consumption." In short, there are many interrelated policy goals for public utilities in the State of Minnesota.

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

A. The goals outlined above are also Minnesota Power's shared goals, and the Company has been pursuing and achieving them for many years. As previously noted and discussed in more detail below, our *EnergyForward* strategy is focused on the holistic sustainability of our customers, the climate, our communities, and the Company itself. Below, I discuss how Minnesota Power is meeting state policy goals for the holistic benefit of our customers, the climate, and the communities we serve.

A. Customers

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

A. Minnesota Power recognizes the high value its customers place on safe, reliable, and affordable service and strives to provide that to all customers across its service territory in northeastern and central Minnesota. As described in the Company's most recent

[9] Minn. Stat. § 216B.04 (2022) and Minn. Rules Ch. 7826.
[10] Minn. Stat. § 216C.18 (2022).

Safety, Reliability and Service Quality ("SRSQ") report,[11] Minnesota Power customers experience a high level of reliability with respect to their electric service. In 2022, the Company provided over 99 percent reliability for its residential, commercial, and industrial customers. Minnesota Power has maintained this high level of reliability despite significant change in the Company's regional baseload generation footprint and increases in extreme weather in recent years. Additional discussion on system reliability can be found in the Direct Testimony of Company witness Mr. Gunderson.

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

A. Yes. Minnesota Power's rates are competitive among other utilities, especially considering the significant amount of decarbonization that has taken place in Minnesota Power's energy supply since 2005. While we are seeking a rate increase in this proceeding due in part to inflation-driven cost increases, as utilities must do from time to time, our rates remain well below national averages. According to the EIA, Minnesota Power's average electric rate (revenue/kWh sold) is 10.26 cents/kWh; this is 17 percent lower than the U.S. average of 12.36 cents/kWh.

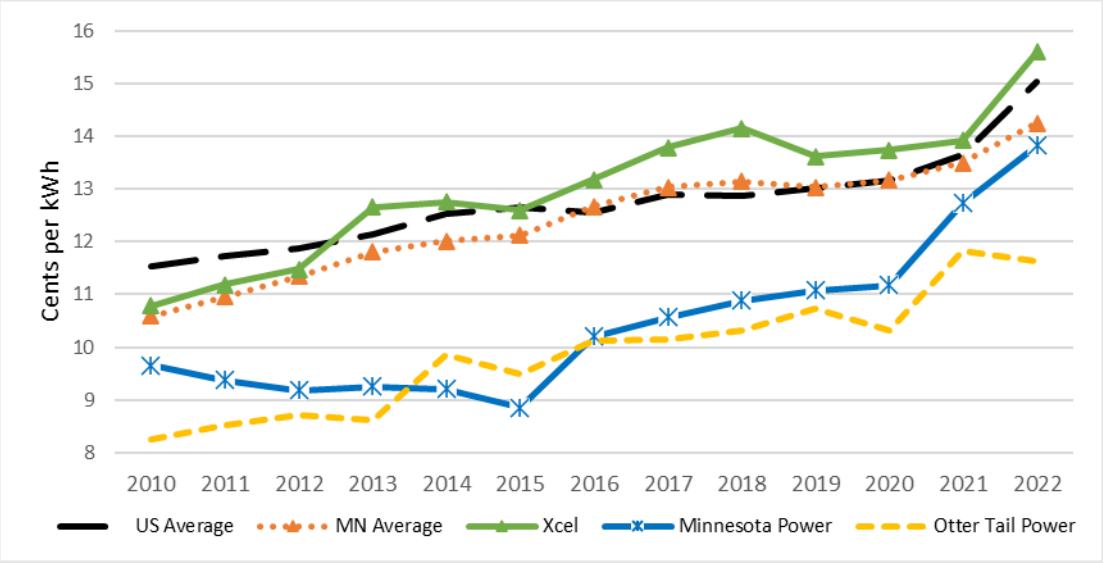
We have accomplished this in part by working carefully year over year to control costs. As Company witness Mr. Colin B. Anderson notes, Minnesota Power successfully managed O&M increases to an average annual increase of 1.1 percent over many years, even as annual inflation rates averaged approximately 3 percent. We continue to work to contain costs in a variety of ways, as discussed by Company witnesses Mr. Anderson, Ms. Laura E. Krollman, Mr. Gunderson, and Mr. Todd Z. Simmons. Thus the Company has maintained reasonable and affordable rates for all classes while also delivering high value to customers through rapid system decarbonization and the development of a plethora of new programs and services, including electric vehicle ("EV"), solar garden, energy conservation, and affordability programs.

[11] *In the Matter of Minn. Power's 2022 Safety, Reliability and Serv. Quality Standards Report*, Docket No. E015/M-23-75, SAFETY, RELIABILITY AND SERV. QUALITY STANDARDS REPORT (Apr. 3, 2023).

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

A. Minnesota Power residential customers have historically enjoyed below-average rates among investor-owned and cooperative utilities in Minnesota for all residential customers, regardless of economic status. There is no doubt that costs have increased, both for Minnesota utilities and on average across the country, as the pace of the clean energy transition and inflationary pressures have intensified, as illustrated in Figure 3 below. Specifically, Figure 3 plots the last decade of residential rates for the nation, state (including cooperative and investor-owned utilities), and several Minnesota electric public utilities. Overall, Minnesota Power's residential rates are currently approximately three percent lower than the state average.

Figure 3. Minnesota Residential Electric Rates



Q. How is the Company supporting those residential customers who may require assistance with their energy bills?

A. Energy affordability is a shared priority between the Company, its customers, other stakeholders, and the State of Minnesota. Broad assistance like the Low-Income Home Energy Assistance Program ("LIHEAP") is critical, but also currently only reaches about one-third of eligible households. As such, Minnesota Power has made it a priority

to increase outreach efforts to expand the LIHEAP pool and bring these much-needed dollars to customers in its service territory. This includes a first-in-the-state option for customers to self-declare their income in order to qualify for, and participate in, the Company's income-qualified programs and an income-and-usage qualified rate discount, an important effort to remove barriers for customers to access needed assistance.

Further, the Company has worked collaboratively with low-income advocates to modify its Customer Affordability of Residential Electric ("CARE") program to ensure a best-in-class low-income affordability program. Additionally, Minnesota Power currently delivers a first-of-its-kind in Minnesota Low Income Solar Grant Program to increase equitable access to renewable energy by low-income customers. Energy conservation efforts are also foundational to all customer programming, and Minnesota Power offers conservation program resources directly targeted to low-income customers through its Energy Partners program. The Energy Partners program helps customers to decrease overall energy consumption and lower their electric bills. Finally, the Company's residential rate structure includes specific discounts for qualified low-income customers that will help these customers continue to realize some of the lowest electric rates in the state.

Q. Can you provide additional information regarding how Minnesota Power is empowering customers to conserve while also saving money on their overall electric bills?

A. Yes. Minnesota Power was the first investor-owned utility in the state to deploy Advanced Metering Infrastructure ("AMI") meters to nearly all residential customers. Minnesota Power attained approval to be the first Minnesota utility to transition to a default Time-of-Day ("TOD") rate design for all residential customers, which will help customers manage their bills and reduce their energy costs by shifting energy usage to times when energy pricing is lower. Building on its TOD Pilot Program that had been

in place since 2014,[12] on October 1, 2022 Minnesota Power began transitioning residential customers to new default TOD rates that were approved by the Commission in 2021.[13] Phase 1 of the TOD rollout is currently underway, with approximately 2,700 customers enrolled in the TOD rate as of August 17, 2023.[14] The new TOD rate features adders/credits to the standard energy rate based on when usage occurs during three time periods (on-peak, off-peak, and super-off peak).

The Company also offers robust and effective programs for energy conservation to assist customers in reducing usage and keeping the average total bill for a residential customer low, even as rates increase.

