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I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Laura E. Krollman, and my business address is 30 West Superior Street, Duluth, Minnesota 55802.

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

A. I am employed by ALLETE, Inc., doing business as Minnesota Power ("Minnesota Power" or the "Company"). My current position is Director – Human Resources.

Q. Please summarize your qualifications and experience.

A. I earned a Bachelor of Arts degree in Accounting from the College of St. Scholastica. I have 23 years of experience with the Company. During my first four years at Minnesota Power, I worked in the internal audit department, where I had the opportunity to work on a variety of operational and financial audits. I have spent the last 19 years in human resources, where, over the last ten years, I led a variety of human resources functions, including benefits, compensation, and talent acquisition. In my current position, I am responsible for all areas of human resources including the development, implementation, and ongoing administration of the Company's employee compensation programs, executive compensation programs, employee benefits, learning and organizational development programs, talent acquisition, employee and labor relations, and payroll and human resource information systems.

Q. What is the purpose of your testimony?

A. The purpose of my Direct Testimony is to describe the compensation and benefits provided to the employees of Minnesota Power, and the associated costs included in the test year. Over the last two decades, Minnesota Power has transformed the way it produces and delivers energy and is a leader in decarbonizing its system. With this transformation and for the Company to continue providing safe, reliable, and cost-effective electricity while working towards delivering 100 percent carbon-free energy, the Company needs to ensure it has a skilled workforce that can respond to the needs of its customers. To this end, it is critical to Minnesota Power's talent strategy that the compensation and benefits offered by the Company remain market-competitive, particularly at a time when our need to add and retain skilled bargaining and non-bargaining unit employees across Minnesota Power is increasing. My testimony explains how the Company's compensation and benefit design and rate recovery request are all aligned to that objective, and how the Company only requests reasonable cost recovery through rates.

Q. Are you sponsoring any exhibits in this proceeding?

A. Yes. I am sponsoring the following exhibits:

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

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

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

II. OVERVIEW OF THE COMPANY'S WORKFORCE AND COMPENSATION

Q. Please briefly describe Minnesota Power's workforce.

A. By the end of 2024, Minnesota Power expects to provide jobs to 1,178 full-time and part-time employees, including 460 employees represented by unions (referred to as bargaining unit employees) and 718 non-bargaining unit employees. As discussed later in my Direct Testimony, this is an increase of 123 full-time and part-time, bargaining unit and non-bargaining unit, employees in 2023 and 2024 compared to 2022 actual data. Additionally, as part of our employee talent pipeline strategy, discussed later in my testimony, Minnesota Power expects to employ 33 interns throughout 2024. Minnesota Power's employees perform a variety of functions that support the Company's ability to supply retail electric service to more than 150,000 customers and wholesale service to 14 municipalities in Minnesota.

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

A. Minnesota Power's workforce continues to evolve in terms of both the types of work and jobs needed to operate the business, and of the number of employees needed to transition toward 100 percent carbon-free electricity for Minnesota Power customers. Minnesota Power has an ongoing process of evaluating and aligning its workforce to meet the needs of the ongoing system transformation, including changes to its generation and transmission portfolio. As discussed in the Direct Testimony of Company witness Mr. Todd Z. Simmons, this process of generation workforce alignment will continue as the Company's overall generation fleet transformation continues. Similarly, the process of transmission workforce alignment, as discussed in the Direct Testimony of Company witness Mr. Daniel W. Gunderson, is critical as we focus on transforming our energy landscape. Minnesota Power's employee headcount is increasing as its focus shifts towards ensuring we have the right number of employees to meet our energy transformation goals while executing our four values:

- Integrity: We conduct ourselves honestly and ethically—integrity is the foundation of all we do.
- Safety: We commit to be injury-free at work, at home, and in our communities.
- People: We care about others, respect our differences, and create opportunities for everyone to thrive.
- Planet: We are building a cleaner, better world.

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

A. Minnesota Power is continuously positioning its workforce for the future in response to the rapidly changing energy industry, increased regulatory compliance, proactive cyber security protection and its commitment to help create a more equitable society for all. This repositioning cannot be done without additional resources. While a large amount of the increased employee headcount has to do with generation and transmission directly, as described above, several other departments within the Company are undergoing changes that require more employees or are directly impacted by the increase in transmission projects.

For example, in May 2023, Minnesota Power's cyber technology services department completed a strategic realignment aimed at increasing the department's focus on tactical operations and strategic initiatives. This newly aligned structure is poised to capitalize on current and future technology by ensuring resources are dedicated to unlocking opportunities across the business. The realigned organizational structure addresses improving utilization and total cost of ownership of existing systems. It also facilitates a focus on new technologies identified as strategic to increasing effectiveness of the business while enhancing customer experience. As a trusted energy company, it is imperative that Minnesota Power remain proactive with cyber technology, ensuring the security of Company and customer data all while leveraging reliable technology. Another example pertains to Minnesota Power's environmental and land management department, which added additional employees in response to the anticipated implementation of new or updated environmental regulations like the Good Neighbor Rule, Coal Combustion Residual and Effluent Limitation Guidelines ("CCR/ELG"), and Section 111 carbon regulations.

Additionally, the increase in transmission projects has required the land and real estate department, specifically, to increase employee headcount due to increased land ownership engagement and sales. Human resources also increased their employee headcount to meet the needs of an increasing number of employees and to enhance the Company's talent strategy goals, including an enhanced development program, employee mentoring program, and programs designed to build a talent pipeline through intentional internships and engagement with local schools and colleges, as discussed later in my testimony. Another position was also needed in the supply chain department to expand outreach efforts and membership in diverse community organizations to support supplier diversity efforts.

Furthermore, Minnesota Power restructured the support of its subsidiaries, including nine employees in accounting, cyber technology services, real estate, and legal. While these employees are now included in the Minnesota Power employee headcount, their services mostly support subsidiaries and, therefore, most of their compensation and benefits are directly allocated to that subsidiary, including 100 percent of any Annual Incentive Plan ("AIP") or Short-Term Incentive Plan ("STIP") opportunity.

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

A. No. Minnesota Power is responding to the needs of the energy transition as many other utilities, state governments, and federal government offices are also doing contemporaneously to fill an unprecedented number of positions in the electric utility support specialties and trades.

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

A. It is increasingly important and necessary to retain the Company's current employees, and to fill open positions due to both newly created jobs and attrition. The Company was successful in meeting budgeted employee count in 2022. The Company is also working diligently to solicit and then onboard these new employees needed for 2023 and 2024. As I explain throughout my testimony, the Company is making significant progress in its talent strategy efforts through several initiatives to ensure the retention of current employees and attraction of new employees.

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

A. As a trusted energy provider and one of the largest employers in our region, we are committed to being part of the solution for making both individuals' lives and our society better. Initially, we focused our efforts on three key areas, but in 2022, we expanded those efforts to include customers and communications:

- *Workforce*: Minnesota Power employees, like the communities the Company serves, operate in an increasingly diverse society, and our workforce needs to reflect the diversity of the communities we serve, promote inclusivity, and be equitable. To that end, the Company leverages diversity recruitment efforts to engage those underrepresented in the workforce, including those facing barriers to employment. The Company notifies external partners about job openings, including tribal organizations, community colleges, universities, chambers of commerce, and community workforce organizations. Additionally, Minnesota Power posts open positions on the Company website, applicable state CareerForce websites, and a variety of other online job boards such as the Veterans Job Listings board.

- *Supply chain:* Minnesota Power supports diversity, equity, and inclusion by partnering with diverse suppliers including minority-owned, women-owned, veteran-owned, LGBT+-owned, small economically disadvantaged businesses, HubZone businesses, and disability-owned businesses. Minnesota Power continues to build these partnerships to better reflect the diversity of the communities it serves. Minnesota Power provides and encourages equal access for all qualified businesses that are direct and indirect suppliers to the Company. In addition to the new position added, as described earlier in my Direct Testimony, budget dollars were added for funding of outreach efforts and membership in diverse community organizations to support supplier diversity efforts.
- *Community citizen:* As a leader and essential resource in our communities, the Company has a responsibility to be responsive to community needs through the thoughtful distribution of grants. We strive to strengthen our ability to recognize and respond to these diverse needs in order to maintain the highest quality of life across the communities we serve, including in increasingly diverse communities.
- *Customers*: As a provider of essential services, Minnesota Power has continued to evolve and expand its programs and resources for customers, particularly for energy affordability, energy efficiency, and community engagement. As the energy transition continues and our communities adapt and change, Minnesota Power is committed to working with its customers to understand their expectations and needs so that we can continue to deliver vital services in a meaningful and respectful way to meet the diverse needs of those we serve.
- *Communications:* Minnesota Power fosters a diverse, inclusive, and equitable society through internal and external communications to prompt engagement, raise awareness, and provide training and educational opportunities while demonstrating

support for community organizations and groups that are working to build a more diverse, inclusive, and equitable world.

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

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

- Advancing our diversity recruiting framework, which includes removing unconscious bias in hiring training (required for all leaders that post a position), leveraging mentorships, and modifying job templates to further encourage applicants of all backgrounds;
- Collaborating with local leaders and colleges to identify partnership opportunities and to share best practices around internships, recruiting efforts, and community cultural events;
- Soliciting feedback from employees through pulse surveys and listening sessions;
- Continuing "Respect in the Workplace" discussions to further foster an inclusive workplace and requiring annual discrimination and harassment training; and
- Working with the Duluth Workforce Development Board, Northeast Minnesota Office of Job Training, and members of our Beyond the Yellow Ribbon ("Yellow Ribbon")[1] committee to further advance talent attraction efforts, as explained later in my Direct Testimony.

