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Direct Testimony and Schedules
Laura E. Krollman

Before the Minnesota Public Utilities Commission

State of Minnesota

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

Docket No. E015/GR-19-442

Exhibit _____

EMPLOYEE COMPENSATION AND BENEFITS

November 1, 2019

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1 **I. INTRODUCTION AND QUALIFICATIONS**

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

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

5
6 **Q. By whom are you employed and in what position?**

7 A. I am employed by ALLETE, Inc., doing business as Minnesota Power (“Minnesota
8 Power” or the “Company”). My current position is Manager – Compensation, Benefits,
9 and Talent Acquisition.

10
11 **Q. Please summarize your qualifications and experience.**

12 A. I earned a Bachelor of Arts degree in Accounting from the College of St. Scholastica. I
13 have 19 years of experience with the Company. During my first four years at Minnesota
14 Power, I worked in the internal audit department, where I had the opportunity to work
15 on a variety of operational and financial audits. I have spent the last 15 years in human
16 resources, where, over the last eight years, I led a variety of human resources functions,
17 including benefits, compensation, and talent acquisition. In my current position, I also
18 work closely with learning and organizational development programs, employee and
19 labor relations, and payroll and human resource information systems.

20
21 **Q. What is the purpose of your testimony?**

22 A. The purpose of my Direct Testimony is to describe the compensation and benefits
23 provided to the employees of Minnesota Power. For Minnesota Power to continue
24 providing safe, reliable, and reasonably priced electricity, the Company needs to ensure
25 it has a skilled workforce that can respond to the needs of its customers. As described
26 throughout my testimony, Minnesota Power has undertaken a comprehensive workforce
27 review, reduced staffing levels accordingly without sacrificing safety or reliability, and
28 acted on a number of cost-saving measures. The Company continues to request only
29 reasonable expenses to be recovered through rates. It is critical to Minnesota Power’s
30 talent strategy that the compensation and benefits offered by the Company remain
31 market-competitive, and my testimony explains how the Company’s benefit design

1 changes, reduction of employees, and rate recovery request are all aligned to that
2 objective.

3
4 **Q. Are you sponsoring any exhibits in this proceeding?**

5 A. Yes. I am sponsoring the following exhibits:

- 6 • MP Exhibit ___ (Krollman), Direct Schedule 1 – Employee Counts
- 7 • MP Exhibit ___ (Krollman), Direct Schedule 2 – Summary of Compensation
8 and Benefit Costs
- 9 • MP Exhibit ___ (Krollman), Direct Schedule 3 – BenVal Study Excerpt

10
11 **Q. Are you sponsoring other schedules in the rate filing?**

12 A. Yes. I am sponsoring Schedule H – 5A in Volume 3, which sets forth the compensation
13 of the Company’s ten highest paid officers and employees, as required by Minn, Stat.
14 § 216B.16, subd. 17(a)(5).

15
16 **II. OVERVIEW OF THE COMPANY’S WORKFORCE AND COMPENSATION**

17 **Q. Please briefly describe Minnesota Power’s workforce.**

18 A. In 2020, Minnesota Power expects to provide jobs to 1,020 full-time and part-time
19 employees, including 396 employees who are represented by unions (referred to as
20 bargaining unit employees) and 624 non-bargaining unit employees. Minnesota
21 Power’s employees perform a variety of functions that support the Company’s ability
22 to supply retail electric service to more than 145,000 customers and wholesale service
23 to 15 municipalities in the State of Minnesota.

24
25 **Q. How has Minnesota Power’s workforce evolved over the last few years?**

26 A. Over the last few years, Minnesota Power instituted a process of evaluating and aligning
27 its workforce in light of the ongoing transformation of its generation portfolio. As
28 discussed in the Direct Testimony of Company witness Mr. Joshua J. Skelton, this
29 process will continue as the Company’s overall generation fleet transformation
30 continues. Additionally, the Company was forced to make some difficult decisions in
31 light of the outcome of the Company’s 2016 rate case in Docket No. E015/GR-16-664

1 (“2016 Rate Case”). Since the 2016 Rate Case, the Company’s employee staffing levels
2 have decreased by 135 (full-time and part-time comparison of January 2017 to 2020 test
3 year). As explained later in my testimony, the Company managed this reduction in
4 staffing levels through both attrition and layoffs.
5

6 **Q. Please describe, generally, what precipitated these decisions to modify the**
7 **Company’s workforce?**

8 A. As I mentioned, some of the decreases to the Company’s workforce were driven by
9 changes in its portfolio of generation resources, specifically the retirement of Boswell
10 Energy Center Units 1 and 2 (“BEC1 and BEC2”). Efficiencies from technology
11 enhancements, such as the Mobile Workforce System initiative described in the Direct
12 Testimony of Company witness Mr. Daniel W. Gunderson, also resulted in reduced
13 employee count. Some decreases, however, resulted from the outcome of Minnesota
14 Power’s 2016 Rate Case. Coming out of that rate case, the Company knew that it had
15 to strive to have the right people doing the right process and prioritizing the right work,
16 all within the Company’s revenue limitations. As I explain later in my testimony, it was
17 necessary to use a thoughtful, systematic approach to reduce employee staffing levels
18 while ensuring that Minnesota Power remained able to deliver safe, reliable, and
19 reasonably priced electricity. Due to these reductions, it is increasingly necessary to
20 retain the Company’s remaining employees, to fill open positions for specific needs,
21 and to plan for the Company’s aging workforce.
22

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

24 A. The compensation and benefits provided to Minnesota Power’s employees are designed
25 to support the Company’s obligation to serve retail customers in its service area with
26 safe, reliable, and reasonably priced electricity. It is essential that the Company attract
27 and retain well-qualified employees to fulfill these objectives by compensating them
28 appropriately and competitively. The Company’s objective, therefore, is to provide
29 market-competitive compensation and benefits. Compensation and benefits must be
30 high enough to attract excellent employees while remaining in line with competitors,

1 and also while considering the cost impact to customers of such compensation and
2 benefits.

3
4 **Q. How does Minnesota Power analyze whether it is providing market-competitive**
5 **compensation and benefits?**

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

- 17 • For management employees, total cash compensation is consistently near the
18 market median or 50th percentile when target performance is achieved for
19 purposes of incentive compensation.
- 20 • For non-management, non-bargaining unit employees, total cash compensation
21 is generally within 5-8 percent below market, for the reasons I discuss below.
22 For non-management, non-bargaining unit employees who participate in the
23 Annual Incentive Plan ("AIP"), their total cash compensation is generally within
24 2-3 percent below market. Compensation levels for non-bargaining unit
25 employees are adjusted based on annual review of compensation market data
26 and trends, as well as for such things as job performance, experience, and
27 comparisons between employees performing similar work for the Company.
- 28 • For bargaining unit employees, compensation and benefits are negotiated, and
29 adjustments are made in accordance with the terms of the labor contract.