Q. Is there evidence Minnesota Power is succeeding in supporting customers with these efforts?

A. Yes. As noted above, Minnesota Power's long history of success in energy conservation and our unique northern lakeside climate[15] have led customers to consume less electricity than others in the State, keeping total bills low. The average Minnesota residential customer used almost 9,300 kWh in 2022, while the average Minnesota Power residential customer used just over 8,400 kWh. Figure 4 below shows how this relatively low per-customer usage, combined with some of the lowest rates in the State, has translated to affordable monthly bills for Minnesota Power's residential customers when compared to other electricity providers in the state and across the nation.

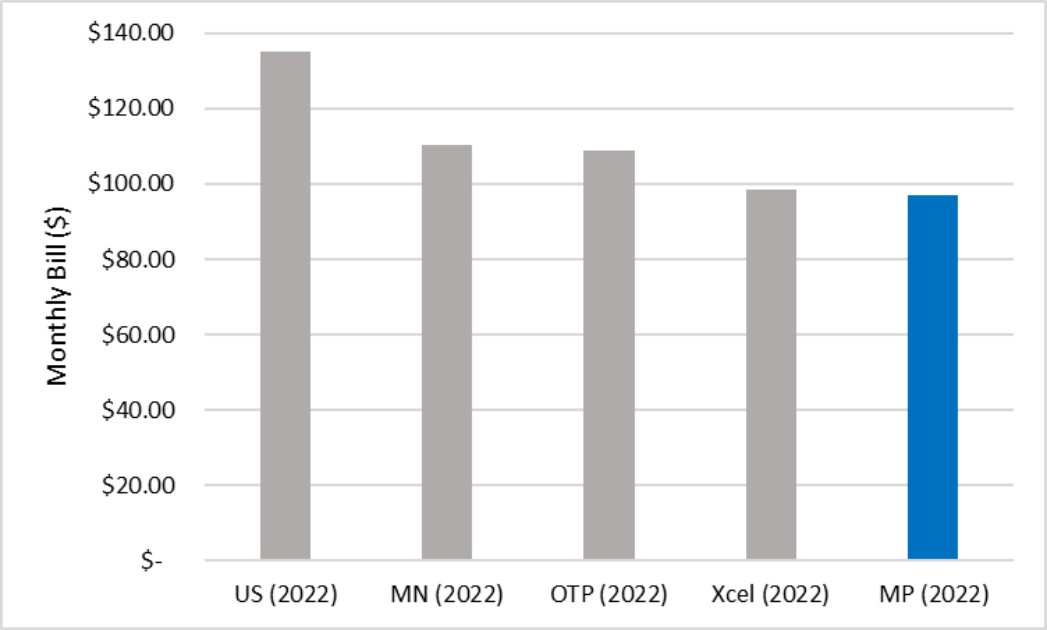
[12] *See In the Matter of Minnesota Power's Petition for Approval of a Temporary Rider for Residential Time-of-Day Rate for Participants of the Smart Grid Advanced Metering Infrastructure ("AMI") Pilot Project*, Docket No. E015/M-12-233, ORDER (Nov. 30, 2012).

[13] *See In the Matter of the Petition for Approval of Changes to Minnesota Power's Residential Rate Design*, Docket No. E015/M-20-850, ORDER APPROVING TRANSITION FROM INVERTED BLOCK RATE TO TIME-OF-DAY RATES (Aug. 27, 2021).

[14] *See In the Matter of the Petition for Approval of Minnesota Power's Residential Rate Design*, Docket No. E015/M-20-850, COMPLIANCE FILING at 6 (Sept. 1, 2023).

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

Figure 4. Average Monthly Residential Bill Comparison



Q. Does Minnesota Power have any information regarding its customers' satisfaction with their electric utility?

A. Yes, as further described in Company witness Mr. Frederickson's Direct Testimony, Minnesota Power conducts routine customer survey work that examines customer satisfaction on a number of measures. In the Company's most recent survey, 88 percent of customers gave Minnesota Power's customer services a positive rating, with 28 percent providing a rating of "excellent." In the area of response to power outages, 89 percent gave a positive rating, with 23 percent providing a rating of "excellent." The survey also asked customers about the overall value they feel they receive from Minnesota Power. Using a ten-point scale, with ten being the most positive, customers gave Minnesota Power a rating of 8.14 for the following statement: "Considering the price I pay and the quality of service I receive, the electricity from Minnesota Power is an excellent value."

B. Climate

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

A. Minnesota Power has been advancing a transformation of its power supply to a cleaner energy future through its *EnergyForward* strategy. In 2005, Minnesota Power's energy supply had one of the highest carbon intensities in the nation, with a power supply that consisted of 95 percent coal generation. Today, after closing or remissioning seven of its nine coal generating units, Minnesota Power is delivering nearly 60 percent renewable energy to customers and was the first Minnesota utility to achieve this milestone. As part of Minnesota Power's 2021 Integrated Resource Plan, Docket No. E015/RP-21-33 ("2021 IRP"),[16] the Commission approved the new acquisition of up to 400 MW of wind, 300 MW of solar, and up to 500 megawatt-hours ("MWh") of energy storage—resulting in an additional 1 million MWh of renewable generation. Through these approved additions, the Company is committed to achieving an 80 percent reduction in carbon emissions by 2035 compared to 2005 levels and our next IRP will outline the plan to comply with Minnesota's carbon-free standard. This transformation has made Minnesota Power a state and regional leader in decarbonization, while at the same time maintaining affordable and reliable electric service for customers.

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

A. The Company accomplished this carbon intensity reduction by replacing coal generation with carbon-free renewable energy. Specifically, Minnesota Power has idled, phased-out, and retired 600 MW of coal-fired generation on its system in the past decade, which is a significant transformation for a utility with an approximate system peak of 1,663 MW. The Company also entered into a contractual relationship with Silver Bay Power Company to enable its idling of an additional 130 MW of coal-fired generation in the region in 2019. Just prior to filing the Company's 2016 rate case, Docket No. E015/GR-16-664 ("2016 Rate Case"), the Company refueled the Laskin Energy Center (110 MW) to natural gas, ceased operations at Taconite Harbor Energy

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

Center ("THEC") Unit 3 (75 MW capacity) and economically idled of THEC Units 1 and 2 beginning in the fall of 2016 (150 MW of capacity). Minnesota Power has also now received permission to move forward with the retirement and decommissioning of THEC Units 1 and 2. The Company has also reduced its purchase of power from the Milton R. Young Unit 2 lignite coal plant from 227.5 MW to 80 MW as of 2014, with a complete phase out planned by 2026. Finally, the Company retired BEC Units 1 & 2 on December 26 and 27, 2018, and in 2021, BEC Unit 3 ("BEC3") changed operations to be economically dispatched in the Midcontinent Independent System Operator, Inc. ("MISO") market.[17]

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

A. Through its 2021 IRP, Minnesota Power outlined a bold vision for a sustainable path to achieve a carbon-free power supply by 2050. The Company's next IRP, due in March 2025, will outline its plan to achieve Minnesota's 100 percent carbon-free standard by 2040, which was passed after the completion of Minnesota Power's 2021 IRP. The 2021 IRP was informed by a first-of-its-kind stakeholder engagement process and outlines specific steps to facilitate a power supply that is 70 percent renewable in 2030, reduces carbon emissions 80 percent by 2035, and results in a generation mix that is coal-free by 2035—all while helping to ensure reliable and affordable power for Minnesota Power customers and committing to a Just Transition[18] for host communities. As part of a joint agreement with Clean Energy Organizations, the City of Cohasset, Itasca Economic Development Corporation, International Brotherhood of Electrical Workers ("IBEW") Local 31, Laborers' International Union of North America, International Union of Operating Engineers Local 49, North Central States Regional Council of

[17] *In the Matter of an Investigation into Self-Commitment and Self-Scheduling of Large Baseload Generation Facilities*, Docket No. E999/CI-19-704, COMPLIANCE FILING (Mar. 2, 2020).