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

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

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

A. Minnesota Power recognizes the importance of its compensation and benefits in attracting and retaining highly skilled employees. As the Company strives to fulfill its obligation of providing safe, reliable, and cost-effective electricity to customers, supporting and fostering a capable and talented workforce is crucial to achieving these objectives. Therefore, Minnesota Power is dedicated to offering compensation and benefits that are not only attractive to its current and future workforce, but also aligned with the dynamics of the industry. The Company's objective, therefore, is to provide overall market-competitive compensation and benefits.

Minnesota Power also recognizes the importance of balancing the impact of compensation and benefits on its customers. While aiming to provide competitive packages, the Company remains mindful of the cost implications and the need to manage expenses effectively. By finding the right equilibrium between attracting and retaining talent and maintaining cost-effectiveness, Minnesota Power can maintain a sustainable approach that benefits both its workforce and its customers.

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

A. Minnesota Power uses several sources to assess its compensation and benefit levels to other employers. The Company examines both utility-specific data and non-utility compensation data because a number of the Company's positions are not unique to the utility industry. For example, Minnesota Power employs personnel in accounting, human resources, finance, engineering, and information technology, none of which are unique to utilities. To evaluate all types of jobs, the Company uses compensation market surveys from organizations including: ALM Legal Intelligence, Aon Radford, CompData Utilities, Culpepper, Foushee Environmental, Payscale (Company sourced), Pearl Meyer, Willis Towers Watson ("WTW"), and Western Management Utilities.

For benefits, similar to compensation, Minnesota Power uses market surveys and benefit consulting data analyses to compare its benefits to those offered by general industry and utility industry companies. Minnesota Power routinely participates in the WTW Energy Services BenVal Study ("BenVal") and the Kaiser Family Foundation ("Kaiser") Employer Health Benefit Survey. The Company also uses *ad hoc* survey data provided by Lockton Companies ("Lockton").

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

A. Recruiting and retaining employees with specialized or high demand skills has been increasingly difficult in recent years and economic data strongly suggests this trend will continue or even worsen. Specifically, the Minnesota Department of Employment and Economic Development ("DEED") continues to illustrate that the economic environment in Northeast Minnesota, which includes Duluth, faces two main challenges: (1) a tightening labor market and (2) an aging population.

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

A. A tightening labor market forces Minnesota Power and other Northeast Minnesota employers to compete for a decreasing number of qualified applicants, particularly in the specialty areas of science, technology, engineering, skilled trades, and accounting/finance. The number of qualified job seekers per vacancy has consistently declined over recent years. In addition, based on number of qualified applicants applying for positions, Minnesota Power assesses the number of qualified job seekers is low. Finally, we have found that the compensation package we are able to offer is, at times, not sufficient to attract qualified applicants. This has been happening more frequently in recent years, which is why the Company has made changes to the compensation and benefits package as noted throughout my Direct Testimony.

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

A. Of the six planning regions into which DEED divides the state, Northeast Minnesota is the least populated. As illustrated in Table 1, Northeast Minnesota has experienced a decrease in population since 2010, with a small decrease of 163 people, even though the population of the state of Minnesota has grown by 413,259 people, a 7.8 percent increase. Approximately 70 percent of the Company's employees work in St. Louis County, which has experienced decreasing population since 2010, by 694 people.

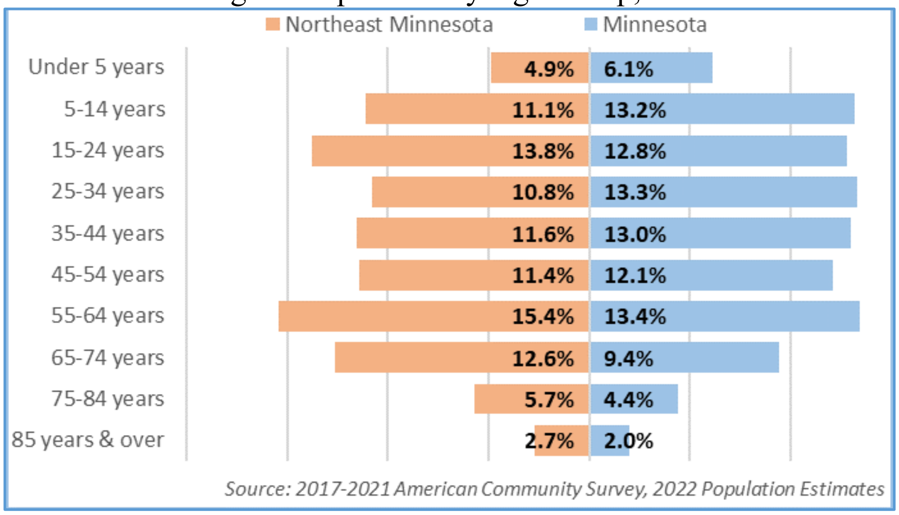
Table 1. Northeast Minnesota and State of Minnesota Population Change 2010-2022

Table 1. Population Change 2010-2022				
	2010 Population	2022 Population	2010-2022 Change	
			Number	Percentage
Northeast Minnesota	**326,225**	**326,062**	**-163**	**-0.0%**
Aitkin Co.	16,202	16,126	-76	-0.5%
Carlton Co.	35,386	36,708	+1,322	+3.7%
Cook Co.	5,176	5,708	+532	+10.3%
Itasca Co.	45,058	45,205	+147	+0.3%
Koochiching Co.	13,311	11,844	-1,467	-11.0%
Lake Co.	10,866	10,939	+73	+0.7%
St. Louis Co.	200,226	199,532	-694	-0.3%
City of Duluth	86,265	86,372	+107	+0.1%
Central Minnesota	*684,001*	*743,173*	*+59,172*	*+8.7%*
Northwest Minnesota	*553,805*	*581,275*	*+27,470*	*+5.0%*
Southeast Minnesota	*494,684*	*520,313*	*+25,629*	*+5.2%*
Southwest Minnesota	*395,643*	*397,156*	*+1,513*	*+0.4%*
Twin Cities Metro	*2,849,567*	*3,149,205*	*+299,638*	*+10.5%*
State of Minnesota	**5,303,925**	**5,717,184**	***+413,259***	***+7.8%***
Source: U.S. Census Bureau, 2010 Decennial Census, 2022 Pop. Estimates				

In addition to the negative growth rate, the Northeast Minnesota region also has an aging population. Figure 1 shows that Northeast Minnesota has a much older population than the state, with 21.1 percent of residents aged 65 years and over, compared to 15.8 percent statewide, and a lower percentage of people in the 25- to 54-year-old age group than the state (33.8 percent compared to 38.4 percent, respectively).

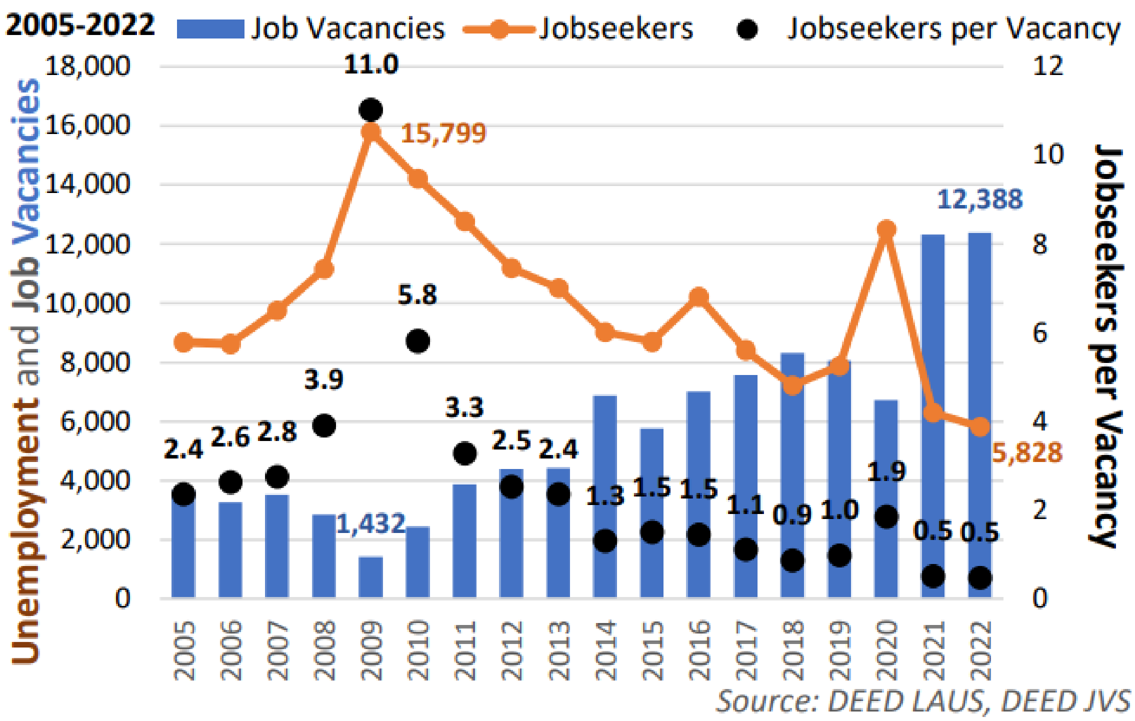
Figure 1. Age of Northeast Minnesota and State of Minnesota Populations

Percentage of Population by Age Group, 2022



Prior to the pandemic, an increasingly tight labor market and a growing scarcity of workers was recognized as one of Northeast Minnesota's most significant barriers to future economic growth. After some pandemic-induced uncertainty, tight labor market conditions returned rapidly. One clear demonstration of this is the ratio of unemployed jobseekers per vacancy, which in 2019 stood at 1-to-1 in Northeast Minnesota, meaning that there were roughly the same number of people looking for work as there were open jobs. After briefly rising to 1.9 in 2020, the ratio has since declined to an all-time low of 0.5 jobseekers per vacancy in 2021 and 2022. According to recent job vacancy survey results, there were 12,388 openings (the second highest on record) reported by employers compared to 5,828 (lowest on record) unemployed jobseekers in the region. These statistics are reflected in Figure 2.