30

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

9
10 **Q. What challenges does Minnesota Power face in recruiting and retaining the skilled**
11 **employees necessary to serve the needs of its customers?**

12 A. In the past, Minnesota Power’s compensation and benefit program has been effective in
13 recruiting and retaining employees. However, recruiting and retaining employees with
14 specialized or high demand skills has been difficult and we anticipate it will become
15 increasingly more so. Specifically, the Minnesota Department of Employment and
16 Economic Development (“DEED”) continues to emphasize that the economic
17 environment in Northeast Minnesota, which includes Duluth, faces two main
18 challenges: (1) a tightening labor market, and (2) an aging population. Additionally,
19 motivating individuals to move to Northeast Minnesota presents its own challenges.

20
21 **Q. Please describe how a tightening labor market affects Minnesota Power’s ability**
22 **to attract and retain qualified employees.**

23 A. A tightening labor market forces Minnesota Power and other Northeast Minnesota
24 employers to compete for a dwindling number of applicants with the necessary skills,
25 particularly in the specialty areas of science, technology, engineering, skilled trades,
26 and accounting/finance. Despite higher unemployment rates in Northeast Minnesota as
27 compared to the rest of the state, the number of qualified job seekers per vacancy has
28 consistently declined over recent years. In addition, Minnesota Power can tell that the
29 number of qualified job seekers is very low. For example, the Company must, at times,
30 repeatedly post the same position because no qualified applicants responded to the
31 posting. Additionally, we are finding that the compensation package we are able to

1 offer is, at times, not sufficient to attract qualified applicants, which has been happening
2 more frequently than in prior years.

3
4 Some of the Company's hardest-to-fill jobs are engineering-related. For example,
5 Minnesota Power recently sought to hire two experienced power systems engineers,
6 through separate postings. For both jobs, the number of applicants was only in the low
7 single digits. Of these applicants, the majority did not meet the minimum qualifications
8 for the roles, while the remaining candidates were deemed unsuitable for the positions
9 during the interview process. As a result, the Company had to recruit and re-post for
10 these needed positions. While this is just one example, the Company is encountering
11 these situations more frequently.

12
13 This example illustrates two primary concerns. First, while the positions had to be
14 reposted and remain open, an existing employee had to do additional work on top of
15 their regular duties. Second, this example illustrates the limitations of Northeast
16 Minnesota's talent base for key science, technology, engineering, and mathematics jobs.
17 To address these problems, Minnesota Power has concluded that, in addition to ensuring
18 its compensation and benefits package is competitive with the market, it is critical that
19 the Company focus on retention, so that it can hold on to qualified employees and thus
20 build its own talent pipeline.

21
22 **Q. Why is the labor market in Northeast Minnesota area so tight?**

23 A. Of the six planning regions into which DEED divides the state, Northeast Minnesota is
24 the least populated. As illustrated in Table 1, Northeast Minnesota has experienced a
25 decrease in population since 2010, losing 1,133 people, a 0.3 percent decrease, even
26 though the population of the state of Minnesota as a whole has grown by 307,254
27 people, a 5.8 percent increase. Approximately 66 percent of the Company's employees
28 work in St. Louis County, which has experienced decreasing population since 2010.

29

1
2

Table 1. Northeast Minnesota and State of Minnesota Population Change 2010-2018

Population Change 2010-2018				
	2010 Population	2018 Estimate	2010-2018	
			Number	Percent
Northeast Minnesota	326,225	325,092	-1,133	-0.3%
Aitkin Co.	16,202	15,902	-300	-1.9%
Carlton Co.	35,386	35,837	451	1.3%
Cook Co.	5,176	5,393	217	4.2%
Itasca Co.	45,058	45,108	50	0.1%
Koochiching Co.	13,311	12,440	-871	-6.5%
Lake Co.	10,866	10,658	-208	-1.9%
St. Louis Co.	200,226	199,754	-472	-0.2%
Northwest Minnesota	553,805	568,702	14,897	2.7%
Central Minnesota	684,001	716,384	32,383	4.7%
Southeast Minnesota	494,684	509,389	14,705	3.0%
Southwest Minnesota	395,643	392,605	-3,038	-0.8%
Twin Cities Metro	2,849,567	3,099,007	249,440	8.8%
State of Minnesota	5,303,925	5,611,179	307,254	5.8%

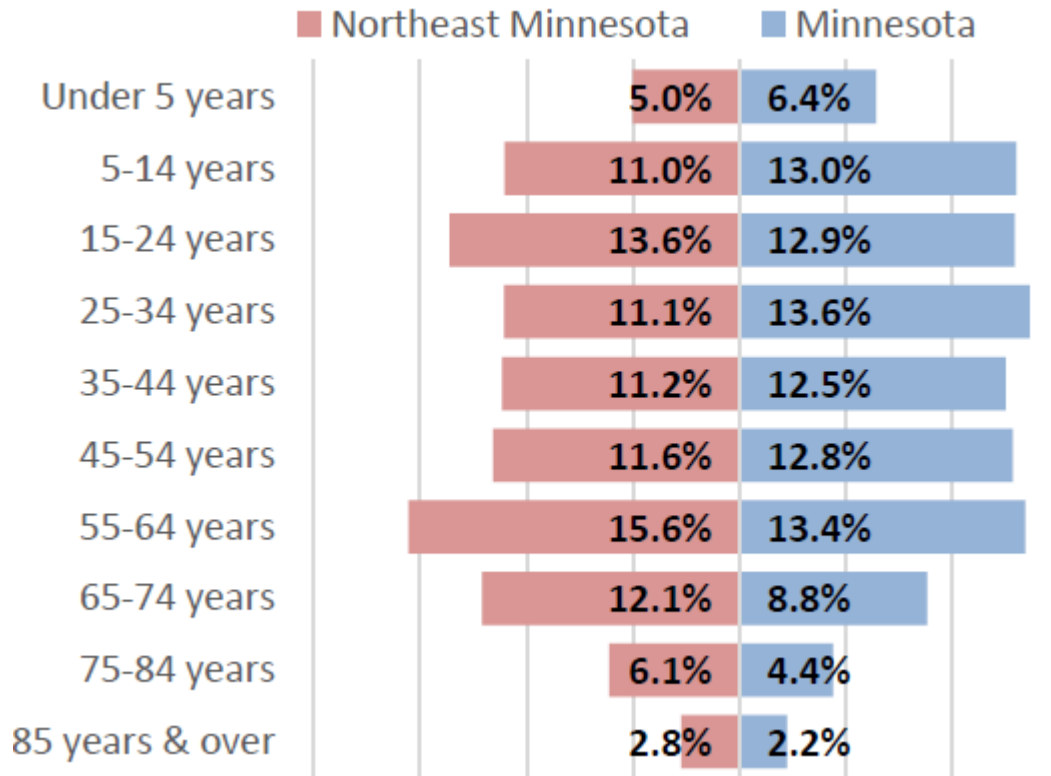
Source: U.S. Census Bureau, Population Estimates

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In addition to the negative growth rate, the Northeast Minnesota region also has an aging population. Figure 1 shows that Northeast Minnesota has a much older population than the state as a whole, with 21 percent of residents aged 65 years and over, compared to 15.4 percent statewide, and a lower percentage of people in the 25 to 54 year-old age group than the state as a whole.