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

Carpenters, and Large Power Intervenors (at the Commission hearing), Minnesota Power offered and was subsequently ordered to do the following:

- Cease coal operations at BEC3 by December 31, 2029, and BEC Unit 4 by 2035;
- Acquire at least 300 MW and up to 400 MW of wind with at least 200 MW in service by 2026 as practicable; and
- Acquire up to 300 MW of regional/in-service territory or net-zero solar and implement storage demonstration projects of at least 100 MWh and up to 500 MWh by 2026 as practicable.

Q. What types of investments will the Company be making in the near term to further facilitate the move to a carbon-free future?

A. In addition to the significant renewable acquisitions outlined in the most recent IRP order, Minnesota Power is also moving forward reliable and resilient transmission investments, including the High Voltage Direct Current ("HVDC") Modernization Project,[19] the Northland Reliability Project,[20] and participation in the Big Stone South – Alexandria – Big Oaks 345 kV transmission project, each of which is in ongoing regulatory proceedings. The Company's next IRP, due March of 2025, will identify the additional investments needed for further system transition towards a carbon-free energy system, including the post-coal future of Minnesota Power's last remaining baseload facility, Boswell Energy Center.

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

A. Minnesota Power has consistently met or exceeded its CIP and ECO goals, including in 2022. The Next Generation Energy Act of 2007 established a minimum annual energy savings goal for utilities equal to 1.5 percent of (CIP eligible or non-CIP-exempt) gross

[19] *In the Matter of the Application of Minnesota Power for a Certificate of Need for the HVDC Modernization Project*, Docket No. E015/CN-22-607; *In the Matter of the Application of Minnesota Power for a Route Permit for the HVDC Modernization Project*, Docket No. E015/TL-22-611.

[20] *In the Matter of the Application of Minnesota Power and Great River Energy for a Certificate of Need for the Northland Reliability Project 345 kV Transmission Line*, Docket No. E015/ET2/CN-22-416; *In the Matter of the Application of Minnesota Power and Great River Energy for a Route Permit for the Northland Reliability Project 345 kV Transmission Line*, Docket No. E015,ET2/TL-22-415.

annual retail sales. The ECO Act of 2021 established a new energy saving goal of 1.75 percent of Gross Annual Retail Energy Sales (net of Department exempted customers). The approved energy savings goal is calculated based upon the most recent three-year weather normalized average, excluding sales to CIP-/ECO-exempt customers. For Minnesota Power, the 2022 approved kWh savings goal equates to 2.5 percent of CIP eligible retail sales. Minnesota Power exceeded both the minimum and calculated savings goals for 2022 by achieving 2.9 percent savings as a percentage of adjusted sales. This is an ongoing success story for both Minnesota Power and our customers, as we have exceeded our energy conservation goals every year since 2010, when the first energy-savings goal went into effect, and continue to expand energy savings. This strong performance with energy conservation programs has helped keep customers' total bills lower in a rising rate environment.

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

A. Yes. For example, Minnesota Power offers several programs designed to reduce the barriers to electric vehicle ("EV") adoption while optimizing system benefits, as described by Company witness Mr. Frederickson. In this proceeding we also propose to work with our large customers on Dedicated Renewable Resource projects, and continue to advance our demand response programs, as described by Company witness Ms. Leah N. Peterson. Overall, the Company has undertaken a broad array of resource management efforts, conservation promotion programs, pricing tools, advanced rate design initiatives, and education and outreach efforts consistent with the state's interest in environmental protection.

C. Community

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

A. The Company's basic and most critical function is providing safe, reliable, economic, and environmentally responsible energy to customers. In doing so, we improve the safety, security, and quality of life for the communities we serve and the region.

Minnesota Power greatly values the communities it serves and makes additional contributions to the overall health of the region through a number of efforts, including by providing jobs and community support, economic development efforts, and overall service to its communities. Because the Company considers these to be important and valuable contributions to northern and central Minnesota, I highlight these community and regional benefits to the State of Minnesota in this section of my testimony.

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

A. Minnesota Power anticipates employing more than 1,175 people and providing an annual payroll of approximately $79 million (Total Company) in 2024. The Company is one of northeastern Minnesota's only publicly-traded corporations with a local headquarters. Therefore, Minnesota Power contributes to the regional economy as a large employer and solid financial contributor, as well as by maintaining a strong philanthropic and community presence.

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

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

A. Community engagement is one of the Company's core values and it underscores Minnesota Power's commitment to help the businesses and people of the region we serve to prosper. Civic and community engagement by employees take many forms, including contributions of time and talent to regional organizations like the United Way, direct financial contributions to community organizations and for scholarships, and sharing our expertise with students and community groups. In addition, this engagement comes through employees serving on governing boards of local not-for-profit entities

and government appointments to public and quasi-public entities to support local and regional services, infrastructure, and economic development/business growth entities. Minnesota Power employees are located throughout our service territory in northeastern Minnesota, serving numerous roles that are integral to the communities where our employees live and work.

Additional information about Minnesota Power's community involvement can be found in the Company's 2021 Corporate Sustainability Report, available online at https://www.allete.com/Sustainability. This report highlights the wide array of volunteerism, philanthropy, and leadership we provide to communities across our service area.

Q. What efforts has the Company undertaken to support diversity, equity, and inclusion?

A. Minnesota Power is committed to promoting diversity, equity, and inclusion ("DE&I") for a more equitable society, ensuring opportunities across hiring and suppliers, and engaging stakeholders in advisory panels, tribal liaisons, and government and community contacts to build relationships, solicit feedback, and collaborate. Minnesota Power has been a forerunner in several key areas, including gender equity in leadership and veteran outreach and support. As one example of the Company's commitment in this area, in 2019 I served as a Co-Vice Chair of the Energy Utility Diversity Group, which examined the challenges and opportunities for Minnesota's energy utilities to attract a diverse workforce with the skills needed to advance a 21st century industry and to increase supplier diversity of energy utilities. A copy of the resulting report and recommendations were provided to the Minnesota legislature on January 15, 2020, and filed in Docket No. E,G-999/CI-19-336 on January 16, 2020.

ALLETE currently has a corporate board of directors in which five of ten directors serving on the ALLETE board are women and three of the six ALLETE executive officers are women. ALLETE was named as an Honor Roll company with Special Distinction in the 2022 Minnesota Census of Women in Corporate Leadership,

produced by St. Catherine University's School of Business. ALLETE was among only six of 78 publicly held Minnesota companies that achieved gender parity on their board of directors, among their executive officer positions, or both, in 2022, according to the report.21 This was the fourth consecutive year ALLETE received the honor. ALLETE has also been actively involved in Minnesota's Empowered Women in Energy movement and hosted the second Empowered Women event at its Duluth headquarters earlier this year.

The State of Minnesota has also designated the Company as a Yellow Ribbon Company in 2016 for its support of military service members, veterans, and their families, both within the Company and in the communities it serves.22 Minnesota Power was the first company headquartered north of the Twin Cities metro area to receive this designation. An employee-led committee comprising of veterans, active service members, military family members, and civilians execute the program's mission to contribute to the Company's unique culture by proactively recruiting and retaining the best and supporting an environment in which military-connected employees can thrive. In 2021 and 2022, the Company raised money for veteran organizations; supported employees, families and service members during deployments and activations by providing care packages; and educated and created awareness through online and in-person events.

In 2022, the Minnesota Power Foundation increased its DE&I outreach efforts and partnered with organizations like the American Indian Housing Organization to ensure their clients were heading back to school with all the supplies that they need to be successful and cold winter funding to help with warm outdoor gear needs. The Company also partnered with the Duluth National Association for the Advancement of Colored People as they launched their Afro-Academic, Cultural, Technological and Scientific Olympics Achievement Program.

[21] More information on the 2022 Minnesota Census of Women in Corporate Leadership can be found at the following link: https://www.stkate.edu/academics/school-of-business/mn-census-women-leadership.
[22] More information on Minnesota Power's DE&I efforts can be found in ALLETE's 2021 Corporate Sustainability Report available at the following link: https://www.allete.com/Sustainability.