Figure 2. Jobseekers per Vacancy in Northeast Minnesota



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

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

Q. Have remote work opportunities resolved these concerns?

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

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

A. Minnesota Power's workforce reflects the aging demographic of Northeast Minnesota. In Minnesota Power's 2021 Rate Case, Docket No. E015/GR-21-335 ("2021 Rate Case"), the Company anticipated that 19 percent of its employees would be retiring in the next five years, through 2026, and is currently on track to meet that forecast. The Company anticipates that trend will continue, with approximately 19 percent of its employees retiring in the next five years, through 2028, assuming an average retirement age of 60.

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

A. Minnesota Power continues to take steps to respond to these challenges. The Company has significantly increased the number of job fairs and community recruiting events it attends, both within and outside of the state. The Company has also increased its focus on building a robust internship program to feed the talent pipeline and help secure entry level talent, especially in hard to fill positions such as engineering, accounting, and cyber technology.

In addition to responding to challenges for entry-level positions, the Company is developing strategies to hire mid-career employees. The Company is finding this demographic harder to hire, which underscores the need to retain and engage our current workforce. In 2023, the average years of service Minnesota Power employees leaving the Company had was 14.8 years. While the Company has robust internal growth opportunities for employees, we need to ensure the experience level of employees aligns with the needs of the Company. Because we continue to operate in a tight labor market, the Company is also focusing its attention on retention of skilled employees.

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

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

A. Yes. The Company continues to partner with the Duluth Workforce Development Board and the Northeastern Minnesota Office of Job Training and their regional partners, all of which are devoted to attracting, managing, placing, enriching, and retaining the talent community for Northeast Minnesota. In addition, Minnesota Power took a leadership role, engaging several subject matter experts from within the Company, in the Commission's Energy Utility Diversity Stakeholder Group ("EUDG")[2] to examine the challenges and opportunities for Minnesota's energy utilities to attract a diverse

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

workforce with the skills needs to advance a 21st century industry and to increase supplier diversity of energy utilities. Minnesota Power has also proactively sought out and participated in opportunities beyond general job boards or career fairs to collaborate with and learn from other stakeholders in the utility industry to expand the Company's hiring reach and increase diversity in its workforce.

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

A. For decades, Minnesota Power has supported veterans, military members, and their families in various ways. In 2016, the Company took an additional step, becoming the first Duluth-based company to earn Yellow Ribbon designation from the state of Minnesota. This designation recognizes the Company's ongoing commitment to hiring, supporting, and retaining veterans and engaging its military-connected employees, their families, and the community. Minnesota Power is proud to say that this program has continued to grow and evolve in meaningful and impactful ways since 2016 and is currently stronger than ever.

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

A. Offering benefits to attract and retain veterans and active-duty personnel is an effective way to offset the tightening labor market and projected retirements. Thousands of Minnesotans have served and continue to serve our country, and a support system between companies, cities, and counties is critical to allow for a successful transition into the workplace for deployed service-members, and recognition and honor for all veterans. Utilities have long valued the skills and contributions from military service in the energy industry; military personnel often have technical skills that are closely translatable to a utility environment. For the past three years, Minnesota Power has attended the annual Minnesota Veterans Career Fair to expand our reach into the veteran community. All veterans, current service members, their spouses, and Gold Star families were invited to this year's career fair event. Company representatives discussed career paths and job openings with interested individuals who were looking for new career opportunities. Recruiting military personnel presents an especially relevant opportunity for Minnesota Power since Duluth has a significant military presence due to its hosting the Minnesota Air National Guard's 148th Fighter Wing unit. Accordingly, in 2016, the Company revised its policies and procedures and developed an action plan to better attract and retain military-connected personnel and to ensure their benefits are market-competitive. This action plan is reviewed and updated annually and includes input from the Yellow Ribbon committee and executive leadership. Furthermore, in 2022, Minnesota Power became an approved GI Bill® Training Facility for several apprenticeship programs through both the federal and state of Minnesota program. Currently, all Company apprenticeships are union positions. Veterans who qualify for certain GI Bill benefits through the federal program and who are also in a qualified apprenticeship program may be able to take advantage of their GI Bill benefits through their apprenticeship in place of using them at a college or university. This allows veterans to help close the income gap between apprenticeship wages and journey worker wages. The Minnesota GI Bill program provides veterans and service members who are residents of Minnesota and who are in a qualified apprenticeship a $10,000 lifetime benefit for education or employment. The Minnesota GI Bill can be applied for and received in addition to the federal GI Bill benefits. Employers may also receive up to $2,000 for hiring and retaining veterans through the Minnesota GI Bill. Open positions that qualify for GI Bill benefits include language that says *Approved for the GI Bill®* in the job postings.

The Yellow Ribbon designation not only demonstrates the Company's commitment to veterans and active-duty employees, but also includes military-related volunteer opportunities for the Company's employees, strengthening its ties to the community, all of which further assists the Company's commitment to personnel retention. As of October 1, 2023, Minnesota Power had 73 employees self-identify either as a veteran or an active service member, and 84 employees signed up for the volunteer pool.

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

A. Minnesota Power's efforts to support veterans, military-connected employees, and their families have been recognized through several awards from the Employer Support of the Guard and Reserve ("ESGR"), a Department of Defense program established to promote cooperation between service members and their employers. In 2017, Minnesota Power was recognized with the ESGR Above and Beyond Award. Individual leaders within the Company have also been recognized by ESGR for their support of employees over the years, to include leaders receiving the Seven Seals Award (2016), and two Patriot Awards (2013 and 2015). Additionally, in 2022, Minnesota Power's Yellow Ribbon committee received a Certification of Appreciation from the United States Air Force in connection with the support provided to a deployed employee, further confirming Minnesota Power's commitment to supporting its military-connected employees.

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

A. Minnesota Power has long-recognized the importance of appropriate and on-going workforce planning—ensuring the right employees are in the right role and the importance of retaining current employees, attracting new employees, and filling vacancies as employees retire.

III. EMPLOYEE COMPENSATION

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

A. In this section of my Direct Testimony, I will describe the components of the cash compensation paid to the Company's employees and the costs of each component. I also describe the importance of each component, and how the costs of each component have changed over the last few years, resulting in the amounts included in Minnesota Power's 2024 test year.

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

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

Base pay refers to the fixed amount of income an employee receives for their work over a defined period, providing stability and predictability in employees' earnings. Base pay is the primary component of all employees' cash compensation. For non-bargaining unit employees, an individual's base pay is determined by analyzing quantitative external market data, internal equity (*i.e.*, comparisons between employees performing similar work for the Company), and individual performance. For bargaining unit employees, base pay is the exclusive component to cash compensation and is determined by the terms of collective bargaining agreements, which specify the negotiated progressions and adjustments.

Incentive compensation has three components:

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

The AIP and STIP are designed to drive short-term (one year) action by aligning behaviors and rewarding employees for achieving common goals. Currently, 150 employees in leadership positions and other key roles of Minnesota Power and ALLETE's corporate operations participate in the AIP, whereas 559 non-bargaining unit employees are eligible for STIP. Employees may not be simultaneously eligible for both components.

The LTIP is designed to drive long-term performance and retain and engage executive talent. Eligibility for the LTIP is limited to 29 director-level and above employees of Minnesota Power and ALLETE's corporate operations who, in alignment with external market data, have the ability to affect long-term Company performance.

The AIP and the LTIP earning opportunities are structured such that, as an employee's job responsibilities increase, a greater percentage of that employee's total compensation is tied to Company performance. The STIP is a fixed opportunity of the employee's total compensation tied to Company performance. Participants who separate from service prior to retirement forfeit any earned incentive compensation. Participants who retire prior to the end of the plan year may receive prorated incentive compensation earned during employment. The plan components serve as a powerful tool to reinforce desired behaviors, promote collective accountability, and foster a performance-driven culture within the organization.

The Company is requesting recovery of the first 20 percent of our employees' AIP, as explained in Section III.B of my Direct Testimony. The Company is requesting recovery of STIP, as explained in Section III.C of my Direct Testimony. The Company is not requesting recovery of LTIP, the results of which are discussed later in my Direct Testimony.