1

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



2

3

4

As a result of the declining and aging population, the Northeast Minnesota region now has more job vacancies than job seekers. As illustrated in Figure 2, there is currently less than one jobseeker per vacancy, creating an extremely tight job market in Northeast Minnesota.

5

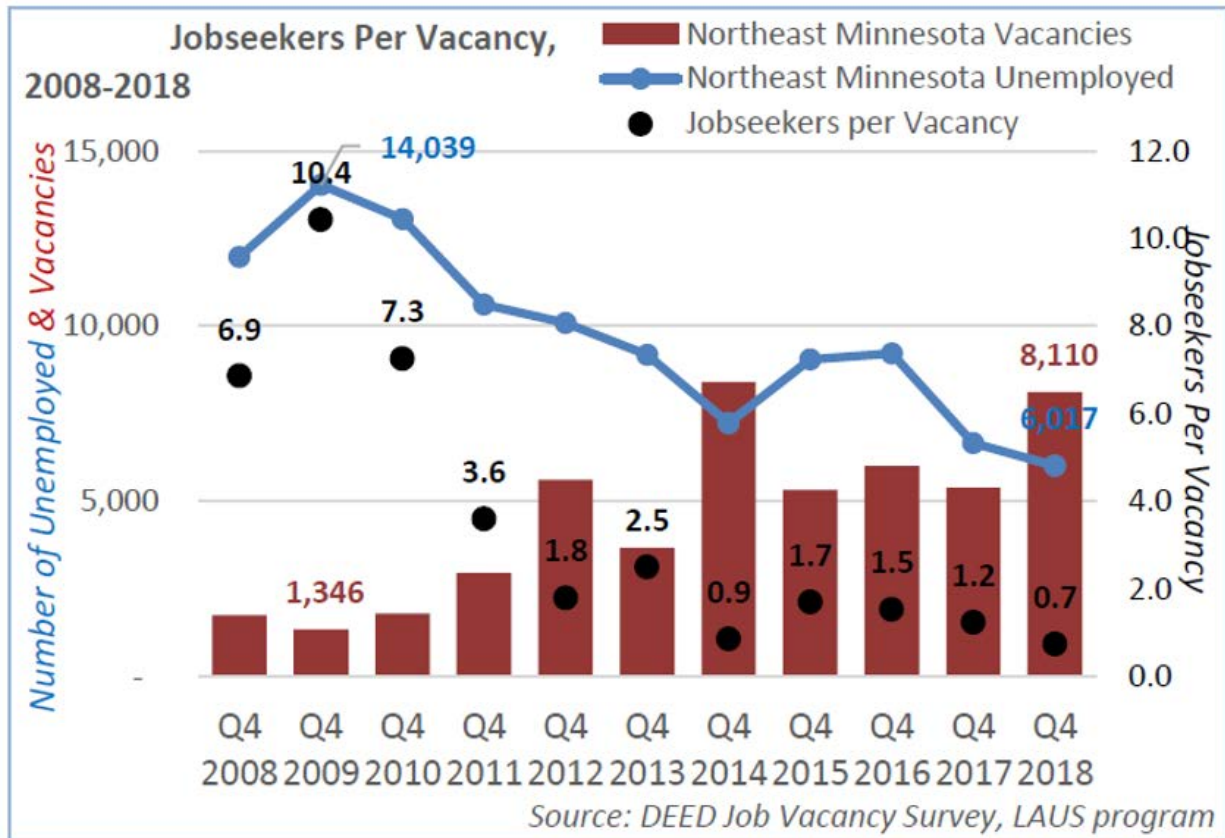
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1

Figure 2. Jobseekers per Vacancy 2008-2018 – Northeast Minnesota



2

3

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

6 A. Yes. Northeast Minnesota is the perfect location for outdoor enthusiasts to work, play,
7 and live. However, for those who are not drawn to an outdoor lifestyle or do not have
8 a tie to the region, it can be difficult to convince people to make the initial move to this
9 region to work. Convincing an experienced hire to move to Northeast Minnesota can
10 be even more difficult when the hire has a trailing family member who is already
11 working in the other market and wants to continue working. Job applicants may be
12 reluctant to move to the region due to the climate, lower wage perceptions, housing
13 concerns, or the desire to stay in larger cities where there are more employment
14 opportunities and more diverse cultural choices. The region is also facing a worsening
15 child-care shortage. A recent study by the Northland Foundation, Blandin Foundation,

1 and Iron Range Resources and Rehabilitation Board highlighted this growing
2 community concern. The study found that in the Northeast Minnesota region,
3 approximately 4,500 children are currently in need of a licensed child care opening,
4 including approximately 1,100 children in Duluth’s zip codes alone.
5

6 **Q. How does Minnesota Power’s workforce compare to the demographics of**
7 **Northeast Minnesota?**

8 A. Minnesota Power’s workforce has similarly challenging demographics. In the 2016
9 Rate Case, the Company anticipated that 20 percent of its employees would be retiring
10 in the next five years, through 2021. That expectation aligned with what has occurred.
11 The Company now anticipates that approximately 18 percent of its employees will be
12 retiring in the next five years, through 2024, assuming an average retirement age of 60.
13

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

16 A. Minnesota Power is doing several things to respond to these challenges. Because it is
17 currently so difficult to find qualified new employees, the Company is focusing its
18 attention on retention—the more skilled employees that can be retained, the fewer that
19 need to be hired.
20

21 The Company has undertaken many initiatives to recruit and retain employees. First, it
22 has embraced alternative work arrangements. Alternative work schedules and working
23 from remote locations can help employees balance work with other commitments, such
24 as families or educational opportunities. Second, the Company has prioritized its tuition
25 reimbursement program, which allows employees to obtain additional education so they
26 can grow into new jobs. In the last two years, 75 employees have used the Company’s
27 tuition reimbursement program. Third, the Company is supporting initiatives and group
28 programs that provide opportunities for professional development, including ALLETE
29 University, the Company’s Learn About It Day program, and multiple robotics
30 volunteer teams that aim to connect employees with young people interested in science,
31 technology, engineering, and mathematics. Fourth, the Company has reclassified the

1 pay for some positions and added intermediate pay levels to ensure that employees are
2 paid competitively and consistent with the market for their skills. Fifth, the Company
3 has thoughtfully designed benefits packages, and incentive and bonus plans, to help
4 ensure that skilled employees stay at the Company.

5
6 Lastly, I note that the Company's retention efforts have become increasingly important
7 as a result of sizable reductions in overall staffing that Minnesota Power had to
8 undertake in light of the financial outcomes of the 2016 Rate Case and the changes to
9 our Generation Operations fleet, and associated personnel attrition and layoffs.

