Direct Testimony and Schedules
Michael F. Farrell

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 ________

**INDEPENDENT CONFIRMATION OF PREPAID PENSION ASSET**

November 1, 2023

## TABLE OF CONTENTS

**Page**

## I. INTRODUCTION AND QUALIFICATIONS

**Q. Please state your name and business address.**

A. My name is Michael F. Farrell and my business address is 75 Arlington Street, Boston, Massachusetts 02116.

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

A. I am employed by Willis Towers Watson ("WTW"), a global consulting firm that works with many employers on the financial management of their pension and other postretirement ("OPEB") plans, including half of Fortune 1000 utilities who sponsor pensions. I am a Senior Director in our Retirement practice where I serve as the North American Accounting Leader. In this role, I consult with clients on benefits accounting issues and provide benefits accounting training (including training to regulated public utilities) and accounting and financial reporting updates to client and non-client finance personnel. Most of the guidance that I provide to WTW consultants and clients involves the accounting and financial reporting issues around pensions and OPEB plans.

**Q. Please describe your educational background and professional experience.**

A. I graduated from Bentley University (formerly Bentley College) in Waltham, Massachusetts in 1987 with a Bachelor of Science degree in Accounting. In 1987, I joined the independent accounting firm of Coopers & Lybrand where I worked in the Public Utilities and Financial Services practices as an Audit Manager until 1994, when I left to accept a position as a Senior Financial Analyst for New England Electric System ("NEES"). At NEES, I was responsible for the revenue requirements of Massachusetts Electric Company. I joined Boston Edison in 1996 as Financial Reporting Manager. After the formation of NSTAR in 1999, I was promoted to Assistant Controller & Director, Accounting. Following the merger of NSTAR and Northeast Utilities – forming Eversource in 2012 – I was named the Director, Revenue and Regulatory Accounting. While at NSTAR and Eversource, I was responsible for the accounting, budgeting and ratemaking implications of the company's employee benefit plans. At various times during my time in the utility industry, I was a member of the EEI Accounting Standards Committee, the EEI Corporate Accounting Committee and the

EEI-FERC Liaison Committee. I joined Willis Towers Watson in 2016 as a Director in WTW's Retirement practice. I was promoted to my current position in 2020.

I am a Certified Public Accountant ("CPA") in the Commonwealth of Massachusetts.

**Q. Have you previously testified before the Commission?**

A. Yes. I provided Rebuttal Testimony in light of the intervenor direct testimony in Minnesota Power's 2021 Rate Case, Docket No. E015/GR-21-335 ("2021 Rate Case") regarding ALLETE Inc's. d/b/a Minnesota Power ("Minnesota Power" or "the Company") compliance with generally accepted accounting principles ("GAAP") and the nature of the prepaid pension asset.

**Q. Have you previously testified before other regulatory commissions?**

A. Yes. I have testified several times before the Massachusetts Department of Public Utilities and the Federal Energy Regulatory Commission ("FERC"). Topics of this testimony are included in MP Exhibit ___ (Farrell), Direct Schedule 2 and have included:

- Serving as the revenue requirements witness supporting the cost of service in both electric and gas distribution base rate proceedings;
- Pricing of the sale of municipal streetlights;
- Centralized service company allocations;
- Formation of a holding company corporate structure;
- Employee benefits issues related to generation divestures;
- Accounting for and recovery of pension and other postretirement costs including a return on prepaid balances; and
- Unregulated subsidiary cross-subsidization.

**Q. What is the purpose of your Testimony?**

A. My testimony will address three areas:

1. The accounting requirements for defined benefit pension plans under Accounting Standards Codification No. 715-30 ("ASC 715");

2. The accounting requirements promulgated by FERC related to pension plans of rate-regulated utilities; and
3. The financial effect of a utility's pension plan and its interaction with the ratemaking process.

I will explain why the Company has appropriately accounted for its pension and OPEB plans in accordance with GAAP and the accounting regulations of FERC's Uniform System of Accounts. In addition, I will explain why it is appropriate for the Company to collect a return on the investor-funded excess of its pension plan contributions over the related accounting cost – referred to as the "prepaid."