Minnesota Power's non-bargaining unit cash compensation program also includes two other performance-based recognition vehicles—High Performance Awards and Spot Bonuses, which will be further detailed in Section III.D of my testimony.

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

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

Q. Have there been any changes to Minnesota Power's compensation programs since the 2021 Rate Case?

A. Yes. Effective January 2024, all non-bargaining unit employees not participating in AIP will be eligible for STIP, to further align employee compensation with achievement of the Company's performance and goals and to further demonstrate our commitment to attracting, retaining, and engaging employees. No other material changes have been made to the structure or elements of the cash compensation programs. With the expected increase in Minnesota Power's employee headcount throughout 2023 and 2024 and the challenges of attracting and retaining qualified employees for the Company's workforce discussed above, cash compensation programs and other recognition programs are even more important in attracting and retaining talent.

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

A. Table 2 provides the total cash compensation, including Spot Bonuses, from 2021 actuals to the 2024 test year.

Table 2. Compensation, Including Spot Bonuses – All Employees

	2021 Actual	2022 Actual	2023 Projected Year	2024 Test Year
Cash Compensation				
Total Company	$62,947,684	$68,038,446	$70,090,452	$79,218,462
MN Jurisdictional[3]	$55,397,792	$60,416,278	$62,082,459	$70,482,370
Spot Bonuses				
Total Company	$170,273	$179,551	$27,045	$54,172
MN Jurisdictional[3]	$152,182	$158,932	$23,147	$46,220
Cash Compensation, including Spot Bonuses				
Total Company	$63,117,957	$68,217,997	$70,117,497	$79,272,634
MN Jurisdictional[3]	$55,549,974	$60,575,210	$62,105,606	$70,528,590

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

A. Table 3 provides the employee count from 2021 actuals to the 2024 test year.

Table 3. Minnesota Power Employee Count 2021 – 2024

Employee Count	2021 Year-End	2022 Year-End	2023 Projected Year-End	2024 Test Year Year-End
Full-time and Part-time	999	1,055	1,150	1,178
Temporary and Intern[4]	7	16	26	33

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

[4] Temporary and Intern employees are sometimes seasonal in nature, and represent the number employed during the year.

A. Base Pay

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

A. Minnesota Power's objective for base pay is to compensate employees equitably and effectively for their skills and experience, recognizing their assigned responsibilities and function they provide to the Company, enabling the Company to deliver safe, reliable, and cost-effective electricity to customers. Minnesota Power continually seeks to ensure employee compensation is competitive with the current external market and that there is internal equity among similar positions in the organization.

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

A. Minnesota Power targets the mid-point of the market range for employees in all positions. At the time of hiring, an employee's base compensation is initially set based on a particular employee's education, training, experience, job responsibilities, and market conditions. Every year thereafter, the Company evaluates the base compensation of all its employees to determine whether adjustments are necessary. For bargaining unit employees, annual base compensation adjustments are determined through collective bargaining. For non-bargaining unit employees, external market data, economic trends, years of experience, and individual job performance are all considered to determine base compensation adjustments.

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

A. There are two unions with which the Company has collective bargaining agreements: the International Brotherhood of Electrical Workers ("IBEW") Local 31 and IBEW Local 1593. In 2024, Minnesota Power expects to have approximately 458 employees in Local 31, as compared to 427 employees in Local 31 in 2022 and 408 employees in Local 31 in 2021. In 2024, Minnesota Power expects to have two employees in Local 1593, the same number it had in 2021 and 2022.

Q. Does the Company's base compensation for the 2024 test year reflect issues specific to bargaining unit employees?

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

Under the Company's collective bargaining agreement, ratified on May 1, 2023, with Local 31, members' base salaries increases are:

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

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

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

The 2024 test year compensation figure in Table 2 above reflects the status of these collective bargaining agreements.

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

A. Yes. Local 31 members received an increase in shift differential in the same percentage as their base compensation:

- 2.75 percent in 2022 lasting through April 30, 2023,

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

Local 1593 members received the following compensation changes:

- Current members received a one-time gross bonus in the amount of $2,250 in 2023, and
- Work stipends increased from $110 to $150.

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

A. While some contract changes may not impact base compensation directly, they play an integral role in supporting and maintaining a trusted relationship with our union employees while ensuring their collective bargaining agreements benchmark appropriately for the skills needed to fulfill these jobs.

The collective bargaining agreement for employees in Local 31 includes the addition of a parental leave program, which I explain in Section IV of my testimony, and an increase in the amount reimbursable to employees for safety footwear. Together, Local 31 and Minnesota Power worked to clean up and provide clarification on several components of the collective bargaining agreement.

The collective bargaining agreement for employees in Local 1593 includes an agreement to explore and create a four-year apprenticeship for the high-voltage direct-current ("HVDC") Tech role during the term of the contract, and the creation of a senior HVDC Tech role with plans to fill this role during the term of the contract. These changes represent the Company's commitment to growth opportunities for our union employees.

Q. How did the Company develop the base compensation for the 2024 test year?

A. The base compensation for the 2024 test year was determined beginning with the budgeted employee headcount as of December 31, 2023, budgeted hourly wage for bargaining unit employees and budgeted annual salaries for non-bargaining unit employees. As Table 3 shows, the 2024 test year assumes approximately 28 more full-time and part-time employees than are in the 2023 projected year. As of the time of filing, the Company is actively and diligently hiring for these positions, and the Company expects to have hired employees for these positions by the end of 2023. These positions have been identified as strategic hires in areas that support the Company's continued ability to provide safe, reliable, and cost-effective electricity to our customers where additional resources are necessary to support these efforts. More specifically, these positions are needed to help us execute our *EnergyForward* strategy and meet the clean energy standard and other new legislative and regulatory requirements. Minnesota Power made specific, strategic, and deliberate increases to employee headcount over 2023, and is continuing that strategy into the 2024 test year to ensure that the Company has adequate resources to meet customer needs.

Finally, the base compensation amount for 2024 was also adjusted upward by a 4 percent merit adjustment for the non-bargaining unit employees and 4 percent for the bargaining unit employees. The net effect of these three adjustments is an increase in total cash compensation, including Spot Bonuses of approximately $9.1 million Total Company ($8.3 million MN Jurisdictional) from the 2023 projected year to the 2024 test year, as shown in Table 2 above.

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

A. A 4 percent base pay increase is necessary to remain consistent and competitive with the market. This budget represents a 4 percent increase across the non-bargaining unit employees; however, the actual increases provided to employees vary based on demonstrated performance in their position, and where the employee compensation is compared to market for each position. According to WTW's latest Salary Budget

Planning Survey, employers are budgeting an average merit compensation increase of 4 percent for 2024, which is down from the actual reported increase of 4.4 percent in 2023. Results from the 2023–2024 Culpepper Salary Budget & Compensation Planning Survey show companies in the Energy and Utilities industry projecting base salary increases of 4 percent for 2024. The Company's average non-bargaining unit annual performance increase for 2022 through June 2023 is 4.49 percent annualized.

It is necessary to provide market- and industry-competitive compensation to retain and engage employees in an increasingly challenging labor market. Minnesota Power's proposed 4 percent base pay increase is reasonable and consistent with external data.

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

Q. How is Minnesota Power's AIP designed?

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

Without AIP, the Company's total cash compensation would be below the market median of total cash compensation for leadership positions, making it more difficult to recruit and retain quality leadership. Minnesota Power generally sets compensation levels so that when target performance is achieved under the AIP, the resulting total cash compensation (base salary plus annual incentive pay) is near the 50th percentile of the competitive total cash compensation market level. Below-target level performance would result in no or lower awards being paid and thus below-market compensation. In addition, employees in the AIP who do not complete a quarterly leadership safety conversation will receive a 2.5 percent reduction per quarter, up to a maximum reduction of 10 percent, to their final award payout.

In other words, each participant in AIP has a portion of base compensation at risk; in order to earn market-competitive compensation, they must meet the AIP goals. If the Company did not offer this incentive plan, the Company's compensation package would not be competitive.

Q. What are the 2024 AIP goals?

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

Operational and Values. Our 2024 operational and values goals were designed to demonstrate continuous safety improvement, as well as the Company's commitment to the environment and customer service as measured by goals relating to safety leading and lagging indicators, environmental stewardship, and system reliability.

There are two categories for this goal: (1) safety and (2) availability and reliability. The Company will continue our safety journey with steady progress towards Zero Injury. The measurement will be based on a safety index rating, comprised of both lagging indicators and leading indicators. The lagging indicators for the safety metric compare the Company's safety performance with the three-year average of other peer utilities, while the leading indicators for the safety metric are based on behaviors designed to reduce injuries.

Minnesota Power strives to provide competitive and reliable electricity and improve value and reliability for all our customers to assure generating resources are available when needed most. The availability and reliability metric has five components: the System Average Interruption Duration Index ("SAIDI"), the System Average Interruption Frequency Index ("SAIFI"), the Customer Average Interruption Duration Index ("CAIDI"), Intermediate Thermal Seasonal Accredited Capacity, and Renewables Availability. These five components provide a way to measure unplanned outages and their duration. The Company's SAIDI, SAIFI, and CAIDI performance is compared to the three-year average of other peer utilities.

Intermediate Thermal Seasonal Accredited Capacity is measured against prior year and Renewables Availability is measured against the Company's three-year average.