10
11 **Q. Has Minnesota Power undertaken any specific initiatives to further broaden its
12 reach in attracting talent?**

13 A. Yes. The Company continues to partner with the Duluth Workforce Development
14 Board and the Northeastern Minnesota Office of Job Training and their regional
15 partners, all of which are devoted to attracting, managing, placing, enriching, and
16 retaining the talent community for Northeast Minnesota. In addition, Minnesota Power
17 is actively participating in the Minnesota Public Utilities Commission's
18 ("Commission") Workforce and Supplier Diversity Stakeholder Group. Minnesota
19 Power has also proactively sought out and participated in opportunities, beyond general
20 job boards or career fairs, to collaborate with and learn from other stakeholders in the
21 utility industry to expand the Company's hiring reach and increase diversity in its
22 workforce.

23
24 **Q. What other steps has the Company taken to address these workforce challenges?**

25 A. For decades, Minnesota Power has supported veterans, military members, and their
26 families in various ways. In 2016, the Company took an additional step, becoming the
27 first Duluth-based company to earn Yellow Ribbon status from the Minnesota National
28 Guard as part of their Beyond Yellow Ribbon Program. Minnesota Power is extremely
29 proud of this designation, which recognizes the Company's commitment to its military-
30 connected employees, their families, and the community.

31

1 **Q. How does one qualify for “Yellow Ribbon” status?**

2 A. To earn a Yellow Ribbon designation, a company must build relationships with local
3 military leaders, identify employees with military connections, and commit to hiring,
4 supporting, and retaining veterans.
5

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

8 A. The path to the Yellow Ribbon designation began with the Company’s recognition that
9 offering benefits to attract and retain veterans and active-duty personnel would be an
10 effective way to offset the tightening labor market and projected retirements. Military
11 personnel often have technical skills that are closely translatable to a utility
12 environment. Accordingly, in 2016 the Company revised its policies and procedures
13 and developed an action plan to better attract and retain military-connected personnel
14 and to ensure their benefits are market-competitive. As of July 30, 2019, 67 Minnesota
15 Power employees self-identify either as a veteran or an active service member. The
16 Yellow Ribbon designation not only demonstrates the Company’s commitment to these
17 employees, but also includes military-related volunteer opportunities for the Company’s
18 employees, strengthening its ties to the community, all of which further assists the
19 Company’s commitment to personnel retention.
20

21 **Q. Please summarize Minnesota Power’s approach to its workforce development and
22 retention efforts.**

23 A. Following the challenging period of workforce realignment over the last couple years,
24 it is increasingly important to retain employees and to attract new employees to fill gaps
25 and replace employees as they retire. Although Minnesota Power’s location and the
26 events of the last few years have made it difficult to attract and retain talent, the
27 Company is addressing those challenges by developing new policies and enhancing its
28 initiatives to emphasize retention. Going forward, the Company will maintain the
29 skilled and properly compensated workforce that is necessary for it to continue to
30 provide safe, reliable, and reasonably priced electricity.
31

1 **III. EMPLOYEE COMPENSATION**

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

3 A. In this section, I will describe the components of the cash compensation paid to the
4 Company’s employees and the costs of each component. I also describe why each
5 component of employee compensation is important and how the costs of each
6 component has changed over the last few years, resulting in the amounts included in
7 Minnesota Power’s 2020 test year.

8
9 **Q. What are the components of the Company’s cash compensation program?**

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

18
19 Minnesota Power’s cash compensation program also includes performance-based pay—
20 High Performance Awards and Spot Bonuses—and two incentive programs. One of the
21 incentive programs is the AIP, which applies to 120 supervisors and key employees of
22 Minnesota Power and ALLETE’s corporate operations. Minnesota Power also has a
23 Long Term Incentive Plan (“LTIP”), which is a separate incentive compensation
24 program that applies to 27 management employees of Minnesota Power and ALLETE’s
25 corporate operations. The AIP is designed to drive short-term action by rewarding
26 employees for aligning and executing common goals, while the LTIP is designed to
27 drive long-term performance and retain and engage executive talent. Eligibility for the
28 LTIP is limited to employees who are director level and above, in alignment with market
29 data, and the ability such employees have to affect long-term company performance.

30

1 Both the AIP and the LTIP are designed so that, as an employee’s job responsibilities
2 increase, a greater percentage of that employee’s total compensation is tied to job
3 performance and the Company’s performance. Incentive compensation through the AIP
4 and LTIP is not guaranteed, but instead constitutes part of an employee’s total potential
5 annual compensation. In this rate case, the Company is requesting recovery only of the
6 first 20 percent of our employees’ AIP, as explained in Section III.B of my testimony.
7 The Company is not requesting recovery of LTIP.

8
9 **Q. Have there been any changes to Minnesota Power’s cash compensation programs**
10 **since the 2016 Rate Case?**

11 A. No material changes have been made to the structure or elements of the cash
12 compensation programs. However, the decrease in Minnesota Power’s staffing levels
13 and the challenges of attracting and retaining qualified employees for the Company’s
14 workforce discussed above have caused the cash compensation programs to be even
15 more important in attracting and retaining talent.

16
17 **Q. What is the total cash compensation, including Spot Bonuses, for both bargaining**
18 **unit and non-bargaining unit employees?**

19 A. Table 2 shows the total cash compensation, including Spot Bonuses, from 2017 actuals
20 to the 2020 test year.

21
22 **Table 2. Compensation, including Spot Bonuses – All Employees**

Total Compensation	2017 Actual	2018 Actual	2019 Projected Year	2020 Test Year
Total Company	\$71,339,881	\$65,772,406	\$55,999,908	\$64,147,373
MN Jurisdictional ¹	\$62,612,328	\$57,538,965	\$49,810,518	\$57,346,185

23
24 **Q. What employee staffing levels are used as the basis for these compensation figures?**

25 A. Table 3 shows the employee count from 2017 actuals to the 2020 test year.

¹ A summary of allocation factors used across the Company for purposes of calculating the Minnesota Jurisdictional totals is provided with the Direct Testimony of Company witness Mr. Stewart J. Shimmin at MP Exhibit ___ (Shimmin), Direct Schedule 1—Guide to Minnesota Power’s CCOSS, at Table 4.

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Table 3. Minnesota Power Employee Count 2017 – 2020

Employee Count	Year-End 2017	Year-End 2018	2019 Projected Year	2020 Test Year
Full-time and Part-time	1,138	1,036	973	1,020
Temporary and Intern	13	1	12	10

A. Base Compensation

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

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

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

A. Minnesota Power targets the 50th percentile of market for employees in all positions. At the time of hiring, an employee’s base compensation is initially set based on a particular employee’s education, training, experience, job responsibilities, and market conditions. Every year thereafter, the Company evaluates the base compensation of all of its employees to determine whether adjustments are necessary.

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

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

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

2 A. There are two unions with which the Company has collective bargaining agreements:
3 the International Brotherhood of Electrical Workers (“IBEW”) Local 31, and IBEW
4 Local 1593. In 2020, Minnesota Power expects to have approximately 394 employees
5 in Local 31 and two employees in Local 1593.