**Q. Are you sponsoring any exhibits in connection with your Testimony in this proceeding?**

A. Yes. I am sponsoring the following schedules to my Direct Testimony:

- MP Exhibit ___ (Farrell), Direct Schedule 1 – Farrell Experience;
- MP Exhibit ___ (Farrell), Direct Schedule 2 – Representative Utility Testimony; and
- MP Exhibit ___ (Farrell), Direct Schedule 3 – WTW Prepaid Pension Asset

**Q. Please summarize your testimony.**

A. First, I will explain, in general terms, the accounting requirements that all pension plan sponsors must follow. These accounting requirements are promulgated by the Financial Accounting Standards Board ("FASB"). Those requirements are not unique to rate-regulated companies.

Second, I will speak more specifically about the unique accounting that rate-regulated utilities are required to follow. This guidance was issued by FERC several years ago. It requires rate-regulated utilities to record a regulatory asset on their balance sheet related to actuarial losses (net of gains). The result of this is that the cumulative difference between Company-funded contributions and the annual expense amounts booked to the income statement are recorded on the Company's balance sheet as a regulatory asset.

Lastly, because the accounting and overall financial effects of pension plans can be a complex issue, I will provide an example to demonstrate the effect of Company-funded pension contributions and how they interact with the recovery of pension expense from customers.

## II. GAAP ACCOUNTING FOR PENSIONS

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

A. In this section of my testimony, I will briefly describe the history of the accounting standards issued by FASB that govern the accounting for pension plans. In addition, I will explain the manner in which a plan sponsor's income statement and balance sheet are affected by its pension plans.

**Q. Can you briefly describe the history of the accounting treatment for pension plans under GAAP?**

A. Yes. Prior to the issuance of Statement of Financial Accounting Standards ("SFAS") No. 87 ("SFAS 87") in 1985, there was inconsistency among plan sponsors in their accounting for pension benefits provided to employees. With the issuance of SFAS 87, companies are required to reflect the cost of providing pension benefits to employees on their income statement during the time that those employees provide service to the company. Because of the long-term nature of the pension promise to employees, companies must make assumptions about future economic and demographic conditions. These assumptions are revised over time as actual experience and projections of future conditions result in revisions to the company's projected pension obligation. Because of the long-term nature of the obligation, companies are not required to reflect the effect of assumption changes in earnings as they occur. Those gains and losses are amortized over future periods. This is sometimes referred to as "smoothing" gains and losses into earnings over time.

**Q. Can you explain the concept of "prepaid pension"?**

A. Yes. As noted above, under SFAS 87, plan sponsors are required to record the cost of providing pension benefits as those benefits are earned by employees as they provide service to the company. While the SFAS 87 provides guidance for this expense recognition, the funding requirements for pension plans are regulated by the Internal Revenue Service ("IRS"). Those funding regulations typically result in a difference in timing between the recognition of cost for accounting and financial reporting purposes and the requirements to make cash contributions to pension plans. As a company records its pension expense, it debits (increases) expense and credits (increases) its pension liability. When a company makes a cash contribution to its plan, it debits (decreases) its pension liability and credits (decreases) its cash balance. Therefore, under SFAS 87, the difference between the amounts contributed to the plan (cash) and the amount reflected on the income statement (expense) resided as either a prepaid asset (when the cumulative cash contributions are greater than the cumulative expense recognized) or a liability (when the cumulative cash contributions are less than the cumulative expense recognized).

**Q. Are there other examples in GAAP where a company is required to record the difference between cash expenditures and income statement expenses on its balance sheet?**

A. Yes. One such example is for fixed assets such as utility plant. When a company undertakes a capital project, it must utilize cash to pay for the necessary employee, contractor, and materials costs. However, those costs are not recognized on the income statement or recovered from customers through rates in the same accounting period as the cash cost. The construction cost is depreciated (expensed) and recovered from customers over the useful life of that constructed asset. As the project is depreciated, the carrying value on the balance sheet is reduced. Therefore, the carrying value each year represents the cumulative difference between the cash cost of the fixed asset and the amount recognized as expense through the income statement.

**Q. You mentioned the smoothing of gains and losses for pension plans above. How did SFAS 87 deal with those gains and losses?**

A. When actual plan experience is different from the accounting assumptions or when circumstances require that those assumptions are changed, the effect on the calculated funded status of the plan is required to be tracked as an unrecognized gain or loss. The unrecognized gain or loss is then amortized to expense over the future periods. For a company with a prepaid pension balance, the amortization of an unrecognized loss would have the effect of increasing expense and reducing the prepaid pension asset.