If there is a willful disregard of environmental, reliability, or any Federal Energy Regulatory Commission regulation or standard, it would result in a reduction to or a non-payout for this goal.

Strategic. The key strategic goals measure advancing all dimensions of the Company's sustainability journey towards a zero-carbon future through the execution of transmission strategy and regulatory positioning.

Financial. The two financial metrics of the 2024 AIP goals are related to ALLETE's net income and cash from operating activities.

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

A. Yes. While some Minnesota Power employees have target maximum payout levels that exceed 20 percent of their base salaries, the Company is proposing to limit the level of incentive compensation recovered in rates to 20 percent of individual base salaries. This level is consistent with what the Commission approved in the 2021 Rate Case.

Q. What is the AIP expense in the 2024 test year?

A. The AIP costs for the 2024 test year are shown in Table 4.

Table 4. 2024 Test Year AIP Request

	Total Company	MN Jurisdictional
Total Cost without the 20 percent cap	$4,282,704	$3,811,007
Total Cost with the 20 percent cap	$2,986,098	$2,657,209

C. Short-Term Incentive Plan

Q. How is Minnesota Power's STIP designed?

A. The STIP is designed to motivate employees and align compensation with achievement of the Company's short-term goals. This pay-at-risk type of compensation drives employee investment in the work they do and provides an equitable and recognizable reward for Company success. The STIP is an important part of the Company's overall total compensation structure to attract, retain, and engage employees and is designed using market-based criteria for short-term incentive programs—a mixture of financial and operational goals. All non-bargaining unit employees not participating in the AIP are eligible for the STIP at an opportunity level of 5 percent. STIP participants are not subject to the reduction that AIP participants because they are not required to perform leadership safety conversations.

Q. What are the 2024 STIP goals?

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

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

A. No. Unlike Minnesota Power's AIP, STIP is capped at 5 percent.

Q. What is the STIP expense in the 2024 test year?

A. The STIP costs for 2024 are $2,208,893 Total Company ($1,965,606 MN Jurisdictional).

Q. How do the 2024 AIP and STIP goals benefit customers?

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

Strategic. The strategic goals are specific to participants in the AIP and are directly focused on customers by incentivizing the execution of the Company's *EnergyForward.*

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

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

A. Yes. Minnesota Power's incentive plans are a critical component of its total compensation program. Without incentive plans, Minnesota Power's total cash compensation would be below market median, and it would be difficult to attract and retain qualified and effective employees. Eliminating incentive pay would require the Company to adjust employees' base compensation to remain at a market-competitive level. This would require the Company to pay an increased level of base compensation even in years when the Company does not achieve performance goals. Thus, the incentive plans provide the Company with necessary flexibility to attract, retain, and drive the behaviors of its employees and to align its compensation with the achievement of Company goals that benefit customers.

Additionally, most companies in the utility sector provide a short-term incentive as a component of their total compensation. Similarly, in a 2021 WorldatWork survey of privately held companies, 93 percent of respondents said their organization offers employees a short-term incentive program and almost all publicly traded companies provide short-term incentives (99 percent). The survey also reported that short-term incentive participation is generally extended from the executive level through exempt salaried employees, and more than half of publicly traded companies extend participation to nonexempt employees. That report also stated that the average budget for 2021 is 7 percent of operating income, whereas Minnesota Power's budget is 4.5 percent Total Company. Finally, in 2022, all the 15 member companies of the Edison Electric Institute closest in size to ALLETE offered a short-term incentive as part of their total compensation package.

D. High Performance Awards and Spot Bonuses

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

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

Q. How does Minnesota Power administer these performance awards?

A. High Performance Awards are performance-based payments that are designed to reward the top 10 percent of non-bargaining unit, non-management employees for sustained exceptional performance that contributed in a material way to achievement of the Company's strategic or operational goals. High Performance Awards generally range from $2,000 to $5,000 (gross award) per individual. High Performance Awards are typically justified when an employee has, over a sustained period, led large, key, complex projects, compliance initiatives, or product development, or has otherwise been instrumental in achieving department objectives or large-scale process improvement.

For example, Minnesota Power provided a High Performance Award to an employee who served in multiple roles on three accelerated solar investments: the Laskin Solar Project, the Sylvan Solar Project, and the Jean Duluth Solar Project. The employee served as project manager for the interconnect portion of the project and as an owner's engineering representative for all three site developments. Their project management, engineering, and construction expertise contributed to the economical implementation of the project in response to the Commission's directive to accelerate projects in the wake of the COVID-19 pandemic (Docket No. E,G999/CI-20-492). Because High Performance Awards are a form of recognition and reward for the top long-term performers in each department, they are each reviewed by the Chief Executive Officer ("CEO").

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

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

Q. What costs for High Performance Awards and Spot Bonuses (through payroll and gift cards/merchandise credits) are included in the 2024 test year?

A. Minnesota Power's 2024 test year budget includes $426,316 Total Company ($379,362 MN) for High Performance Awards and $54,172 Total Company ($46,220 MN) for Spot Bonuses paid through payroll, paid through gift cards, or Minnesota Power company merchandise credit.

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

A. Performance-based compensation is essential to retaining qualified and talented employees. This is especially important when we are not able to increase base compensation at a rate equivalent to the overall Northland and Minnesota marketplace, but also to encourage employees to undertake significant efforts for the benefit of our customers that may require an additional investment of their time or energy. Eliminating these programs would likely require the Company to increase base compensation for non-bargaining, non-management employees to remain market-competitive. This request is consistent with the approach the Company took in the 2021 Rate Case. In that case, the Commission concluded that the Company's proposed test year budget for Spot Bonuses was reasonable and that Spot Bonuses help to address the below-market compensation of important employees to aid in retention, to the benefit of both the Company and its customers.

E. <u>Long-Term Incentive Plan</u>

Q. Please describe Minnesota Power's LTIP.

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

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

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

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

A. No. Although LTIP provides important compensation and incentives to key employees, the Company did not include any portion of the LTIP in the 2024 test year consistent with prior Commission decisions.

IV. EMPLOYEE BENEFITS

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

A. In this section of my testimony, I explain the market competitive benefits that Minnesota Power offers to its employees. I also describe why each component of the benefits program is important and how the costs of the components have changed over the last few years and for the 2024 test year.

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

Q. What benefits does Minnesota Power offer its employees?

A. To keep pace with market trends and to remain competitive, the benefits offered by Minnesota Power have evolved over time. Because of this evolution, and in recognition of how benefit changes can affect the Company's workforce, not all employees are eligible for all benefits. Minnesota Power offers a package of employee benefits including medical and dental for active employees and eligible retirees; group life insurance for active employees and eligible retirees; retirement income; vacation pay; parental leave; sick pay; disability benefits; flexible compensation plan; health, dependent care, and transportation reimbursement accounts; employee stock purchase plan; employee resource program; tuition reimbursement; service and retirement awards; employee-paid voluntary benefits; and executive benefits.

For bargaining unit employees, the design and level of all benefits, except for health care benefits, is determined through collective bargaining. For non-bargaining unit employees, the Company establishes the level of all benefits except for health care benefits. As explained below, a Board of Governors makes recommendations about the health care benefits for both bargaining unit and non-bargaining unit employees.

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

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

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

A. As with compensation, Minnesota Power uses market survey and benefit consulting data analysis to compare benefits among general industry and utility industry companies. Minnesota Power routinely participates in the BenVal study. The BenVal study's comparative analysis of benefit plan values is illustrated on a series of color graphs using relative value indices. A relative value index is determined by dividing an individual company's benefit plan value by the average benefit plan value for all of the companies participating in the comparison. An excerpt of the 2023 BenVal study is provided in MP Exhibit ___ (Krollman), Direct Schedule 2. As shown in that exhibit, Minnesota Power's benefits overall are slightly above the 50th percentile when compared to the other similar-sized utility companies surveyed.

Q. Have there been any changes to Minnesota Power's employee benefit programs since the 2021 Rate Case?

A. Yes. First, during a regular review of benefits, it was determined that Minnesota Power was below market with regards to paid time off after the birth or adoption of a child. A paid parental leave program was developed to bring the Company closer to market. This program provides employees with paid leave for care and bonding for a biological or adopted child and is provided in addition to current sick leave benefits. The program became effective January 1, 2022 for non-bargaining unit employees and effective May 1, 2023 for employees represented by IBEW Local 31, and provides employees with 80 hours of parental leave (prorated for part-time) to be used within 12 months of the date of their life event.

Second, in the 2023 Minnesota legislative session, the state legislature enacted earned sick and safe time, which requires employers to provide paid leave to employees who work in the state. While the Company's current time-off practices complied with the city of Duluth's earned sick and safe time, changes will need to be made to comply with the Minnesota earned sick and safe time, effective January 1, 2024. The changes include offering earned and sick time to temporary and intern employees.

Third, Minnesota Power underwent a comprehensive review of its benefits based on employee feedback and market prevalence. In addition to the change noted above regarding a need for a short-term incentive plan, changes were made to the wait period for both Retirement and Stock Ownership Plan ("RSOP") contributions and flexible credits for non-bargaining unit employees.