6
7 **Q. Does the Company’s base compensation for the 2020 test year reflect issues specific
8 to bargaining unit employees?**

9 A. Yes. Under the Company’s collective bargaining agreement with Local 31, members’
10 salaries increased 3.15 percent in 2019 lasting through April 30, 2020, and the terms for
11 any future adjustments to base compensation have not been negotiated. As to Local
12 1593, the collective bargaining agreement term ends on June 30, 2020, and the terms
13 for any future adjustments have not been negotiated. The 2020 test year compensation
14 figure in Table 2 above takes into account the status of these collective bargaining
15 agreements.

16
17 **Q. How did the Company develop the base compensation for the 2020 test year?**

18 A. The base compensation depends on the employee count and the amount paid to the
19 employees. As Table 3 shows, the 2020 test year assumes approximately 50 more
20 employees than were in the 2019 projected year. As of the time of filing, the Company
21 is actively and diligently hiring for these positions, and the Company expects to have
22 hired employees for these positions by around the end of 2019. Further, while the
23 Company took an aggressive approach to reducing overall employee headcount when it
24 developed the 2019 budget in 2018, as 2019 progressed, it became apparent that the
25 overall base compensation budgeted for 2019 was inadequate to meet the Company’s
26 staffing needs. Accordingly, Minnesota Power made specific and strategic increases to
27 employee headcount over 2019, to ensure employee count levels were more consistent
28 with the Company’s need to meet customer expectations. Thus, the 2020 test year
29 includes an adjustment to remedy this disparity that was experienced in 2019. Finally,
30 the base compensation amount for 2020 was adjusted upward by a three percent market
31 adjustment, meaning adjusting the 2019 base compensation projection upward by three

1 percent from the level in the original 2019 budget, plus the disparate amount remedied
2 in 2019. The net effect of these three adjustments is an increase in compensation of
3 approximately \$8.1 million (Total Company) from the 2019 projected year to the 2020
4 test year as shown in Table 2.

5
6 **Q. Please describe the fluctuations in the Company's staffing levels shown in Table 3**
7 **above.**

8 A. Table 3 illustrates that staffing levels decreased very significantly from 2017 to 2019.
9 As I mentioned above, the decrease in staffing levels over this period was driven by two
10 things. First, the retirement of BEC1 and BEC2, as part of the continuing evolution in
11 the portfolio of the Company's generation facilities, as well as other efficiencies,
12 brought staffing levels down.

13
14 Second, it was necessary to align Minnesota Power's workforce with the revenue and
15 cost levels resulting from the 2016 Rate Case. To accomplish that alignment, we had
16 to cut costs in many areas, one of which was through decreasing staffing levels. It was
17 difficult, but through a combination of attrition, leveraging technology investments,
18 layoffs, and very limited hiring, the Company was able to manage and contract its
19 workforce without affecting reliability, safety, or service. However, this also put very
20 high demands on the remaining employees—demands that were not sustainable in the
21 long term.

22
23 **Q. How did the Company assess the most appropriate way to implement the decrease**
24 **in staffing levels starting in 2017?**

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

- 28 1) the work/processes that were needed to achieve the Company's strategic
29 objectives (including process improvement opportunities);
- 30 2) peer companies' staffing level, so that the Company's employee staffing
31 level could be benchmarked to them;

- 1 3) the skills and competencies needed to do the work;
- 2 4) the positions needed to complete the work (which could be a
- 3 combination of new and existing positions) and what positions are no
- 4 longer required; and
- 5 5) ways to streamline the Company's organization.

6

7 The Company then compared the skills and competencies of the existing employees to

8 the needed skills and competencies. The Company examined creative ways to

9 accomplish critical work with fewer employees. The Company made staffing decisions,

10 including layoffs, based on these analyses. Where possible, work that was not critical

11 or time-sensitive was deferred, and the Company did not hire for positions that could be

12 temporarily left unfilled. The thoughtfulness and thoroughness of this approach ensured

13 that the Company made the necessary reductions to support the strategic business needs

14 of the organization without sacrificing its core obligation to provide safe and reliable

15 electric service.

16

17 **Q. What methods did the Company use to implement reductions in employee staffing**

18 **levels in 2017 and 2018?**

19 A. In implementing the results of the strategic workforce review, Minnesota Power tried to

20 avoid layoffs and severance by utilizing attrition to manage employee count. The

21 Company was largely able to do this by being thoughtful about what positions needed

22 to be filled and encouraging all critical positions to be filled by internal candidates. The

23 Company hired external candidates only when the positions that needed to be filled

24 could not be successfully staffed by internal candidates. In 2018, for example, the

25 Company hired only six external candidates. In addition, the Company was able to

26 maintain very low voluntary turnover, which is key to sustaining its internal talent

27 pipeline. From 2016 through 2018, the Company had fewer than 32 voluntary

28 departures each year, which, compared to industry peers, is very low as a percentage of

29 staffing levels.

1 **Q. What types of cost savings have been achieved through this reduction in employee**
2 **staffing levels?**

3 A. Staffing level cutbacks resulted in a reduction in associated costs—principally
4 compensation and benefits, but also associated employee expenses such as training and
5 meals. As a result of the 2017-2018 reductions, and notwithstanding the anticipated
6 increase in employee staffing levels from 2019 to the 2020 test year, Minnesota Power
7 estimates an overall reduction in expenses of approximately \$6.2 million, Total
8 Company, comparing 2017 actuals to the 2020 test year.

9
10 **Q. How have your projected staffing levels compared to actual staffing levels in 2018**
11 **and 2019?**

12 A. As Minnesota Power executed strategic workforce planning efforts in 2018, it was able
13 to maintain the projected employee staffing level. Specifically, the Company reviewed
14 its actual employee staffing levels of full-time and part-time employees versus its
15 projected employee staffing levels for 2018 and 2019 YTD. The Company averaged
16 0.23 percent below budget for 2018. This information is provided in MP Exhibit ____
17 (Krollman), Direct Schedule 1.

18
19 The Company determined, however, that by 2019 the temporary deferrals of work and
20 positions that were part of the 2017 and 2018 strategic workforce review could no longer
21 be deferred. Many employees had been handling duties beyond the scope of their job
22 for a year or two, which is not sustainable for the long term, and resulted in significant
23 overtime expenses. As a result, the 2019 budget was approximately \$3 million lower
24 than could be achieved, and the Company concluded that it was necessary to hire for a
25 number of positions, many of which will start around the beginning of 2020.
26 Nevertheless, even with these new hires, an adjustment to reflect the overage in 2019,
27 and a three percent base pay increase, the 2020 base compensation budget reflects a
28 much leaner approach to staffing than was in place before 2017.