Outside of Duluth area, the Company partnered with Family Safety Network in Walker, Minnesota to provide funding for additional domestic violence services they needed as they saw an increase in the numbers served following the pandemic. We also provided funding to the Deer River Tech Hub, which is designed to advance digital equity for youth in underserved communities. Both communities border Leech Lake reservation and 80 percent of their clients are Native American.

Additionally, the Company officially started a Supplier Diversity Program in 2021, which focuses on expanding and partnering with diverse suppliers, including minority-owned, women-owned, veteran-owned, LGBT-owned, disability-owned, small disadvantaged, and HUBZone businesses. Minnesota Power continues to build these partnerships with the diverse communities we serve. The Company provides and encourages equal access for all qualified businesses, as evidenced by:

- Discovering 200+ diverse and 500+ small businesses in our supplier database through data enrichment (2022);
- Gaining and maintaining corporate memberships and/or sponsorships with business development organizations such as the Women's Business Development Center, North Central Minority Supplier Development Council, and Minnesota Tribal Contractors Council; and
- Partaking in 15+ trade shows and matchmaking events between 2021 and today.

Minnesota Power is a values-based organization, and DE&I is foundational to how we do business. These collective efforts demonstrate the Company's commitment to ensuring the clean energy transition occurs in the most equitable manner possible, considering impacts to customers, communities, and the climate. Additional information on Minnesota Power's DE&I efforts can be found in the Direct Testimonies of Company witnesses Ms. Krollman and Mr. Gunderson.

Q. How does the prior discussion regarding Company customers, climate, and community support factor into the request for cost recovery and a reasonable rate of return in this proceeding?

A. Minnesota Power respectfully submits that when, as here, the utility has made significant investments to meet and exceed state policy goals; has ensured that its business is managed efficiently; is consistently working to enhance customer service quality and reliability; is a responsible and supportive regional citizen and employer; and is proposing rates that are affordable relative to comparable utilities, then the expenditures to achieve those results should be considered reasonable and prudent investments and result in an authorized return that is attractive to investors.

Further, while Minnesota Power has made massive strides in transforming its energy system, there is still more to do to transition to a carbon-free future, particularly following Minnesota's recent passage of a 100 percent carbon-free by 2040 standard. A financially healthy utility is a critical component of the regulatory compact, and a fair outcome in this rate case will ensure Minnesota Power has the sound financial foundation from which continued energy system reliability and transformation, and customer satisfaction efforts, can occur. This requires a reasonable authorized rate of return, as well as the reasonable opportunity to recover costs in order to earn that rate of return. Even in a robust economy with record low unemployment, full customer production, and efficient management of the business, other factors—such as inflation, the greater need for investment in and transition of our system, the need to enhance the workforce to meet these needs, and sales changes, which I discuss in more detail below—current rates and revenues are insufficient for Minnesota Power to attain its authorized rate of return. Rate relief is needed to enable Minnesota Power to continue to safely and reliably provide essential services to our customers.

IV. CHANGES SINCE THE COMPANY'S LAST RATE CASE

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

A. In this section of my testimony, I discuss the changes the Company has experienced since Minnesota Power's 2021 Rate Case, Docket No. E015/GR-21-335 ("2021 Rate

Case"), specifically as they drive the need for this case. In particular, I speak to the additional resources needed to continue the clean energy transition, our customers' taconite and our sales outlook, inflation and other cost pressures, and how we are seeking to align cost recovery with new types of costs and cost drivers related to providing electric service.

A. Clean Energy Transition & Workforce Needs

Q. What are the types of workforce changes the Company is experiencing?

A. As our generation fleet, transmission system, distribution grid, and customer programs change to meet evolving state policy, regulatory, and energy service needs described earlier in my Direct Testimony, it is critical for the utility to continue to develop the workforce necessary to carry out this work. In doing so, Minnesota Power is able to provide a greater number of quality jobs to individuals living in our region. At the same time, competition for skilled labor and leadership has increased in the marketplace. Therefore, the size and costs associated with our workforce have each increased since our last rate case. I will discuss each in turn.

Q. How has the Company experienced a need to create and fill new positions in its workforce?

A. As described by Company witness Ms. Krollman, Minnesota Power has experienced and expects a continued future need to hire for new positions, particularly as we transition our generation fleet from coal to more renewable sources and the transmission and distribution infrastructure to support them. Recently, the Company's employee headcount in both bargaining and non-bargaining positions has increased due primarily to the increase in generation and transmission projects (and related support work) in the Company's portfolio. In addition to Company witness Ms. Krollman, these increased workforce needs are discussed in more detail by Company witnesses Mr. Simmons and Mr. Gunderson.

Further, the Company continues to position its workforce for the future, increasing headcount as necessary to transform our system into one that can provide 100 percent

carbon-free electricity to customers in the future. Recent legislation that boosts clean energy development and incentivizes clean energy infrastructure projects, like the Infrastructure Investment and Jobs Act ("IIJA") and the Inflation Reduction Act ("IRA"), underscores the need for Minnesota Power to adapt its workforce to a rapidly changing energy industry. To utilize the incentives provided for under these laws and support state policy on providing carbon-free electricity to customers in the future, the Company foresees a need to create and fill new positions within its workforce.

Other world challenges likewise drive the need for additional workforce resources. Cyber technology and security efforts to protect our systems and data; environmental, land management, and real estate work to facilitate and support the land on which all of our business sits; our increased focus on supplier diversity; and administrative services to support these resources are all areas where we are offering additional high-quality jobs in our service territory.

Q. How has the Company been impacted by increased workforce costs?

A. Increased costs to recruit and retain a skilled workforce continue to impact the Company since its last rate case. Most recently, increased costs have been driven by a new collective bargaining agreement ("CBA") that the Company negotiated with the IBEW Local 31, a union in which Minnesota Power expects to have over 450 employees in the 2024 test year. The new CBA includes base salary increases for bargaining employees of up to 4 percent through 2026 and other negotiated items that indirectly impact our workforce costs, like the addition of a parental leave program.

The Company has also been impacted by labor shortages, an issue that has lingered since the onset of the COVID-19 pandemic. Since then, the Company has had to pay more for labor as supply becomes tighter but regular demand expectations continue. The Company requires a skilled workforce to continue to safely and reliably serve customers, and increased costs to retain such a workforce are in part driving the need for the base rate increase we are requesting in this case. Company witness Ms. Krollman discusses these issues in more detail.

B. Taconite Outlook

Q. Have there been any developments in the taconite industry since the 2021 Rate Case?

A. Yes. As I mentioned above, Minnesota Power's industrial customer base is unique in that industrial customers in three primary industries generate nearly 70 percent of Minnesota Power's retail sales. Two customers in the taconite mining industry are alone responsible for over 50 percent of Minnesota Power's retail sales. As Mr. Frederickson describes in his direct testimony, energy sales in the natural resources sectors are largely driven by global economic conditions, trade policies, and evolving technologies that impact likely future demand for derivative products.

Specifically, taconite mining customer sales have been highly variable and unpredictable in recent years, as Minnesota Power's contracts with its taconite mining customers only guarantee a small percentage of total annual sales revenue. Even more, demand for products manufactured by these customers (for example, iron ore pellets) has been mitigated by the integration of new technologies in the larger steel industry, resulting in Minnesota taconite production capacity that now exceeds domestic demand and, in turn, additional idling of production facilities to balance supply with lower demand levels. Sales generated by customers in this sector, and in particular how we forecast those sales, can therefore have a significant impact on Company sales revenues and operations.

Q. Has the Company accounted for these industry changes and trends in this case?

A. Yes. As a result of the industry trends I briefly described above, the Company has updated its sales forecasting methodology for this case to better account for taconite mining customers and the sales they are likely to generate going forward. In the Company's 2021 Rate Case, the 2022 test year sales forecast approved by the Commission overestimated MWh sales to Mining and Metals customers because the forecast did not account for production reductions as mining companies balanced their supply with demand and with maintenance activity at their facilities served by the

Company. The retooled forecast used for the 2024 test year in this case, however, is more consistent with recent trends of increased volatility in taconite production levels, yet still produces an assumed test year taconite production that falls within the range of high- and low-production years for the taconite industry. Company witness Mr. Frederickson presents this new forecast and the supporting data in more detail.