Fourth, the Company outsourced health and welfare Consolidated Omnibus Budget Reconciliation Act ("COBRA") and direct billing administration to Optum. The change created efficiencies between the health and welfare benefits using UnitedHealth and Optum platforms, as well as leveraged the vendors' expertise in legislative changes affecting eligibility and election periods, most recently during COVID-19. This change also anticipates future administration service needs as more employees will leave service without retiree health eligibility and may take advantage of COBRA continuation. Furthermore, more retirees will leave service without a defined benefit payment from the Company which will require more direct billing administration.

And, finally, as part of our process to ensure benefits are delivered in the most cost-effective manner, the Company changed life insurance carriers to Sun Life Insurance Company. As explained later in my testimony, this resulted in a cost savings to the Company and participants and allowed us to better align and expand our voluntary benefit offerings.

A. Health and Welfare Benefit Plans.

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

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

1. Health Care

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

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

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

Q. Does the Board of Governors plan on making any material changes to the active employee health care plans in the 2024 test year?

A. No. Ahead of the 2023 benefit year, the Board of Governors systematically reviewed design features of the health care plans. This included an analysis of the self-insured and self-funded arrangement, as well as a complete benchmarking analysis to navigate coverage and design trends. These served as the basis for the future strategy outlined in this section of my testimony.

In 2021, the Board of Governors reviewed the benefits and costs associated with joining a multi-employer plan and based on the review, determined it was not cost-competitive to change from our self-funded plan. The Company continuously evaluates the best way to provide health benefits, including reevaluating the multi-employer plan. Based on the most recent review, it was noted there were no meaningful changes in cost or coverage that would alter the review from 2021 and it was therefore determined to continue as a self-funded plan.

Q. Please summarize the key components of the Company's active health care plans that the Company will offer in 2024.

A. The Board of Governors sponsors a variety of robust and comprehensive health plans that promote personal accountability through choice and engages members in their health, all while managing health care costs. This strategy is supported by Lockton National Survey responses, in which 85 percent of companies offer more than one health plan option. Furthermore, the desire for choice in health coverage is supported by the 2022 Kaiser Employer Health Benefits Survey, which shows that consistently over the last five years, approximately 29 percent of employees enroll in Consumer Driven Health Plans ("CDHPs") and approximately 47 percent of employees enroll in a Preferred Provider Organization ("PPO") plan.

The Board of Governors' forward-looking strategy balances individual choice with cost-effective design. In 2023, Minnesota Power plans offer all full-time employees, as well as eligible part-time, temporary, and intern employees, a choice between four health plan designs. Two of the plan choices are High Deductible Health Plans with a Health Savings Account ("HSA") option (CDHPs). The third option is a co-pay plan that provides some first dollar coverage for participants but does not include an HSA option. Finally, the fourth plan is a co-pay only option ("Surest") that was introduced in 2023. This plan leverages technology to promote consumerism through price transparency and quality of care metrics. The addition of Surest was based on feedback received from participants, a review of benchmarking and external sensing data, and the opportunity to offer a cutting-edge benefit design that promotes individual choice.

All four of Minnesota Power's health plan options are designed to be of similar total value, and fluctuations in participant elections should not materially affect the expected 2024 test year costs. Each plan's monthly premium rate is determined based on its specific plan design and the cost sharing arrangement between participants and the

Company. Like the other three plans, the introduction of Surest is designed to guide participants to high value and cost-effective care, which is expected to have a positive effect on employee and plan value.

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

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

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

A. Since 1962, active employees have been making contributions to fund the health care plans. For the past several decades, employees have contributed to the costs of the health care plans in the form of monthly premiums, deductibles, and co-insurance. Monthly employee premiums historically have been designed to cover, on average, 25 percent of the health care plans' disbursements for claims and administrative costs. This cost-sharing arrangement is in place for both bargaining unit employees and non-bargaining unit employees. The cost-sharing arrangement for bargaining unit employees is subject to change based on negotiations between the Negotiating Committee and the Company. For comparison, the average percentage of premiums paid by covered workers is between 16 and 25 percent according to the 2022 Kaiser Employer Health Benefits Survey. This data set includes applicable subcategories including firms that have bargaining unit employees, self-funded plans, and appropriate wage metrics.

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

A. Monthly premium contributions for all employees are determined by the Negotiating Committee. A summary of the monthly premiums for each plan for the 2024 test year is provided in Table 5.

Table 5. 2024 Active Employee Health Care Monthly Premiums

Plan Type	Single	Family
CDHP #1	$210	$520
CDHP #2	$135	$395
Co-pay	$210	$520
Surest	$197	$488

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

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

A. Consistent with previous years, participants are responsible not only for premium contributions but also for deductibles, medical co-pays and co-insurance, and separate prescription drug co-pays or co-insurance. Each plan's cost sharing levels are reviewed against the other Minnesota Power health plans, as well as against external health plans, for cost competitiveness and deviation in value to promote meaningful choice. Based on that review the Negotiating Committee may balance design and costs for an individual plan to accomplish these goals. To illustrate, details on co-insurance, co-pays, and deductible coverage levels for the two distinct types of health plans are provided in Table 6.

Table 6. Health plan options for 2024

Health Plan Components	**CDHP #1**	**CDHP #2**
Annual medical and pharmacy deductible	$3,200/person or $6,400/ family. Deductible is embedded.	$4,500/person or $9,000/family. Deductible is embedded.
Medical co-insurance	20%	
Prescription co-insurance (non-preventive)	After $3,200 pharmacy deductible limit has been satisfied, prescription co-pay applies	
Prescription co-insurance (preventive)	10% (not subject to deductible)	
Maximum Out of Pocket ("OOP")	$4,000 per person or $8,000 per family. OOP is embedded.	$6,000 per person or $12,000 per family. OOP is embedded.
Health Plan Components	**Copay**	**Surest**
Annual medical and pharmacy deductible	$2,000 per person or $4,000 per family. Deductible is embedded.	N/A
Medical co-insurance	20%	N/A
Prescription co-insurance (non-preventive)	N/A	
Prescription copay (tier 1)	$10	
Maximum Out of Pocket	$5,000 per person or $10,000 per family. OOP is embedded.	

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

A. Minnesota Power's health care plans have not been immune to the rising costs associated with providing health care. According to Lockton, rising costs have impacted all companies that provide health care benefits to employees. Lockton notes that health care expenses are expected to rise by approximately 8 percent beginning in 2024 due to inflationary pressures, including adjusted pricing in provider contract renewals and phasing in new contract rates over time. The Board of Governors has ensured that the increase in costs associated with benefit design changes, including cost increases related to coverage requirements imposed by the PPACA, is shared between the Company and employees according to the 75/25 split described above.

Minnesota Power designs plans that encourage employees to be wise consumers of health care. In 2020, the Company changed health plan providers to UnitedHealthcare to get the best negotiated rates with health care providers. Additionally, this change to UnitedHealthcare provides participants the right tools and programs designed to help control health care cost by improving the overall health and well-being of the participants. Enhancements include proactive outreach to participants to help modify behaviors and better manage specific health care concerns and educational materials that provide transparent cost comparison tools to allow participants to get the right health care at the right price.

Additionally, to reduce health care costs, the Board of Governors reviewed alternative ways to offer insurance. For example, the Board regularly reviews fully-insured group health plan products and performs a comprehensive review of potential self-insured and fully-insured vendors, including medical and prescription carriers, to ensure that the Company is offering appropriate coverage while working with the best vendor available. Based on this analysis, the Board of Governors determined that fully-insured coverage available elsewhere did not result in cost savings and was more restrictive than our current coverage in terms of both choice in health plan and available design alternatives. In 2023, the Board of Governors included Surest, a consumer-based co-pay only health plan which allows participants to easily evaluate quality and cost metrics prior to a service. Furthermore, the health plan reviewed pharmacy benefit management rebate provisions and will realize savings through enhanced prescription rebate sharing.

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

A. No. While viewed collectively in a broad sense to ensure consistent messaging, the active and retiree health plan strategies are developed separately based on several factors including usage trends, cost, market prevalence, and benchmarking. The retiree health plans shifted to CDHPs later than the active plans and have offered different plan options at various points in time. However, for 2023, the active and retiree medical plans are consistent in available options with two CDHPs and two copay plans.

Retiree health coverage is separated into two distinct groups: pre-Medicare, generally reserved for retirees under age 65, and Medicare eligible retiree coverage for retirees over age 65.

The pre-Medicare retiree plans share the same features as the active employee medical plans to promote continuity and consistency from active medical coverage to retiree medical coverage.

Currently, Medicare eligible retirees and dependents are covered on the fully insured Medicare Advantage plan that coordinates with Medicare. However, beginning January 1, 2024, Medicare eligible retirees will move to a Medicare marketplace design with Health Reimbursement Arrangement ("HRA"). This strategic decision will provide participants and their dependents a choice in coverage, as well as savings to the plan.

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

A. On a per-employee basis, Minnesota Power's health care costs are comparable to many utilities and companies nationwide. In 2023, the Company's projected cost of health claims for its active employees is expected to be $15,206 per employee. Of this cost, the Company contributes approximately $11,404 per employee, with employees contributing the rest, or approximately 25 percent. According to the Company's benefits consultant, Lockton, the 2022-–2023 blended norm cost of health expenses among utilities was $15,315 per employee.

Q. What is the Company's request for the costs of active employee health care in the 2024 test year and how does that compare to prior years?

A. Table 7 compares the active employee health care costs in the 2024 test year to 2021–2022 actuals and the 2023 projected year.