29

1 **Q. Turning to the base compensation structure itself, why is a three percent base pay**
2 **increase in base compensation appropriate?**

3 A. A three percent base pay increase is necessary to remain consistent and competitive with
4 the market. According to the 2019 – 2020 WorldatWork Salary Budget Survey, average
5 merit compensation increases in 2020 are projected to increase 3.1 percent for utility
6 companies and 3.0 percent for all industries. Willis Towers Watson’s 2019 General
7 Industry Budget Survey predicts an overall adjustment of 3.2 percent, and Mercer’s
8 2019/2020 US Compensation Planning survey projects a 3.0 percent merit increase and
9 a 3.6 percent total budget increase, when other adjustments, such as promotional
10 increases, are considered.

11
12 It is necessary to provide market- and industry-competitive compensation to retain and
13 engage employees in an increasingly challenging labor market. Minnesota Power’s
14 proposed three percent base pay increase is reasonable and consistent with historical
15 adjustments and recent Company performance.

16
17 Despite its recent companywide rescaling and cost controlling effort, the Company’s
18 average non-bargaining unit increase for 2018 through June 2019 was 2.8 percent
19 annualized. During the same time, the average budgeted increases for companies with
20 competing talent remained at an average of three percent. Minnesota Power will not be
21 a viably attractive employer if it lags behind other employers competing for talent in the
22 same shrinking labor pool. Sustained below-average base compensation increases will
23 result in the Company paying below the market median and losing the foundational
24 element of attractive employment: competitive wages.

25
26 **Q. How are the Company’s cost control measures incorporated into the 2020 test**
27 **year?**

28 A. The projected compensation and benefits program costs for the 2020 test year are based
29 on the reduced employee count, as compared to 2017, which resulted from the strategic
30 workforce review discussed above. These reduced staffing levels have a direct tie to
31 compensation and benefit costs. The Company believes the 2020 test year is based on

1 the appropriate staffing levels, and does not expect significant unfilled positions in the
2 2020 test year relative to projected staffing levels. The Company has made great efforts
3 over the last few years to adjust staffing levels in a thoughtful manner while continuing
4 to provide reliable and safe service within budget constraints. The 2020 test year
5 employee count and base compensation are both reasonable and reflect the very
6 significant savings that the Company has recognized since 2017.

7
8 **B. Annual Incentive Plan**

9 **Q. How is Minnesota Power’s AIP designed?**

10 A. The AIP is designed to motivate key employees to accomplish short- and medium-term
11 strategic and operational goals that benefit customers and the Company. The AIP is an
12 important part of the Company’s overall total compensation structure. Without the AIP,
13 the Company’s total cash compensation would be below the market median of total cash
14 compensation, making it more difficult to recruit and retain quality leadership.
15 Minnesota Power generally sets compensation levels so that when target performance
16 is achieved under the AIP, the resulting total cash compensation (base salary plus annual
17 incentive pay) is near the 50th percentile of the competitive total cash compensation
18 market level. Below-target level performance would result in no or lower awards being
19 paid and thus below-market compensation. In other words, each participant in AIP has
20 a portion of his or her base compensation at risk—in order to earn market-competitive
21 compensation, they must meet their AIP goals.

22
23 **Q. What are the 2020 AIP goals?**

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

26
27 *Operational and Values.* There are two metrics for this category: safety and reliability.
28 The safety metric uses both lagging indicators and a leading indicator. The lagging
29 indicators for the safety metric are Total Recordable Incident Rate (“TRIR”) and
30 Severity Rate, as determined by the Occupational Safety & Health Administration
31 (“OSHA”). These indicators compare the Company’s safety performance with the

1 three-year average of other peer utilities. The leading indicator for the safety metric is
2 based on safety observations. Safety observations are part of our safety accountability
3 system that reinforces the Company’s zero injury culture. The Company uses a mobile
4 application where safety observations are entered for tracking and trending
5 performance. Safety observations also provide in-the-moment opportunities to
6 recognize and reinforce our safety practices. The reliability metric has three
7 components: the System Average Interruption Duration Index (“SAIDI”), the System
8 Average Interruption Frequency Index (“SAIFI”), and the Customer Average
9 Interruption Duration Index (“CAIDI”). These three components provide a way to
10 measure unplanned outages and their duration. The Company’s SAIDI, SAIFI, and
11 CAIDI performance is then compared to the three-year average of other peer utilities.
12

13 *Strategic.* There are three strategic goals: achievement of milestones in the Company’s
14 sustainability initiative; retaining and growing customers by addressing competitiveness
15 for customers; and enhancing the customer experience.
16

17 *Financial.* The two financial metrics set targets for employees related to ALLETE’s
18 net income and cash from operating activities.
19

20 **Q. How do these 2020 AIP goals benefit customers?**

21 A. *Operational and Values.* The operational and values metrics benefit customers by
22 increasing the safety and reliability of the Company’s electric system. The safety
23 metrics incentivize AIP participants to reinforce Minnesota Power’s commitment to
24 continuing its safety journey with steady progress towards Zero Injury. Reduced
25 injuries result in greater productivity, reduced costs, and reinforce a culture in which
26 employees are attracted to and want to stay, benefiting all customers. The reliability
27 metrics—SAIDI, SAIFI, and CAIDI—incentivize AIP participants to continue
28 providing reliable electricity for all of the Company’s customers. The SAIDI, SAIFI,
29 and CAIDI goals are designed to benefit customers by reducing the number and duration
30 of service outages.
31

1 *Strategic.* Two of the three strategic goals are directly focused on customers, namely
2 customer growth and retention, and enhanced customer experience. The third,
3 sustainability, is designed to align the Company with advancement of state energy
4 policy goals, transitioning both critical assets and skill sets to ensure that the Company
5 serves its customers for decades to come. For example, accelerating the power system
6 transformation Minnesota Power began with *EnergyForward* – further reducing carbon
7 emissions while ensuring infrastructure that supports the broader grid – balances cost,
8 reliability, and safety to our community and customers.

9
10 *Financial.* Net Income was selected as one of the financial metrics because it is a
11 widely-tracked performance measure that reflects revenue generation and expense
12 management. Cash flow was selected as the other financial metric because it indicates
13 the Company’s ability to internally generate funds for capital projects, dividend
14 payments, and repayment of debt. These financial metrics benefit customers because
15 achievement of these targets requires prudent management of Company costs and
16 reduce the cost of capital for utility operations, which in turn allows electric service to
17 be provided at reasonable rates.

18
19 **Q. Is Minnesota Power proposing a limit on the level of cost recovery for its AIP?**

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

24
25 **Q. Does Minnesota Power have any other proposals related to the recovery of AIP?**

26 A. Yes. The Company proposes to continue to provide customer refunds in the event that
27 actual AIP payouts are lower than the level approved in rates. This is consistent with
28 Order Point 22 in the Commission’s March 12, 2018 Order in the 2016 Rate Case.