Q. Is Minnesota Power proposing any mechanisms to help navigate serving this variable industry?

A. Yes. To help balance the increasing variability in the Company's industrial energy sales and help the Company reduce the number of future rate cases, the Company is proposing a customer rate stabilization mechanism to track and true-up sales following the implementation of final rates in this case, whether those sales are over- or under-estimated. Essentially, the Company would use the tracker to account for the level of base revenues approved by the Commission in this proceeding, and all variances over or under that level would flow to customers over time as those variances occur year-to-year.

This mechanism will help align the risks and benefits of industrial customer volatility that occur between rate cases with all customer classes, and in turn would be viewed favorably from a credit ratings perspective, as risks would be appropriately allocated among the Company and all customers. At the same time, this mechanism would also reduce the impact to customers if the Company sets sales too high or too low (compared to actual future sales) in this proceeding and may additionally reduce or avoid future rate cases that are triggered solely by variances in industrial customers' operations. Company witnesses Mr. Frederickson, Ms. Pierce, and Mr. Taran discuss the proposed rate stabilization mechanism and its benefits to customers and the Company in more detail.

C. Inflation/Cost Pressures

Q. How has the Company been impacted by inflation?

A. Like many businesses, the Company has been and continues to be impacted by inflation, especially since the Company's budget was developed in the 2021 Rate Case. In particular, the highest inflationary increases occurred in the summer of 2022, long after the Company prepared its 2022 test year budget and also after the evidentiary hearing concluded in the 2021 Rate Case. These inflationary pressures have created broader impacts on the Company's costs of providing electric service to customers. For example, inflation has in part caused increased prices for materials and supplies, commodity costs, and labor costs, each of which is driving up the Company's costs to serve. Company witness Mr. Anderson addresses inflationary pressures and drivers in more detail in his Direct Testimony. As a result, the Company's 2022 test year did not entirely or adequately reflect inflationary impacts or supply chain challenges in 2022 and beyond, which are continuing to drive up costs. These market dynamics led to difficulty in recovering our costs through 2022 and 2023 and have heightened the need for rate relief in the 2024 test year.

Q. How has the Company been impacted by supply chain challenges?

A. Similar to inflation, supply chain challenges originating from the onset of the COVID-19 pandemic have impacted the Company's costs to serve its customers. Global supply chain disruptions have resulted in increased materials costs, as well as increased lead times for procurement. Our customers are also impacted by these disruptions, as customers are seeing delays in connecting new load and increased costs due to high demand for materials needed to complete customer-serving projects. While these disruptions fall outside the Company's control, the Company continues to take proactive measures to mitigate disruptions, and as such has been planning early and started executing the procurement phase of projects much earlier than ever before.

Moreover, not all challenges affecting supply chain can be fully solved by advance planning. Minnesota Power continues to face higher demands on both people and infrastructure not only from growing customer expectations and system needs, but also

increasingly frequent extreme weather events, new policy drivers, and overall system transformation needs. Company witnesses Mr. Anderson and Mr. Gunderson address supply chain challenges in more detail in their direct testimonies.

Q. How do these factors affect this rate case?

A. Unavoidable increases in O&M costs are a key reason why this rate case is needed. Minnesota Power was able to maintain O&M levels below the rate of inflation for more than a decade prior to its 2021 Rate Case, despite the need for significant capital investments for the transformation of our power supply, rising market costs of employee compensation and benefits, and overall marketplace inflation. However, maintaining those levels of O&M is not sustainable. Although the outcome of the 2021 Rate Case allowed for important increases in O&M budgets, the evolution of increased inflation and other cost pressures that arose after the Company's evidentiary hearing in that case mean that the Company was unable to predict the full extent of these significant impacts when creating its 2022 test year budget in that case. Further, because the Company made extensive O&M cutbacks in years prior, there is little more to cut. Minnesota Power has made every effort to mitigate the impacts of these pressures on customers, but ultimately must also seek the support of the Commission to generate the rates necessary to operate the business in a safe, reliable, and sustainable manner.

Q. How does Minnesota Power's rate of return factor into this discussion?

A. The new costs that are not included in present rates, as well as high inflation that is increasing existing O&M, including labor, materials, and maintenance costs are a primary driver of the revenue deficiency and the Company's projected under-earning in 2024. Without rate relief, the Company's proposed 2024 test year MN Jurisdictional rate of return is projected to be only 3.81 percent compared to our current authorized rate of return of 7.12 percent. This earned rate of return is not reasonable or sustainable given the Company's unique risk profile, and will restrict the Company's access to capital.

In addition, market conditions indicate that the Company's authorized rate of return should increase compared to the level set in the 2021 Rate Case. We are grateful that the Commission approved an increased ROE in our 2021 Rate Case to 9.65 percent, which partially reflects Minnesota Power's higher risk as compared to many utilities. However, the Company's risks have increased since the 2021 Rate Case as discussed throughout our filing, and Company witness Ms. Ann E. Bulkley explains that the cost of capital in the marketplace has likewise increased. Further, the increase in the Company's authorized ROE in the 2021 Rate Case was partially offset by the Commission's reduction in the Company's equity ratio to 52.5 percent, as well as overall cost recovery outcomes. In this proceeding, the Company needs recovery of increased costs, as well as a rate of return aligned with current market dynamics and Minnesota Power's unique risks, to support its financial health. Company witness Ms. Bulkley explains that in the interim, the cost of capital in the marketplace has increased further. Without rate relief, the Company's proposed 2024 test year MN Jurisdictional rate of return is projected to be only 3.81 percent, which is not reasonable or sustainable given the Company's unique risk profile and will restrict the Company's access to capital.

Q. At what level have credit rating agencies set the Company's credit ratings and outlook?

A. As discussed further in Company witness Mr. Taran's Direct Testimony, after the Company's 2016 Rate Case decision was announced, Moody's Investor Services ("Moody's") downgraded ALLETE from an A3 to a Baa1 credit rating. In Moody's 2023 report, they highlighted "historically inconsistent rate case outcomes" as one of the Company's notable credit challenges. Moody's further stated, "although the outcome of the 2022 rate case was relatively more supportive than past outcomes, the revenue increase was well below the company request."[23] Additionally, the Company's credit rating agencies have identified the Commission's decision not to include Minnesota Power's pension prepayments in rate base as contributing to their concern

[23] MP Exhibit ___ (Taran), Direct Schedule 5: Moody's Credit Report on ALLETE, Inc. (Jun. 2, 2023).

about the regulatory framework in which the Company operates and the Company's financial position as a whole. Ultimately, Moody's 2019 downgrade of ALLETE resulted in the Company's credit rating being only two notches above a "junk" (non-investment grade) rating. Moody's has also stated that a factor that could lead to a downgrade is if ALLETE's regulatory framework becomes less credit supportive.

Similarly, Standard & Poor's ("S&P") downgraded ALLETE in April of 2020 to a rating of BBB, which is only one notch above the lowest investment grade rating. By comparison, Northern States Power Company – Minnesota is rated A by S&P and A2 by Moody's, which are three and two grades above ALLETE's credit rating, respectively. Similarly, Otter Tail Power Company is rated BBB+ by S&P and A3 by Moody's, each of which is one grade above ALLETE's credit rating.

These comparisons further illustrate the unique business risk facing the Company and are important to customers in several ways. Not only is it important for a public utility to have access to capital to provide safe and reliable service, the issue is of even greater importance as utilities like Minnesota Power work to meet the state's policy of 100 percent carbon-free energy by 2040 and significant investments in energy infrastructure are needed. Much of this capital will be needed in 2024 and beyond, even if the associated infrastructure is not placed in service until later. Thus, an attractive cost of capital in this case, as well as productive credit ratings, will be critical to ensure the lowest financing costs and reasonable financing terms for customers as we make these investments in our system.