**Q. How has the accounting for pension plans changed since the issuance of SFAS 87?**

A. As noted above, under SFAS 87, plan sponsors were required to measure their plan obligations and assets and determine the actuarial gains and losses of its pension plan each year. These gains/losses are amortized to expense over future periods. As calculated, the unrecognized gain or loss represents the difference between the funded status of a pension plan (projected benefit obligation minus the fair value of plan assets) and the prepaid pension (or liability) that was presented on the company's balance sheet. There were concerns that the requirements of SFAS 87 "failed to communicate the funded status of those plans in a complete and understandable way" (SFAS No. 158 – Reasons for Issuing This Statement).[1] In reaction to those concerns in 2006, the FASB issued SFAS No. 158 ("SFAS 158"), "Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans."

The primary directive of SFAS 158 is that a company must reflect the actual funded status of their plans on the face of their balance sheet. Since SFAS 158 did not change the methodology for the determination of pension expense, companies were directed to recognize the difference between the amounts previously on their balance sheet and the plan funded status – previously the unrecognized loss or gain – within other comprehensive income ("OCI"). Under GAAP, OCI represents revenue, expenses,

[1] SFAS 158 – Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. https://fasb.org/Page/ShowPdf?path=fas158.pdf&title=FAS+158+%28as+issued%29&acceptedDisclaimer=true&Submit= (September 2006).

gains and losses that will not be included within the determination of net income until a future accounting period. Total OCI appears in the equity section of the balance sheet as accumulated other comprehensive income ("AOCI"). Losses in AOCI reduce a company's common equity.

Beginning in 2009, all accounting standards were codified under the Accounting Standards Codification ("ASC"). The accounting and financial reporting requirements of SFAS 87 and 158 were codified in ASC 715, which remains in effect today.

**Q. Why is this history relevant for ratemaking purposes?**

A. I believe that it is important to understand that the changes in the accounting standards have not changed the relevant aspects of ratemaking. The funding requirements for pension plans are not affected by the historic changes in the accounting standards. Therefore, the economic effect that a pension plan has on a plan sponsor has not changed. The difference between the amounts collected from customers over time (expense) and amounts contributed to its plans by the Company must be funded through company-provided resources. The fact that actuarial gains and losses are recorded on the Company's balance sheet has not changed that requirement.

## III. ACCOUNTING FOR PENSION EXPENSE AND CASH CONTRIBUTIONS BY RATE-REGULATED UTILITIES

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

A. In this section of my testimony I will summarize the unique accounting requirements for pension plans that must be followed by rate-regulated utilities. These accounting requirements are promulgated by FASB and FERC.

**Q. Are regulated utilities required to follow the accounting guidance in SFAS 158 which was codified in ASC 715?**

A. Yes. Like all other companies subject to GAAP in the United States, regulated utilities are required to reflect the funded status of their plans as a liability (underfunded plans) or an asset (overfunded plans) on their balance sheets. In addition, actuarial gains and losses must be recorded through OCI.

**Q. What accounting guidance did FERC issue to utilities regarding the implementation of SFAS 158?**

A. In March 2007, FERC issued AI07-1-000, "Commission Accounting and Reporting Guidance to Recognize the Funded Status of Defined Benefit Postretirement Plans." In this order, FERC reiterated that jurisdictional utilities were required to adopt the accounting and financial reporting requirements within SFAS 158 by recording the funded status of their plans on the balance sheet. In addition, FERC addressed the situation where a utility's rate for the recovery of costs related to its pension and other postretirement plans is based on net periodic pension and other postretirement benefit costs determined in accordance with SFAS 87 and 106. FERC ruled that such utilities should record a regulatory asset (or liability) for the amount that would otherwise be recorded to OCI. This accounting reflects the fact that those losses will be reflected in customer rates as those losses (or gains) are amortized through pension expense in future periods. Therefore, a utility's shareholder equity – and its total balance sheet position – was not affected by the adoption of SFAS 158.