29
30 **Q. What is the AIP expense in the 2020 test year?**

31 A. The AIP costs for the 2020 test year are shown in Table 4.

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Table 4. 2020 Test Year AIP Request

	Total Company	MN Jurisdictional
Total Cost without the 20 percent cap	\$3,360,672	\$3,005,392
Total Cost with the 20 percent cap	\$2,214,779	\$1,980,639

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

A. Yes. Minnesota Power’s AIP is an important component of its total compensation program. Without AIP, Minnesota Power’s total cash compensation would be below market median, and it would be difficult to attract and retain qualified leaders. Eliminating AIP would require the Company to increase management level and key employees’ base compensation to remain at a market-competitive level. This would mean that the Company would be required to pay this increased level of base compensation even in years when an employee’s performance does not meet the expectations set forth in its AIP goals. Thus, the AIP also provides the Company with flexibility to manage the compensation of its employees and to align its compensation with the achievement of Company goals that benefit customers.

In addition, use of performance-based compensation is very common among employers. According to a 2014 Deloitte and WorldatWork survey, 99 percent of publicly traded companies have short-term incentive plans. There is no indication that the trend has reversed since 2014. Similarly, a report by WorldatWork in partnership with Vivient Consulting, published in 2018, found that 96 percent of privately held companies have a short-term incentive, up from 94 percent in 2015. That report also stated that the average spending for a short-term incentive increased from five to six percent from 2015 to 2018. Finally, in 2018, all of the 15 member companies of the Edison Electric Institute closest in size to ALLETE offered a short term incentive as part of their total compensation package.

1 **C. High Performance Awards and Spot Bonuses**

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

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

19
20 **Q. How does Minnesota Power administer these performance awards?**

21 A. High Performance Awards are performance-based payments that are designed to reward
22 the top ten percent of non-bargaining unit, non-management employees for sustained
23 exceptional performance that contributed in a material way to achievement of
24 ALLETE’s strategic or operational goals. High Performance Awards generally range
25 from \$3,000 to \$4,500 (gross award) per individual. High Performance Awards are
26 typically justified when an employee has, over a sustained period of time, led large, key,
27 complex projects; led compliance initiatives; led product development; or been
28 instrumental in achieving department objectives or large-scale process improvement.
29 For example, a High Performance Award was given to an employee who took over key
30 responsibilities for an interim period for a function that was left unfilled due to
31 workforce reductions. This employee was recognized for his efforts in assuming this

1 role, in addition to his current role. Because High Performance Awards are a form of
2 recognition and reward for the top long-term performers in each department, they are
3 each reviewed by the Chief Executive Officer (“CEO”).
4

5 Spot Bonuses are performance-based pay that are paid either through payroll or as gift
6 cards (if in small denominations). Spot Bonuses recognize employees’
7 accomplishments of going above and beyond normal job duties, or delivering
8 exceptional performance on particular projects. In recent years, the Company has paid
9 numerous Spot Bonuses in the range from \$50 to \$250 via gift card. Less frequently,
10 Spot Bonuses in higher amounts, from \$350 to several thousand dollars (gross award
11 paid as part of payroll), have been awarded.
12

13 Non-bargaining unit employees are eligible for High Performance Awards and Spot
14 Bonuses. Employees who are eligible to receive AIP are not eligible to receive High
15 Performance Awards but are eligible to receive Spot Bonuses.
16

17 **Q. What costs for High Performance Awards and Spot Bonuses (through payroll and**
18 **gift cards) are included in the 2020 test year?**

19 A. Minnesota Power’s 2020 test year budget includes \$233,519 Total Company for High
20 Performance Awards. Spot Bonuses paid through payroll or paid through gift cards are
21 not separately budgeted—instead, they are part of each department’s overall
22 compensation budget. They are included in the “Compensation, including Spot
23 Bonuses” row on MP Exhibit ___ (Krollman), Direct Schedule 2.
24

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

26 A. Performance-based compensation is essential to retaining qualified and talented
27 employees. Eliminating these programs would likely require the Company to increase
28 base compensation for non-bargaining, non-management employees to remain market-
29 competitive. This request is consistent with the approach the Company took in the 2016
30 Rate Case. In that case, the Commission concluded that the Company’s proposed test
31 year budget for Spot Bonuses was reasonable and that Spot Bonuses help to address the

1 below-market compensation of important employees, to the benefit of both the
2 Company and its customers.

3
4 **D. Long-Term Incentive Plan**

5 **Q. Please describe Minnesota Power's LTIP.**

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

13
14 **Q. How does the LTIP relate to the total compensation for qualifying employees?**

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

19
20 **Q. Is Minnesota Power seeking to recover any portion of the LTIP?**

21 A. No. Although LTIP provides important compensation and incentives to key employees,
22 the Company did not include any portion of the LTIP in the 2020 test year.

23
24 **IV. EMPLOYEE BENEFITS**

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

26 A. In this section of my testimony, I explain the benefits that Minnesota Power offers to its
27 current employees, and I also describe components of the Company's benefits program
28 that are no longer available to employees, but for which the Company continues to incur
29 costs. I also describe why each component of the benefits program is important, and
30 how the costs of the components have changed over the last few years and for the 2020
31 test year.

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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 retirees; group life insurance for active employees and retirees; retirement income; vacation pay; sick pay; disability benefits; flexible compensation plan; health, dependent care, and transportation reimbursement accounts; employee stock purchase plan; employee resource program; tuition reimbursement; service and retirement awards; employee-paid voluntary benefits; and executive benefits. For bargaining unit employees, the design and level of all benefits, except for health care benefits, is determined through collective bargaining. For non-bargaining unit employees, the Company establishes the level of all benefits except for health care benefits. As explained below, a Board of Governors makes recommendations about the health care benefits for both bargaining unit and non-bargaining unit employees.

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

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

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

A. As with compensation, Minnesota Power uses market survey and benefit consulting data analysis to compare benefits among general industry and utility industry companies. Minnesota Power routinely participates in the Willis Towers Watson Energy Services BenVal study. The BenVal study’s comparative analysis of benefit plan values is

1 illustrated on a series of color graphs using relative value indices. A relative value index
2 is determined by dividing an individual company's benefit plan value by the average
3 benefit plan value for all of the companies participating in the comparison. An excerpt
4 of the 2019 BenVal study is provided in MP Exhibit ____ (Krollman), Direct Schedule
5 3. As shown in that exhibit, Minnesota Power's benefits overall are slightly below the
6 50th percentile when compared to the other utility companies surveyed.

7
8 **A. Health and Welfare Benefit Plans**

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

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

16
17 1. Health Care

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

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

23
24 The health care plans are administered by a Board of Governors, which makes
25 recommendations about what the plans should include. The Board of Governors is
26 comprised of three representatives from each of the following groups: management,
27 non-bargaining unit, non-management employees, and bargaining unit employees, plus
28 one retiree representative. The Board of Governors' recommendations are made to the
29 Negotiating Committee, which consists of representatives of Company management
30 and of bargaining unit employees. The Negotiating Committee also negotiates with the

1 CEO for the funding. The Negotiating Committee negotiates and approves the details
2 of the health and dental care plans for all employees.