D. Aligning Costs with Appropriate Cost Recovery Mechanisms

Q. Are any carbon-reduction achievements factoring into how the Company proposes to recover costs in this proceeding?

A. Yes. As described further in the Direct Testimony of Company witness Mr. Gunderson, the successful completion of the 500 kV Great Northern Transmission Line ("GNTL") Project made it possible to initiate the Manitoba Hydro Power Purchase Agreement ("PPA"). Together, these projects have allowed Minnesota Power's customers to access

carbon-free hydropower from Canada to meet energy needs while also advancing our *EnergyForward* strategy to increase renewable energy generation on our system.

As described further in the testimony of Company witness Mr. Stewart J. Shimmin, the GNTL Project (other than internal labor costs) is currently in the Company's Transmission Cost Recovery ("TCR") Rider. Because GNTL is now in service, it will be transferred from the TCR into base rates with the implementation of proposed interim rates and the TCR Rider will be reduced at the same time. While the transfer of GNTL from its current cost recovery rider into base rates will increase the base rates in this rate case, the increase is offset by this reduction to the TCR rider that will likewise be effective on January 1, 2024.

Similarly, the Company continues to generate Production Tax Credits ("PTCs") from its Bison Wind Energy Center Projects and Taconite Ridge Wind Energy Center. In Minnesota Power's 2016 Rate Case, and 2021 Rate Case, the Company established an annual baseline level of PTCs in base rates, with an annual true-up for the difference between the PTCs in base rates and the actual PTCs generated. In this rate case, the Company is resetting the amount of PTCs in the 2024 test year effective with Interim Rates on January 1, 2024, which will reduce the Renewable Resources Rider ("RRR") factor to be filed in 2024. As in past rate cases, the test year in this rate filing has been updated to reflect current projections for PTCs. The overall amount of PTCs moving to base rates is nearly the same as the amount currently being recovered in the RRR; however, there is currently a significant tracker balance in the RRR due to amounts owed by customers prior to the 2024 test year but not yet recovered. The Company intends to file a RRR factor filing in early 2024 requesting to implement a new, lower RRR factor, to be effective once the tracker balance reaches near zero later this year. Thus, customers will not pay more as a result of resetting PTCs in base rates in the test year; the PTCs will simply be accounted for in base rates rather than in the RRR, effective January 1, 2024.

Company witness Mr. Shimmin describes the GNTL roll-in, as well as the continuation of rider recovery for other projects, in more detail, while Company witness Ms. Rena E. Verdoljak discusses PTCs and Company witness Ms. Amanda L. Turner more generally describes the Company's adjustments to remove continuing cost recovery riders in this case.

Q. Have there been other changes since the last rate case that would affect the alignment between the costs of providing service and the appropriate cost recover mechanism?

A. Yes. In particular, new regulations and emissions goals and new operational standards for our generation facilities are affecting the variability of costs of generation operations like reagents and the need for nitrogen oxide ("NOx") allowances. Accordingly, the Company is proposing to move reagent costs and revenues and expenses associated with NOx allowances to the existing Fuel Adjustment Clause ("FAC"). Additionally, MISO has changed its capacity requirements, affecting the Company's capacity revenues and expenses. Minnesota Power therefore proposes to create a Rider for Capacity Revenue and Expense Adjustment ("CRE") to account for highly variable capacity revenue and expense. Finally, in an effort to encourage further customer movement to renewable resources while saving fuel costs in alignment with evolving state policy, Minnesota power proposes to create a Rider for Voluntary Renewable Resources – Large Customers. I provide a more specific overview of each proposal below.

Q. Please provide an overview of the changes affecting reagents and the associated cost recovery proposal in this case.

A. The Company uses a number of reagents—for instance, urea and ammonia—at its coal-fired generation facilities for emissions reduction purposes. Currently, the Company includes these costs in base rates by estimating the production of the generation units, but unit production can fluctuate considerably after the Company makes these budget estimates. Since our 2021 Rate Case, Minnesota Power has continued to experience a changing market landscape toward more renewable generation sources and away from thermal generation. With the onset of increased renewable generation, thermal

generation has become subject to increased cycling and variable dispatch such that it is now considered a variable resource, and costs incurred in running thermal generation units—like reagent costs—are now considered variable, too. This has resulted in more year-over-year volatility in these costs, and this volatility makes recovery through the FAC more appropriate because customers only pay for costs actually incurred under that mechanism. The Company proposes that these costs be moved to the FAC effective with the implementation of final rates in this proceeding. Company witnesses Mr. Simmons and Ms. Pierce discuss this proposed recovery and the treatment of reagent costs in their direct testimonies.

Q. Please provide an overview of the changes affecting the Company's need for NOx allowances and, as a result, the appropriate cost recovery mechanism.

A. As Company witness Mr. Simmons explains, new environmental compliance rules that have gone into effect since the Company's last rate case have reduced the number of NOx allowances granted by the federal government to the Company's affected generation units. As such, the Company will need to purchase NOx allowances to comply with the new environmental regulations like the Good Neighbor Rule. These relate directly to the amount of fuel used in the Company's generating units, and as more renewable resources are brought online, the units have become a more variable resource such that the volatility in both generation fuel use and its associated costs are more appropriately tracked through the FAC. The Company currently recovers sulfur dioxide ("SO_2") emission allowance costs through the FAC, and the Company believes that the same is appropriate for NOx allowances to best track all costs and revenues associated with NOx allowances going forward. As such, the Company requests that NOx allowance revenues and costs be moved from base rates to recovery under the FAC coincident with the implementation of final rates in this case. Company witnesses Mr. Simmons and Ms. Pierce discuss this proposed recovery mechanism in further detail and provide additional background on NOx allowances.

Q. Please provide an overview of the changes warranting the CRE.

A. As Company witness Ms. Pierce explains, MISO recently underwent a change in its capacity requirements, adjusting its resource adequacy requirements from an annual construct to a seasonal construct, such that the Company is now required to demonstrate its resource adequacy seasonally rather than annually. On a seasonal basis, the Company may have excess capacity in some seasons and a shortfall of capacity in others, so the new construct requires considerable change in planning and increased variability and risk in the Company's engagement in the capacity market. As part of this case, the Company is requesting approval of the CRE to align capacity revenue and expense with the impacted MISO planning year. Creating a CRE would allow the Company to more effectively balance its capacity needs between seasons and planning years, a symmetry which also benefits the Company's customers. Company witness Ms. Pierce describes the proposed CRE, as well as the MISO resource adequacy and capacity market, and the Company's proposed defined filing process and oversight mechanisms, in more detail.

Q. Please describe what the Company seeks to address with the Rider for Voluntary Renewable Resources – Large Customer.

A. This Rider is proposed to further develop renewable resource opportunities for large customers, thereby further advancing the clean energy transition in a cost-effective manner. The proposed Rider would allow the Company and qualifying customers to work collaboratively on new dedicated renewable resource projects up to 300 MW, which would be owned or procured by the Company to provide renewable energy to the customer(s). This energy would be delivered first through the meter, and billed as a new rate that would reflect the costs of the dedicated resource, administrative charges, and any other costs to ensure non-participating customers are not impacted by the project. The participating customer then would not pay any Fuel and Purchased Energy Charge costs associated with this energy. Company witness Ms. Peterson describes this proposal in more detail.

Q. Please summarize the changes since the last rate case that are driving the need for this rate case.

A. As discussed in this section of my testimony, the Company is experiencing policy, cost, revenue, regulatory, and legislative changes that have necessitated the filing of this case and the need to think somewhat differently about cost recovery associated with these changes. Minnesota Power brings this rate case in an effort to align reasonable and necessary costs with cost recovery overall and to continually enhance our service to customers and the value we provide.