**Q. Does FERC define a regulatory asset under its Uniform System of Accounts?**

A. Yes, in part FERC defines Account 182.3 – Other Regulatory Assets as follows:

> *The amounts included in this account are to be established by those charges which would have been included in net income, or* ***accumulated other comprehensive income****, determinations in the current period under the general requirements of the Uniform System of Accounts but for it being probable that such items will be included in a different period(s) for the purposes of developing rates that the utility is authorized to charge for its utility services.*

**Q. Do you know whether Minnesota follows the FERC Uniform System of Accounts?**

A. Yes. In general, it is my understanding that Minnesota Statutes provide that a public utility that maintains its accounts in accordance with the system of accounts prescribed by a federal agency (such as FERC) is in compliance with the system of accounts prescribed by the Commission.[2] The Commission has also issued a rule directing utilities to follow the Uniform System of Accounts with certain clarifications also set forth in the rules.[3]

**Q. Does FASB provide a similar definition of regulatory assets?**

A. Yes. ASC 980-340-25-1 provides that "rate actions of a regulator" can provide evidence of the existence of an asset when an *incurred cost* will be included as an allowable cost for ratemaking purposes in a future period. An *incurred cost* includes amounts which would otherwise be charged to expense or OCI – such as actuarial losses experienced by a pension plan.

**Q. In your experience, how do regulated utilities account for actuarial gains and losses of their pension and OPEB plans?**

A. Virtually all utilities record a regulatory asset in lieu of a charge to OCI to account for actuarial gains and losses.

**Q. You have stated that it is appropriate to record a regulatory asset for amounts that would otherwise be charged to OCI. How does this relate to the prepaid pension asset on the Company's balance sheet?**

A. The difference between the prepaid pension asset (cumulative cash contributions vs. cumulative expense) and the plan's funded status (projected benefit obligation minus fair value of plan assets) represents unamortized losses that will be amortized through pension expense and recovered from customers in future periods. Therefore, the regulatory asset has two components. The first component is equal to the pension liability on the balance sheet. The Company is not seeking a carrying charge for this

[2] Minn. Stat. § 216B.10, subd. 1.
[3] Minn. R. 7825.0300.

component as it did not result from a cash outlay by the Company (*i.e.*, its investors) nor does it change expense, so customers also had no additional cash outlays.

The second component of the regulatory asset is the difference between the cumulative Company-funded contributions and the cumulative pension expense recognized. Since the Company receives reimbursement from customers based on pension expense alone, the cumulative amount above expense represents pension plan contributions that the Company's shareholders needed to finance. The Company is requesting a return for that portion of the Company's regulatory asset, which complies with GAAP (as previously discussed).

**Q. Does ALLETE have a regulatory asset on its balance sheet related to the difference between cumulative Company-financed pension contributions and pension cost as determined under ASC 715 (referred to as a prepaid pension asset), and if so, can you quantify it?**

A. Yes, ALLETE has a regulatory asset related to its prepaid pension. WTW calculates ALLETE's prepaid pension asset and the defined benefit portion (Plan B and Plan C) of the prepaid pension asset. The balance of $103,911,857 can be seen in MP Exhibit ___ (Farrell), Direct Schedule 3.

**Q. In summary, what does the prepaid pension regulatory asset represent?**

A. The prepaid pension asset represents the excess of the Company's cumulative pension plan contributions over its cumulative pension expense recognized on its income statement since inception of the plan. Because the Company's primary source of operating cash flow are the rates that it collects from customers, the excess amount must be financed by the Company's shareholders.

## IV. THE FINANCIAL EFFECT OF A UTILITY'S PENSION PLAN AND ITS INTERACTION WITH THE RATEMAKING PROCESS

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

A. In this section, I will discuss the relationship between the Company's legal obligation to fund its pension obligation and its pension expense under GAAP. This includes the effect on the Company's operating cash flow due to the effect of these transactions on income taxes and customer rate recovery.

**Q. What effect does a company's pension plan have on its cash flow from operations?**

A. As previously noted, there is an inherent mismatch between the timing of pension expense recognition under ASC 715 and cash contributions under Employee Retirement Income Security Act ("ERISA") funding requirements. ASC 715 expense provides the most appropriate basis for rate recovery because it is more predictable and consistent than the ERISA funding rules. However, because the recognition of pension expense during a year is not based on the level of cash contributions during the same period, pension expense is considered a non-cash expense. As such, it is added back to a company's net income for the determination of cash flow from operations. Similarly, the cash contributions that a company makes to its pension plan is a reduction to operating cash flow.

**Q. How do utility rates affect cash flow from operations?**

A. A rate regulated utility's primary source of operating cash flow is the payments that the Company receives from its customers for the provision of electric service. When a utility has a provision for pension expense in its rates, the Company receives cash from its customers for a non-cash expense. If the Company did not contribute the amount received from customers to the pension plan, Company shareholders would profit from that cash without providing a benefit to utility customers. In order to compensate customers, the utility should provide a return to customers on the uncontributed cash amount.