Table 7. Active Employee Health Care Costs 2021–2024

Year	Total Company	MN Jurisdictional
2021 (Actual)	$7,306,459	$6,448,169
2022 (Actual)	$7,825,160	$6,946,316
2023 (Projected Year)	$7,788,902	$6,903,226
2024 (Test Year)	$8,341,600	$7,422,856

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

A. Total plan costs increased from 2021 to the 2023 projected year, largely related to increase in participant count at the start of 2021 we had 873 participants on the plan, compared to 916 at the start of 2023) and inflationary pressures related to cost of care, prescription expenses, and administration fees. As referenced in other sections of my Direct Testimony, the Company has reviewed and strategically adapted the health plan to ensure a cost competitive and robust plan for Minnesota Power employees and their families.

Q. Why are healthcare costs per participant increasing?

A. In addition to the inflationary pressures, other external factors have contributed to the increase in cost per participant. Two of the most notable items are the national trend of increasing health care costs and prescription drug costs, along with changes required under the PPACA. Nationally, health care costs and prescription drug costs are rising, both in terms of the cost of service for specific services and in increased utilization of health care services by participants. According to Lockton, medical costs are expected to trend up 8 percent in 2024, and prescription costs are expected to increase 9 percent, for a combined health trend increase of 8.25 percent. This is an increase from prior years' expected increase of 6.5 percent for medical and 8 percent for prescription in 2023. Increased prescription costs and an increase in the number of specialty and biosimilar drugs (which can exceed $100,000 per prescription) continue to contribute to increased expenses for the plans. While the long-term impact of having the right prescription should lead to lower long-term costs, new high-cost prescriptions on the market contributed to an overall increase in health care costs per participant for the Company in recent years. In addition, high-cost claimants are a significant driver of total plan expenses, and the Company's health care plans continue to experience volatility in large claims, defined as claims over $100,000. Comparing the plan from April 2022 through April 2023, the plan has had a 395 percent increase, measured on a per employee per month basis, in the expenses tied to large claims. These claims account for approximately 32 percent of total claims compared to approximately 7 percent of total claims through April 2022. The plan has spent approximately $1.02 million more through April 2023 compared to the same period in 2022. This volatility and increase in large claims not only affect the cost of the Company's health care plans, but in cases where the large claims exceed the Company's stop loss insurance amount, they affect future stop loss premiums and individual laser levels of reinsurance.

2. Dental Care

Q. Please describe Minnesota Power's dental plan.

A. Minnesota Power's dental plan provides two dental plan options. The first is a base plan that offers basic, preventative, and restorative dental care with an annual benefit limit of $1,250 per participant. The second is a buy-up plan that was introduced in 2020 after a comprehensive review of benchmarking data, employee feedback, and attraction and retention considerations. The buy-up dental plan has an annual limit of $1,500 per participant. Coverage enhancements include up to $1,000 of lifetime orthodontic coverage per child, additional preventative services for children, and added coverage for implant and occlusal guard services. Consistent with the Company's medical plan, the dental plan is also administered by the Board of Governors and is self-funded and self-administered. Funding for the dental plan is provided by both employee and Company contributions. Under the base plan, employee contributions fund approximately 40 percent of plan costs and Company contributions fund approximately 60 percent of plan costs. Participants in the buy-up plan absorb the additional cost of the enhanced benefit which is reviewed and adjusted annually. Table 8 summarizes the 2024 monthly premiums.

Table 8. 2024 Employee Dental Plan Monthly Premiums

Plan Type	Single	Family
Base Plan: Full-time active employee	$14	$43
Buy-up Plan: Full-time active employee	$30	$85

Q. What dental care costs are included in the 2024 test year?

A. The 2024 test year includes $507,286 Total Company ($451,413 MN Jurisdictional) in dental care costs for active employees.

3. Other Components of the Health and Welfare Benefit Plans

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

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

Q. What is the flexible compensation plan?

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

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

Q. Please describe the reimbursement account programs.

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

Q. What is the employee resource program?

A. The employee resource program encompasses physical, mental/emotional, professional/financial, and social wellbeing by providing access to outside counselors, resources, and referrals to assist employees and their household. This service also provides on-site education sessions, most recently by hosting mental health awareness sessions as part of Mental Health Awareness month. It is designed to confidentially help in resolving personal and work-related problems that may be adversely affecting employees, to help employees achieve goals, and to provide tools and resources to support an employee's well-being for a balanced life. It is also used to provide on-site group and individual counseling sessions for employees that have been involved in a tragic event, such as loss of a co-worker. This comprehensive package is offered free to all employees and members of their household.

In addition to employee-specific support, the employee resource program also offers training tools designed to support leaders as they work with employees. This resource includes consultations, referral programs, and other tools geared toward leaders.

Q. Please describe the life insurance program.

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

Q. What are the other voluntary benefits?

A. To provide a well-rounded health and welfare package, Minnesota Power also provides the opportunity for employees to purchase voluntary benefits to complement the Company-provided benefits, such as AD&D insurance, critical illness insurance, hospital indemnity insurance, accident insurance, and vision coverage.

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

A. The costs are included in MP Exhibit ___ (Krollman), Direct Schedule 3. The Company continues to ensure benefits are delivered in the most cost-effective manner by regularly reviewing the way benefits are delivered. The Company, with assistance from our benefits consultant, Lockton, regularly reviews the design and cost of benefits compared to their data and recommends changes as needed. For example, in 2023, to offset the increasing cost of providing life insurance, the Company switched to Sun Life Insurance Company. Not only did this result in cost savings to both the Company and the employees, it provided simplified administration, administrative cost savings, and a streamlined benefit dashboard for employees.

Prior to the change in 2023, in 2019, the Company reviewed the cost and administration of its benefit administration of flexible spending accounts and employee resources program. The prior contracts for flexible spending benefits administration were cost-competitive so there was no material cost savings recognized with switching these programs to UnitedHealthcare; however, consolidating medical, flex spending, and the employee resources program with UnitedHealthcare simplified administration for the Company and provided a more streamlined process for participants. Similarly, the change to UnitedHealthcare as the COBRA and direct billing vendor was generally cost neutral, however the third-party vendor provided for continuity of service, up to date compliance monitoring, and scaling as the Company anticipates an increase in COBRA and direct billing administration needs.

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

A. Yes. Program administration costs are an essential component of the Company's overall benefit program. The costs are set forth on MP Exhibit ___ (Krollman), Direct Schedule 3.

B. <u>Other Benefits</u>

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

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

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

Service Awards. Awards are provided to employees every fifth year in the amount of $10 per year of service in the form of a gift card and include a certificate at each milestone. In addition, employees with twenty years of service or greater are provided with a recognition meal.

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

Q. Was Minnesota Power previously denied recovery of Other Benefits?

A. In the 2021 Rate Case, Minnesota Power was denied recovery of Service Awards and Retirement Awards, which were included in the employee expense schedules. Minnesota Power believes that Service Awards are essential components of the Company's compensation and benefits package and benchmarking data supports that. According to the Society for Human Resource Management ("SHRM") 2023 Employee Benefits Survey, 76 percent of Midwest companies in construction, utilities, agriculture, and mining industries offer service anniversary awards, an increase of 9 percent since 2019. Additionally, Retirement Awards are designed to provide meaningful recognition to employees to thank them for their service—a part of our exit with respect strategy. According to the WorldatWork 2022 Total Rewards Inventory Programs & Practices for all industries, 44 percent of companies offer retirement awards, a percentage that has remained steady since 2016.

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

A. Yes. Minnesota Power is seeking recovery for all of the costs except for the recognition meals provided for years of service. These costs are an important component of the Company's benefit program, and especially support employee growth, retention, and recognition. The costs are set forth on MP Exhibit ___ (Krollman), Direct Schedule 3.

C. Retirement Benefits

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

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

1. Defined Contribution Plan ("DC Plan")

Q. Please describe Minnesota Power's DC Plan.

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

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

A. Yes. For all non-bargaining unit employees and for bargaining unit employees not eligible for a defined benefit plan, Minnesota Power provides a contribution and a match for contributions to the 401(k) component of the DC Plan. For non-bargaining unit employees hired after September 30, 2006, the Company contributes six percent of eligible wages and matches up to five percent. In other words, if an employee elects to contribute five percent, the Company's total contribution, including match, is 11 percent. For bargaining unit employees hired after January 31, 2011, the contribution is seven percent of eligible wages, and the match is up to five percent. For employees hired before these dates, the contribution and match percentages vary based on factors such as date of hire, age, and bargaining unit status.

Q. What is included in Minnesota Power's 2024 test year for annual DC Plan costs?

A. The costs set forth in the 2024 test year for the DC Plan are the estimated Company contributions and matches to employee accounts. The estimated Company contribution and match are based on plan contribution design and estimated employee earnings and contributions.