V. INTRODUCTION TO THIS FILING

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

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

A. Revenue Requirements

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

A. Minnesota Power requests an overall increase in revenues net of riders of $89.1 million MN Jurisdictional, or 12.0 percent. As I previously discussed, the Company is proposing to transfer costs of GNTL from the TCR to base rates (which will result in a lower TCR factor) and reset production tax credits in base rates (which will result in a lower RRR factor). The movement of costs between riders and base rates is largely revenue neutral to customers. When taking into account only the increases to base rates without the rider offset, the Company's gross revenue deficiency is $127.9 million MN Jurisdictional, or 17.2 percent. These amounts are based on the Company's projected O&M expense and capital budgets for the 2024 test year, an ROE of 10.30 percent, and an overall rate of return of 7.53 percent. The Direct Testimony of Company witness Ms. Turner provides a detailed account of the Company's revenue deficiency.

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

A. The primary drivers of the revenue deficiency are a combination of O&M increases tied to inflationary cost pressures and workforce needs to execute the clean energy transition, changes to the taconite forecast, and the need to align costs with appropriate cost recovery mechanisms as described earlier in my testimony.

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

A. No. Minnesota Power has experienced significant inflation, supply chain challenges, and increased costs to recruit and retain a skilled workforce, including a new collective bargaining agreement with IBEW Local 31, since the filing of its 2021 Rate Case. Additionally, Minnesota Power's long history of limiting rate increase requests results in the inability to offset its current revenue deficiency. The Company was able to avoid rate cases for more than a decade between 1994 and 2008, and then again for another seven years between our 2009 rate case and 2016 Rate Case filings. While we filed a rate case in 2019, we worked with stakeholders to withdraw that case by limiting cost recovery. Our last completed case, filed in 2021, was only our fifth completed case in nearly three decades. Due to these cost pressures, limited past rate increases, and ongoing efforts to reduce costs to the extent possible, Minnesota Power cannot offset its revenue deficiency through reductions to O&M expenditures or decreased capital investment while maintaining its current level of service and continuing to execute Minnesota's energy policy requirements.

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

A. Minnesota Power seeks an overall rate of return of 7.53 percent, reflecting a recommended capital structure that consists of 53.00 percent common equity and a rate of return on equity of 10.30 percent. These requests reflect current market conditions and the capitalization needs of the Company. The Direct Testimony of Company witnesses Ms. Bulkley and Mr. Taran provides additional detail on this request.

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

A. As I previously discussed, Minnesota Power continues to deliver on state energy policy goals as a leader in renewable energy supply; by exceeding the state energy conservation goal every year since its inception in 2010; by reducing carbon dioxide emissions by 50 percent from 2005 levels; and by idling, retiring, or remissioning seven of its nine coal-fired generators. In addition, the Company has improved its low-income customer programs and launched tools to enhance the customer experience. Minnesota Power also leads the state in efforts to support future grid and customer enhancements and is in the process of implementing a system to support advanced time of day rates. The Company has continually executed its major projects on or under budgetary estimates and closely manages its costs. On top of all of these performance attributes, Minnesota Power operates with a customer risk profile that is significantly above average as previously discussed in my testimony.

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

Q. Does this requested revenue requirement reflect the Company's efforts to mitigate rate increases for all customer classes?

A. Yes, it reflects both the reasonable costs of providing safe, reliable, affordable, and clean energy to our customers, as well as all of the efforts described above to contain and moderate those costs while also empowering customers to manage their energy usage and overall bills.

Q. Please describe the Company's specific rate mitigation efforts, on top of cost containment efforts.

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

For example, on August 31, 2020, Minnesota Power submitted a petition for Commission approval to voluntarily begin selling land holdings along traditional hydro reservoirs that are no longer necessary for maintaining hydro operations. As an effort to ensure energy affordability for all customers, the Company proposed that all proceeds go back to customers to mitigate rates. The Company's petition was approved by the Commission at its October 14, 2021 agenda hearing. Since the first lots were made available in August of 2022 through September 30, 2023, Minnesota Power has sold 213 lots worth $20.95 million. Less than 10 percent of offers have been declined by the leaseholders. The land sales are being placed in a tracker to be returned to customers in the future as rate mitigation through either the RRR or some other mechanism.

In addition to coordinating with stakeholders to facilitate these hydro land sales and collaborating on a number of federal grant applications described below in my Direct Testimony, the Company has engaged in conversations with various stakeholders regarding other potential resolutions and rate mitigations, and remains open to further dialogue including through potential settlement opportunities. The Company has incorporated additional stakeholder feedback into this rate case filing in multiple ways, as exemplified by not proposing an increase to the customer charge, and offering a new customer rate stabilization mechanism proposal to limit rate cases triggered by changes in large industrial customer operations.

Q. How is the Company maximizing the benefits of the IIJA and IRA to reduce costs for customers?

A. The Company is taking a number of steps to maximize the benefits of these statutes and associated programs.

First, Minnesota Power has applied for several federal funding opportunities, including those related to the HVDC Modernization Project, long duration energy storage, and improvements to the Company's hydroelectric system. We are beginning to see success from these efforts: on October 18, 2023, the Department of Energy ("DOE") awarded a $50 million grant to Minnesota Power to support modernization of its HVDC transmission system through the Grid Resilience and Innovation Partnerships ("GRIP") Program. The $50 million award will help reduce the overall customer costs associated with the Company's HVDC Modernization Project.

In the last year, Minnesota Power has submitted, as a project owner or key project partner, the following seven applications for five different funding opportunities:

1. DE-FOA-0002614 – Advanced Capture Study for Minnesota Biomass Power Generation (Energy and Environmental Research Center was the applicant and we were a partner); application submitted – not selected for award.
2. DE-FOA-0002936 – Mine Truck Electrification (US Steel was the applicant and we were a partner); concept paper submitted – discouraged from submitting a full application.
3. DE-FOA-0002779 – Section 247 Hydro Maintaining and Enhancing Hydroelectricity Incentives; three applications submitted.
4. DE-FOA-0002867 Long Duration Energy Storage; application submitted, selected for pre-award interview – not selected for award.
5. DE-FOA-0002740 – HVDC – Grid Resilience and Innovation Partnerships (GRIP) Program (Topic Area 2); application submitted – award negotiations ongoing.

As discussed by Company witness Mr. Taran, Minnesota Power is assessing the DOE's Loan Programs Office financing options and will submit applications as appropriate. The Company also actively monitors funding opportunity announcements tracked by the Minnesota Department of Commerce's Energy Division, posted on the Department's New Energy Programs webpage, and distributed via the Department's Bipartisan Infrastructure Act Information email subscription. In addition, the Company

monitors and looks for funding opportunity announcements from the DOE's Office of Clean Energy Demonstrations and Grid Deployment Office, Department of Transportation, Environmental Protection Agency, Department of Agriculture, as well as other resources which share IRA and IIJA funding opportunities, such as industry trade associations.

Overall, the Company continues to strategically identify federal funding opportunities to pursue in support of its *EnergyForward* strategy and state renewable and carbon-free electricity goals, and keep impacts on rates for customers as affordable as possible during this time of energy transition. Preparing and submitting applications for federal funding demands a significant investment of time and resources and typically has matching fund and other requirements which need to be considered. Based on our experience, the full application process for each project requires 1,000–3,000 employee hours to complete. The number of employee hours depends largely on the complexity of the application requirements. Some Federal funding opportunities are less cumbersome, while others, like the GRIP program funding application, are highly complex. Federal funding opportunities are also very competitive. As an example, our GRIP program funding application was one of 326 concept papers submitted. Of those, 157 (including ours) were encouraged by the DOE to submit a full application. The DOE ultimately selected 34 projects for GRIP program funding negotiations. Minnesota Power is actively working with the Department of Commerce to align IRA incentives with existing ECO program offerings. The Company will evaluate the opportunities associated with the IRA and IIJA in future filings, including future resource acquisitions, IRPs, integrated distribution plans, and petitions for cost recovery through riders and rate cases.