This is consistent with the rate treatment given to accelerated tax deductions that the Company receives. Typically, the income tax deductions that the Company receives for its utility plant capital construction costs occur more rapidly than when the Company depreciates the fixed asset through its income statement. The cumulative difference between the income tax deductions taken and depreciation expense recognized (and collected from customers) is recorded as a deferred tax liability on the Company's balance sheet. The deferred tax liability is included as a reduction in utility rate base. Therefore, customers are provided a return on the cash flow benefit that the Company realizes because of the accelerated deductions.

Similarly, the Company performs a lead-lag study as part of its base rate filings. The purpose of that study is to ensure that neither the Company nor customers benefit from the timing difference between the actual payment of the Company's costs and the recovery of those costs from customers. This is the Company's objective of including a return on its prepaid pension regulatory asset in rates.

The same concept exists for cash contributions to the pension plan, but in the opposite manner. The Company is required to use its corporate resources to fund its pension plan. To the extent that contributions exceed expense (and therefore recoveries), the Company must finance those contributions by incurring debt or by issuing stock to shareholders. The above-mentioned Company receipts (via rates) for pension expense and its cash contributions vary from year to year. If, at a point in time, accumulated receipts and accumulated contributions perfectly matched, there would be no regulatory asset or liability (*i.e.*, no prepaid). However, due to their different natures and methods of calculation, the accumulated amounts practically only perfectly match when a plan is terminated and no longer exists. Until that point, the accumulated difference is reflected by the fact that there is an asset (prepaid pension regulatory asset) on the Company's balance sheet.

**Q. How is the Company's financing of cash pension plan contributions affected by income taxes?**

A. The Company receives an income tax deduction in the year that it makes a cash pension plan contribution. Because the cash contribution is not an expense for accounting purposes, the Company must record deferred income taxes on its balance sheet by applying the income tax rate to the difference between the cumulative amount of cash contributed and the non-cash expense recognized. The tax deduction that is received results in positive operating cash flow for the Company.

**Q. Do the deferred income taxes on the Company's balance sheet affect the return that the Company requires to be made whole for its cash pension plan contributions?**

A. Yes. The prepaid pension regulatory asset balance for which the Company incurs financing costs must be net of the related deferred tax balance. This ensures that customers receive the financial benefit of the income tax deduction that the Company receives from the pension plan contributions.

**Q. Can you more fully explain the interaction between pension expense, pension plan cash contributions, income tax deductions and the amounts recovered from customers?**

A. Yes. Let's assume that the Company books $1,000 of pension expense and makes $2,500 of cash pension plan contributions in a given year. For purposes of this example, the effective tax rate is 25 percent and the Company's rate recovery is based on the pension expense booked in accordance with ASC 715.

First, the Company will record the non-cash pension expense of $1,000 and bill customers $1,000 based on its approved base rate cost of service. Assuming that the Company receives all amounts that it bills to customers, the Company has a positive cash flow from operations of $1,000. The non-cash expense and the receipt of cash from customers reduces the prepaid pension regulatory asset by $1,000.

Second, the Company will contribute $2,500 of cash into the pension plan based on the statutory funding requirements for the year. The $2,500 contribution is a direct reduction in operating cash flow and increases the prepaid pension regulatory asset on the balance sheet.

Finally, the Company will include the $2,500 cash contribution as a deduction on its Federal and State income tax returns. Based on the assumed effective tax rate of 25 percent, the Company will realize a $625 ($2,500 × 25%) cash benefit as a reduction in its income tax liability. The $625 cash benefit is reflected on the balance sheet as a deferred income tax liability. That deferred income tax liability is then reduced by $250 ($1,000 × 25%) to reflect the credit to income tax expense that is booked related to the pension expense booked for accounting purposes.

**Q. Using the numbers in this example, on what balance should the Company receive a return?**

A. The Company should receive a return based on the net cash that it has expended to fund its pension benefits as shown below.

| | |
|---|---|
| Operating cash inflow from customers | ($1,000) |
| Operating cash outflow from cash pension plan contributions | $2,500 |
| Net change in prepaid pension regulatory asset | $1,500 |
| Net change in deferred income taxes ($250 - $625) | ($375) |
| Amount financed by shareholders | $1,125 |

In this example, the Company has been required to obtain financing of $1,125 – which reflects the actual cash contributions made to the pension plan reduced by the amounts collected from customers and the income tax deduction received.