Q. How do Minnesota Power's costs for the DC Plan in the 2024 test year compare to prior years?

A. Table 9 compares DC Plan costs in the 2024 test year to 2021–2022 actuals and the 2023 projected year.

Table 9. DC Plan Costs 2021–2024

Year	Total Company	MN Jurisdictional
2021 (Actual)	$5,960,998	$5,260,760
2022 (Actual)	$6,214,053	$5,516,153
2023 (Projected Year)	$6,816,866	$6,041,720
2024 (Test Year)	$9,256,035	$8,236,575

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

A. First, the Company anticipates a higher percentage of its employees will be receiving benefits through the DC Plan. Because the DB Plans are closed to all new hires, all new employees hired accrue 100 percent of their retirement benefits through the DC Plan. Second, the Company's contributions to the DC Plan are based on a percentage of employees' salaries. As salaries increase, Company and employee contributions also increase. Third, overall increase in actual headcount is a contributor. Finally, beginning in 2024, the Company shortened the waiting period for Company contributions from the quarter after one-year of employment to the first of the month following one calendar month of employment for non-bargaining unit employees to align with benchmarking data, and to attract and retain employees.

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

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

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

A. Providing a competitive retirement plan is an essential element of the Company's benefit package. This is one of the top benefits for both prospective employees and for retention: both prospective and current employees expect that their employer will provide a DC plan with a company contribution and match, and they are highly attentive to the amount of the company contribution and match. If the Company did not offer the DC Plan, it would be exceedingly difficult to attract and retain qualified employees. According to the 2023 SHRM Employees Benefits Survey, nearly all employers offer some type of retirement plan, with 94 percent of industry respondents (Construction, Utilities, Agriculture & Mining) offering a traditional 401(k) or similar defined contribution retirement savings plan. Eighty-nine percent of those organizations reported offering an employer match for traditional 401(k) plan contributions. In addition, the PLANSPONSOR 2022 Defined Contribution Survey found that 89.4 percent of respondents from the Utilities & Environmental industry offer a 401(k) plan. Of those respondents, the top three maximum employer matches, with a three-way tie of 22.2 percent, are three percent, four percent and more than 6 percent. For these reasons, the DC Plan is an indispensable element of the Company's retirement plans, and its costs should therefore be included in rates.

2. Defined Benefit Pension Plans

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

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

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

Q. Please describe Minnesota Power's DB Plans.

A. Minnesota Power's DB Plans are traditional defined benefit plans that use final average pay and credited service in the benefit calculation. For non-bargaining unit employees hired prior to October 1, 2006, the credited service is capped as of September 30, 2006, and final average earnings was frozen as of November 30, 2018. For bargaining unit employees hired prior to February 1, 2011, employees continue to accrue credited service and final average pay components while eligible for the plan. Minnesota Power's actuary, WTW, calculates the Company's pension expense using actuarial analyses. As of WTW's actuarial analysis performed in 2023, approximately 150 non-bargaining unit employees (approximately 20 percent of all non-bargaining unit employees) and 304 bargaining unit employees (approximately 63 percent) were eligible for the DB Plans.

Q. What DB Plan Expenses are included in Minnesota Power's 2024 test year and how do these expenses compare to prior years?

A. Table 10 compares DB Plans expenses in the 2024 test year to 2021–2022 actuals and the 2023 projected year.

Table 10. DB Plans Expenses 2021–2024

Year	Total Company	Total MN Jurisdictional
2021 (Actual)	$5,087,717	$4,490,061
2022 (Actual)	$2,761,597	$2,451,442
2023 (Projected Year)	$4,609,061	$4,084,965
2024 (Test Year)	$4,751,507	$4,228,176

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

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

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

Q. How do the overall DB Plan expenses for the 2024 test year break down among Plans B and C?

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

Table 11. DB Plans Expenses For 2024 Test Year

	Total Company	**MN Jurisdictional**
Plan B – Bargaining Unit Employees	$3,131,122	$2,786,260
Plan C – Inactive Participants as of December 31, 2015 and Non-Bargaining Unit Employees	$1,620,385	$1,441,916
TOTAL	**$4,751,507**	**$4,228,176**

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

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

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

A. Over 93 percent of employees eligible for the DB Plans also contribute to the 401(k) plan, at an average deferral rate of at least 12.5 percent. These employees' contributions to their 401(k) plans demonstrate that the Company's employees are paying for a portion of their retirement costs and that these costs are not being borne entirely by the Company's customers.

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

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

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

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

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

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

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

A. For 2024, the estimated costs for the DB Plans are $4,751,507 Total Company ($4,228,176 MN Jurisdictional) (based on WTW's actuarial analysis) covering an estimated 150 non-bargaining unit employees, 304 bargaining unit employees, and 1,603 retirees. For the DC Plan, the costs are $9,256,035 Total Company ($8,236,575 MN Jurisdictional), covering an estimated 718 non-bargaining unit employees and 460 bargaining unit employees.

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

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

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

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

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

A. As previously described, Minnesota Power uses market survey and benefit consulting data analysis to compare its retirement benefits program to those offered by peer utilities and companies across other sectors. Minnesota Power routinely participates in the WTW Energy Services BenVal Study. An excerpt from the 2023 version of that study is provided in MP Exhibit ___ (Krollman), Direct Schedule 2. As shown on the BenVal graphs, the Company's benefits overall are slightly above the 50th percentile when compared to the other utility companies in the survey.

3. Other Post-Employment Benefits

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

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

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

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

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

A. There are two plans—a pre-65 retirement health plan and a post-65 retirement health plan. The distinction between the two plans is tied to Medicare eligibility; retirees aged 65 and older are required to participate in Medicare, whereas retirees under age 65 are not. In the pre-65 retirement health plan, participants may choose between the same plan options as the active employees. Retirees over age 65 are offered a Medicare Advantage plan (as explained later in my testimony, effective January 1, 2024, post-65 retirees will be provided HRA to purchase coverage through a marketplace) which is contingent upon enrollment in Medicare Plans A and B. Monthly premium rates are unique to each of the plans and are determined based on plan design and the cost-sharing arrangement between participants and the Company that is negotiated by the Board of Governors. Participants contribute to the overall cost of the health care claims and administrative expenses through the payment of premiums, deductibles, and co-insurance. The CDHP plans require a participant to meet a deductible prior to coverage for medical expenses; however, certain preventive services are covered at 100 percent regardless of the deductible amount. Conversely, under the Surest plan certain services have a specific copay rather than cost sharing through deductibles and coinsurance. Once a deductible has been met, a co-insurance cost sharing applies to medical expenses. Surest differs from the other plan offerings in that it is a copay only model. Consistent through all plan options, participants' medical and prescription expenses, not including monthly premiums, are limited by an annual out-of-pocket maximum.

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

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

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

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

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

Summary of Compensation and Benefit Costs		2021	2022	2023	2024	2024	
	FERC Accounts	Actual, Total Company	Actual, Total Company	2023 Projected, Total Company	Test Year, Total Company	Test Year MN Jurisdictional	
Compensation, including Spot Bonuses	Multiple	63,117,957	68,217,997	70,117,497	79,272,634	70,528,590	
Compensation		62,947,684	68,038,446	70,090,452	79,218,462	70,482,370	
Spot Bonuses		170,273	179,551	27,045	54,172	46,220	
High Performance Awards	92000	164,043	213,712	386,808	426,316	379,362	
Defined Benefit Pension Plans	92608	5,087,717	2,761,597	4,609,061	4,751,507	4,228,176	
Defined Contribution Plan	92606-92607	5,960,998	6,214,053	6,816,866	9,256,035	8,236,575	
Other-Post Employment Benefits	92611-92613	(4,588,089)	(6,605,125)	(7,878,062)	(7,337,814)	(6,529,627)	
Health Care Plans	92605	7,306,459	7,825,160	7,788,902	8,341,600	7,422,856	
Dental Plan	92604	454,944	503,960	432,795	507,286	451,413	
Group Life Insurance	92601	113,629	173,959	155,817	152,891	136,052	
Flexible Credits	92602	785,083	789,133	957,228	1,118,777	995,555	
Tuition Reimbursement Program	92603	56,782	55,502	70,116	70,466	62,704	
Employee Resource Program	92000	20,813	20,490	22,000	22,000	19,577	
Reimbursement Accounts	92610	7,515	6,478	7,788	9,865	8,779	
COBRA Administrative Fees		-	-	-	7,281	6,479	
Long-term Disability Plan	92614	988,873	(33,028)	686,280	844,806	751,759	
Service Awards	92000	29,114	34,095	18,276	23,616	21,015	
Retirement Awards	92000	10,079	13,250	9,996	10,128	9,013	
Severance	92000	73,326	-	41,836	42,044	37,414	
Short-Term Incentive Plan		-	-	-	2,208,893	1,965,606	
Annual Incentive Plan	92000	2,745,660	3,609,083	3,480,324	4,282,704	3,811,007	Request capped at 20%
Long Term Incentive Plan	92000	2,424,974	1,169,910	1,968,516	2,151,660	1,914,676	Not seeking recovery
Executive Deferral Plan	92000	1,326,999	626,613	1,152,876	1,067,328	949,772	Not seeking recovery
Executive Investment Plan	92000	12,335	2,714	8,076	5,988	5,328	Not seeking recovery
Executive Investment Plan - Survivor Benefits	92000	58,180	52,701	54,454	65,202	58,021	Not seeking recovery
Legacy Employment Agreements	92000	62,190	107,016	46,764	54,948	48,896	Not seeking recovery
Supplemental Executive Retirement Plan pension benefit	92615	1,563,520	807,321	834,113	819,908	729,604	Not seeking recovery
Supplemental Executive Retirement Plan annual restoration plan	92615	196,151	220,664	246,809	261,502	232,700	Not seeking recovery