B. Class Cost of Service and Rate Design

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

A. Minnesota Power approaches rate design from an overall cost of service methodology, in which rates are designed so that individual classes of customers pay an appropriate

and fair share of the costs associated with delivering safe and reliable electricity. Rate design is further influenced by other factors such as existing rate design, overall customer billing impacts, and rate design principles. More information on revenue apportionment and rate design, taking Company witness Mr. Shimmin's class cost of service study ("CCOSS") results into account, can be found in the Direct Testimony of Company witness Ms. Peterson.

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

A. As the Company has made investments to significantly reduce carbon emissions from its electric supply, renewable energy supply has also advanced to exceed 50 percent of customer energy requirements in 2023. Since renewable energy is variable by nature, it is necessary for customer focused rate designs to support and incentivize controllable customer load to better align with variable renewable generation. This alignment of load with generation helps balance energy supply with demand in the most economical manner for customers. Additionally, the low carbon intensity of the Company's power supply, which will decline even further in the future, creates opportunities for meeting state policy goals for carbon reduction through beneficial electrification. Finally, the need to balance affordability and competitiveness with these advancements in sustainability is important to maintain customer satisfaction with the sustainable energy transformation. Minnesota Power's rate designs are intended to maintain reasonable rates, especially for low-income residential customers, as well as for industrial customers whose high load factor operations serve to increase the overall economic efficiency of the energy system. The Company also considers how to use rate design to empower customers with more control over their energy usage, as evidenced by its first-in-the-state transition to time varying rates for the residential customer class. Together, these factors also influence efficient and effective rate designs for Minnesota Power customers.

Q. Please explain Minnesota Power's revenue apportionment proposal in this case.

A. As described further in the testimony of Company witness Ms. Peterson, Minnesota Power would ideally attempt to follow the CCOSS results to align rates with the cost to serve each customer as provided by the CCOSS. However, strict adherence to the CCOSS would require a 41.25 percent increase for the Residential customer class. The Company realizes an increase of this magnitude could have an adverse impact on the Residential customer class and with that impact in mind, the Company is proposing an equal final percentage increase of 17.2 percent across all customer classes. It is important to note, however, that approximately 30 percent of this increase will be offset by reductions in the TCR and RRR cost recovery for the same period.

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

A. No. Recognizing that a modest increase was implemented in the last rate case (without objection by residential and low-income consumer advocacy groups), the Company is not proposing an increase to the fixed portion of its Residential bill in this rate case.

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

A. Minnesota Power has demonstrated its ability to remain customer-focused—as evidenced by the number of rate mitigation efforts undertaken—while leading the state in achieving Minnesota's energy policy goals. However, a critical component of the regulatory compact is ensuring both recovery of prudent costs and investments along with a reasonable rate of return. Minnesota Power became the first utility in the state to serve customers from a power supply portfolio that is half-renewable, while also providing innovative and first-of-its-kind offerings like time varying rate design and increased access to solar energy for low-income customers.

The Company has executed its best efforts to ensure rates remain affordable for all customers, and its residential customers currently enjoy electric rates that are below the national and state averages, along with having average residential customer bills that

are lower than those of neighboring utilities. The Company also provides a usage qualified discount to eligible low-income customers, as well as multiple programs available to assist low-income customers. This proposed rate increase request includes prudently incurred costs and thoughtful proposals to mitigate the unique risk serving the industries of northern Minnesota creates. For Minnesota Power to continue decarbonizing its system and offering innovative programming to customers at the pace it has, a holistically reasonable outcome in this case that ensures the regulatory compact remains intact is necessary.

VI. INTRODUCTION OF WITNESSES

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

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

Q. Please introduce Minnesota Power's other witnesses.

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

- Joshua D. Taran, Manager – Financial Planning, will address the recommended capital structure and overall rate of return for Minnesota Power, as well as the Company's overall financial health, credit metrics, and risk position.
- Ann E. Bulkley, Senior Vice President at Concentric Energy Advisors, Inc., provides expert testimony on the Company's required return on equity and an assessment of the Company's proposed capital structure.
- Frank L. Frederickson, Vice President of Customer Experience and Engineering Services, provides an overview of Minnesota Power's customer base, customer service programs, and sales, revenues, and the overall risks associated with the Company's customer base. Mr. Frederickson also discusses the Company's proposed rate stabilization mechanism.
- Colin B. Anderson, Controller of ALLETE, presents an overview of the Company's budgeting process, including the reliability of the Company's budgets, an overview of the Company's cost containment efforts since our last

rate case, and a discussion of certain depreciation and inflationary topics. He also provides testimony on the Company's cost allocation process and employee expense review—including support for travel, dues/memberships, and related employee expenses.

- Julie I. Pierce, Vice President of Strategy and Planning, provides information on changes to Minnesota Power's power supply and the MISO power market, and supports the Company's rate stabilization mechanism and CRE rider proposal.
- Todd Z. Simmons, Vice President – MP Generation Operations, describes how the Company continues to transform its generating fleet with increasing renewable resources while maintaining efficient, reliable, and cost-effective services for customers. Additionally, Mr. Simmons gives an overview of capital projects and O&M expenses for Generation Operations and provides information on environmental compliance costs and revenues for which the Company is seeking approval to recover through the FAC.
- Daniel W. Gunderson, Vice President of Transmission and Distribution, discusses the Company's power delivery systems, including related capital investments and O&M expenses. Mr. Gunderson also provides an overview of the investments the Company will be making going forward to ensure system safety and reliability, and the availability of renewable resources to Minnesota Power customers.
- Laura E. Krollman, Director – Human Resources, describes the compensation and benefits provided to the employees of Minnesota Power, including overall increases in the number of both bargaining and non-bargaining jobs Minnesota Power is making available.
- Patrick L. Cutshall, the Vice President and Corporate Treasurer of ALLETE, Inc., addresses Minnesota Power's proposals with respect to recovery of test year pension and other post-employment benefit expense and provides support for the Company's request to include Minnesota Power's accumulated contributions in excess of net periodic benefit cost for the pension in rate base.
- Michael Farrell, Senior Director and North American Accounting Leader at Willis Towers Watson, addresses the accounting requirements for defined

benefit pension plans under Accounting Standards Codification No. 715-30; the accounting requirements promulgated by the Federal Energy Regulatory Commission related to pension plans of rate-regulated utilities; and the financial effect of a utility's pension plan and its interaction with the ratemaking process.

- Rena E. Verdoljak, Manager – Tax, will address several tax issues relevant to this rate proceeding, including property tax and proposed property tax true-up, excess deferred income taxes, and federal tax credits.
- Stewart J. Shimmin, Revenue Requirements Lead, presents Minnesota Power's 2024 test year CCOSS. Mr. Shimmin also discusses the process of jurisdictional separation of costs, the functional assignment, and classification of costs, and the allocation of costs to customer classes, including the development of allocation factors used in the CCOSS. Mr. Shimmin also addresses how rider costs are being transferred to base rates.
- Amanda L. Turner, Costing and Pricing Analyst Senior, discusses Minnesota Power's revenue requirements for the test year consisting of calendar year 2024. Ms. Turner also addresses the determination of rate base and operating income and the treatment of adjustments made in the Interim and Adjusted Test Year CCOSSs, and supports the determination of the Minnesota Jurisdictional revenue increase required by Minnesota Power to earn its requested rate of return in the Adjusted Test Year and the allowed rate of return in the Interim Test Year. Additionally, she explains how the Company's cost recovery riders and tracker balances bear on our 2024 test year cost of service, and supports the Company's CIP tracker and base rate totals and several compliance items from other dockets.
- Leah N. Peterson, Manager – Customer Analytics, will provide testimony to support Minnesota Power's proposed rates and rate design for the 2024 test year, addressing the distribution of increased revenue requirements among the classes of service, the design of the Company's proposed rates for retail classes, and a comparison of present and proposed rates for these customer classes.

VII. CONCLUSION

Q. Does this complete your testimony?

A. Yes.