**Q. Does the fact that the Company invests its pension plan contributions change your conclusion that the prepaid pension regulatory asset is financed by Company shareholders?**

A. No, quite the contrary. Because the Company is required to fund its pension plan well in advance of the time that the pension benefits will be paid to retirees, the Company invests those funds in a prudent manner. All of the returns on these investments can only be used to reduce ongoing pension expense (and pension expense recovery from customers) and future pension cash contributions. In fact, the return on plan assets is an explicit component of pension expense, reducing expense by its full value.

**Q. Do you have any additional commentary on why it is fundamental that the prepaid pension regulatory asset has been funded by the Company and not by its customers?**

A. The Company's base rates, as determined by the Commission, are designed to recover the operating expenses (*e.g.*, operations & maintenance expenses, depreciation and amortization, taxes) and a reasonable return on rate base. Pension expense is included in rates at a representative level consistent with other operating costs. While pension expense is a non-cash accrued expense, the collection from customers is revenue that results in operating cash flows to the Company. The determination of Company contributions to the plan is separate from the calculation of expense and collections from customers. When the Company makes contributions to the plan, it reduces cash flows. In a year when pension expense is less than plan contributions, the reduction in cash flows directly affects the Company's financing costs. The objective of Minnesota Power's proposal in this proceeding is simply to make it whole for the financing cost that it incurs due to the timing difference between the pension expense collected from customers and the amounts contributed to the plan. The Company expects that future pension expense will exceed the required contributions. Over time this will have the effect of reducing the prepaid pension regulatory asset.

**Q. What is the effect on the prepaid pension asset in years in which the Company has pension income (negative pension expense)?**

A. Based on my review of MP Exhibit___(Cutshall), Direct Schedule 1, I have noted that there have been years in which the Company has had pension income. Generally speaking, this occurs when the expected return on the plan's investments exceeds the service cost and interest cost during any of those years. When the Company has investment income, this will increase the prepaid pension regulatory asset – and, when pension income is taken into account for ratemaking, it reduces costs to customers. In order to assess the effect of those years, I reviewed MP Exhibit___(Cutshall), Direct Schedule 1. That exhibit demonstrates that the cumulative Company-funded plan contributions significantly exceed the Company's recognized pension expense and the Company's receipts from customers.

## V. CONCLUSION

**Q. What is your conclusion regarding the Company's proposal for its prepaid pension asset?**

A. The Company is required by law to contribute funds to its pension plan to fund employees' retirement benefits, and the cumulative Company funding in excess of cumulative expense results in a prepaid pension asset. Accordingly, as a regulated utility, the Company should recover a carrying charge (return) for its prepaid pension. I therefore recommend that the Minnesota Public Utilities Commission approve the request.

First, the Company's accounting for its pension and OPEB plans – as presented on its audited financial statements – is entirely in accordance with GAAP and the guidance of FERC and the FERC Uniform System of Accounts. It is also consistent with the accounting practices of utilities across the country.

Second, because the Company's cash collections from customers are based on a non-cash expense item, it is appropriate to reconcile the cash timing difference by providing an appropriate carrying charge to the Company. This is consistent with the treatment of other non-cash expenses such as utility plant depreciation and income taxes.

**Q. Does this conclude your Testimony?**

A. Yes.

# Michael Farrell, CPA

***Senior Director, Retirement – North American Accounting Leader***

## Relevant Experience/Specialization

Michael Farrell is a senior director in Willis Towers Watson's Boston office, where he serves as the firm's North American Accounting Leader and as a member of our Global Accounting Team. In his role, Mike consults with clients on benefits accounting issues (under US GAAP and IFRS) and provides benefits accounting training and updates to client and non-client finance personnel. As a specialist in the utility industry, he provides guidance to regulated companies on the ratemaking and accounting issues unique to the industry. He has over 30 years of experience in accounting, financial reporting and SEC reporting.

Prior to joining Willis Towers Watson in 2016, Mike was assistant controller of NSTAR and, after its merger with Northeast Utilities, director of regulatory accounting for Eversource Energy. During this time, Mike was responsible for all aspects of accounting, budgeting and forecasting for the company's defined benefit pension and other postretirement benefit plans. In his role, he also testified before the Massachusetts Department of Public Utilities on multiple occasions regarding the accounting and rate recovery of costs related to pensions and OPEBs. In addition, he performed as a cost-of-service rate case witness in both gas and electric proceedings. Mike began his career by spending seven years in the audit practice of Coopers & Lybrand, where he specialized in public utilities and investment companies.

## Education and Credentials

Mike holds a B.S. in accounting from Bentley University and is a Certified Public Accountant in Massachusetts.

He is the volunteer treasurer and a board member of the National Pancreas Foundation.

Representative Utility Testimony of Michael F. Farrell, CPA

- DPU 95-40 - Investigation by the Department of Public Utilities on its own motion as to the propriety of the rates and charges for tariffs filed on March 14, 1995 to become effective April 1, 1995 by Massachusetts Electric Company **(Electric base rate revenue requirement)**

- DTE 97-63 - Petition of Boston Edison Company and Boston Edison Mergeco Electric Company, Inc. for approval by the Department of Telecommunications and Energy of a merger in accordance with an agreement and plan of merger **(Corporate reorganization into a holding company structure)**

- DPU 97-95 – Investigation by the DPU, on its own motion, into Boston Edison Company's compliance with the Department's order in DPU 93-7 **(Unregulated subsidiary cross-subsidization)**

- DPU 10-126 - Compliance filing of NSTAR Electric Company pursuant to the order of the Department of Public Utilities in D.T.E./D.P.U. 06-82-A, related to cost recovery of the Company's Capital Projects Scheduling List Program **(Demonstration that direct and indirect program costs are incremental to costs recovered in base rates)**

- DPU 10-125, 11-91, 12-113, 13-184 - Petition of NSTAR Electric Company and NSTAR Gas Company for approval of their annual pension and post-retirement benefits other than pensions adjustment factor **(Recovery of pension and OPEB costs including return on prepaid pension)**

- DPU 14-150 - Petition of NSTAR Gas Company for approval by the Department of Public Utilities of an increase in rates **(Gas distribution rate revenue requirement)**

- Docket No. E015/GR-21-335 – In the Matter of the Application of Minnesota Power for the Authority to Increase Rates for Electric Utility Service in Minnesota **(Rebuttal testimony in support of the company's Pension-OPEB accounting and recovery of a return on prepaid costs)**

- IURC Cause No. 45870 - Petition of Indiana-American Water Company, Inc. for authority to increase its rates and charges for water and wastewater utility service **(Rebuttal testimony in support of the inclusion of prepaid pension and OPEB in utility capital structure for ratemaking purposes)**

Willis Towers Watson

The information contained in this exhibit is incomplete without the supporting letter.

**ALLETE, Inc.**

| Qualified Pension Plans<br>Disclosure for Fiscal Year Ending 31-Dec-22 under US GAAP | Total<br>USD | Plan B<br>USD | Plan C<br>USD |
|---|---|---|---|
| **Accumulated Contributions in Excess of Net Periodic Benefit Cost** | | | |
| **A Reconciliation of Amounts Recognized in Statement of Financial Position** | | | |
| 1 Projected Benefit Obligation (PBO) | (720,460,359) | (217,239,567) | (503,220,792) |
| 2 Fair value of plan assets, excluding receivable contributions | 568,619,689 | 141,904,334 | 426,715,355 |
| 3 Net balance sheet asset/(liability) | (151,840,670) | (75,335,233) | (76,505,437) |
| 4 Net prior service cost/(credit) | (82,826) | 721,870 | (804,696) |
| 5 Net loss/(gain) | 255,835,353 | 21,368,514 | 234,466,839 |
| 6 Accumulated Employer contributions in excess of net periodic benefit cost | 103,911,857 | (53,244,849) | 157,156,706 |
| **B Accumulated Employer Contributions in Excess of Net Periodic Benefit Cost** | | | |
| 1 Amount as of beginning of year | 108,939,929 | (43,865,732) | 152,805,661 |
| 2 Net periodic postretirement benefit (cost)/income | (5,028,072) | (9,379,117) | 4,351,045 |
| 3 Employer contributions | 0 | 0 | 0 |
| 4 Benefits paid from plan assets | 0 | 0 | 0 |
| 5 Benefits paid from Company assets | 0 | 0 | 0 |
| 6 Other recognized loss/(gain) | 0 | 0 | 0 |
| 7 Other adjustments | 0 | 0 | 0 |
| 8 Amount as of end of year | 103,911,857 | (53,244,849) | 157,156,706 |