3
4 **Q. Does the Board of Governors plan on making any changes to the health care plans**
5 **in the 2020 test year?**

6 A. Yes. Over the past two years, the health care plans have experienced higher than
7 expected claims, resulting in significant increases to the premium, the deductibles, and
8 out-of-pocket expenses. These cost increases have been unsettling for both the
9 employees and the Company. Recognizing the unsustainability of such increases, in
10 2019 the Board of Governors systematically reviewed all the features of the health care
11 plans, including whether the Company's plan should remain as a self-insured funding
12 arrangement, and did a complete benchmarking analysis, which served as the basis for
13 the changes outlined in this section of my testimony.

14
15 **Q. Please summarize the key components of the Company's health care plans that the**
16 **Company will offer in 2020.**

17 A. In 2020, Minnesota Power plans to continue to offer all full-time employees, as well as
18 eligible part-time, temporary, and intern employees, a choice between two High
19 Deductible Health Plans with a Health Savings Account design (these are known as
20 Consumer Driven Health Plans or "CDHPs") and to also introduce a third, co-pay plan,
21 which provides a similar actuarial value to participants, but provides some first out-of-
22 pocket coverage for participants. The introduction of this third plan was based on
23 feedback received from participants and from benchmarking data. According to the
24 2019 Large Employers Health Care Strategy and Plan Design Survey, in 2019, the
25 number of employers offering a CDHP as the only option will drop nine percent, from
26 39 percent to 30 percent, reflecting a move by employers to add health plan choices
27 back into the mix. Since the new co-pay plan is similar in cost to the CDHPs, there is
28 no expected increase in the 2020 test year costs relating to this change. Additionally,
29 the monthly premium rates are unique to each plan and are determined based on plan
30 design and the cost sharing arrangement between participants and the Company.

31

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

11
12 While the prescription coverage is the same under both CDHP options, it is different in
13 the co-pay plan. The CDHP plans distinguish between preventive prescriptions and
14 non-preventive prescriptions because a portion of preventive prescriptions are covered
15 prior to the participant meeting the medical plan deductible, while non-preventive
16 prescriptions are covered under the co-insurance only after the deductible has been met.
17 For the co-pay plan, participants have to pay a standard co-pay based on the type of
18 prescription. Under both plans, participants receive the highest level of coverage when
19 using the nationwide in-network providers. Services from out-of-network providers
20 may have higher costs for the participant.

21
22 **Q. What contributions do active employees make to fund the health care plans?**

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

1
2 **Q. How are contributions to Minnesota Power’s health care plans determined and**
3 **how often are they adjusted?**

4 A. Monthly premium contributions for all employees are determined by the Negotiating
5 Committee. A summary of the monthly premiums for each plan, for 2020, is provided
6 in Table 5.

7
8 **Table 5. 2020 Health Care Monthly Premiums**

	Single	Family
Active employee CDHP #1	\$203	\$494
Active employee CDHP #2	\$106	\$320
Active employee co-pay plan	\$203	\$494

9
10 These premiums are designed to achieve the desired cost share levels discussed above.
11 The Negotiating Committee, in consultation with the Company’s benefit consultant
12 Lockton, reviews the claims experience for the health care plans on an ongoing basis
13 and has the authority to adjust premiums as needed to keep the plan solvent. All
14 participants in the plans are subject to premium increases or decreases at the discretion
15 of the Negotiating Committee.

16
17 **Q. What additional health care costs do active participants pay through co-insurance**
18 **and deductibles?**

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

1

Table 6. Company CDHP Option #1 for 2020

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

2

3

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

4

5

A. Minnesota Power’s health care plans have not been immune to the rising costs associated with providing health care. According to the 2018 Mercer Survey, rising costs have impacted all companies that provide health care benefits to employees. The Mercer Survey notes that average total health benefit cost per employee rose by 3.6 percent for 2018, compared to 2.6 percent for 2017, and it is expected to rise by about 4.0 percent again in 2019. 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 25-75 split described above.

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15

In an effort to reduce health care costs, the Board of Governors reviewed alternative ways to offer insurance. For example, it looked at going to a fully-insured product, and it performed a comprehensive review of potential vendors, to ensure that the Company was working with the best vendor to provide insurance. Based on this analysis, the Board of Governors recommended remaining self-insured, but recommended switching

16

17

18

19

1 vendors to UnitedHealthcare. This change in health insurance providers provides
2 participants with a more engaging, holistic, health plan experience that will allow
3 participants easier access to the information they need to make better health care
4 decisions.

5
6 **Q. Were the CDHPs implemented on the same schedule for active employees as for**
7 **retirees?**

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

- 10 • Pre-65 Retirees: Eligible participants retiring after December 31, 2018, but
11 before age 65, can go only into either one of the CDHPs. Participants who
12 retired before December 31, 2018, had the option to remain in the Preferred
13 Provider Organization (“PPO”), but the Board of Governors intends to eliminate
14 the PPO plan by 2022.
- 15 • Post-65 Retirees: Participants and their dependents who are over age 65 are
16 covered on the fully insured post-65 plan that coordinates with Medicare.

17
18 **Q. How do Minnesota Power’s health care costs compare to other companies’ health**
19 **care costs?**

20 A. On a per-employee basis, Minnesota Power’s health care costs are comparable to many
21 other utilities and other companies nationwide. In 2019, the Company’s total cost of
22 providing health care coverage to its active employees is expected to be \$14,869 per
23 employee. Of this total cost, the Company contributes, on average, \$11,094 per
24 employee, with employees contributing the rest or approximately 25 percent.
25 According to the Company’s consultant, Lockton, the 2019 average cost for the utilities
26 it studied to provide high-deductible health care coverage was \$14,542 per employee.

27
28 **Q. What is the Company’s request for the costs of active employee health care in the**
29 **2020 test year and how does that compare to prior years?**

30 A. Table 7 shows the active employee health care costs.

31

1 **Table 7. Active Employee Health Care Costs 2017 – 2020**

Year	Total Company	MN Jurisdictional
2017 (Actual)	\$8,869,519	\$7,717,626
2018 (Actual)	\$8,206,384	\$7,180,874
2019 (Projected Year)	\$9,518,089	\$8,468,177
2020 (Test Year)	\$8,460,813	\$7,568,121

2
3 **Q. Please explain the fluctuations in health care costs shown in Table 7.**

4 A. Costs went down substantially from 2017 to 2018 because of the reduction in staffing
5 levels. Costs increased substantially in 2019 because of an unusually high amount of
6 medical claims and an unusually high cost per claim. Through these fluctuations, the
7 cost per participant has continued to increase, even while the staffing levels decreased.
8 The 2020 test year budget is based on the assumptions that 2020 will not have the same
9 unusual medical claims, but that costs per participant will continue to increase.

10
11 **Q. Why are healthcare costs per participant increasing?**

12 A. There are many external factors that have contributed to the increase in cost per
13 participant. Two of the most notable items are the national trend of increasing health
14 care costs and prescription drug costs, and changes required under the PPACA.
15 Nationally, health care costs and prescription drug costs are rising, both in terms of the
16 cost of service for specific services and in increased utilization of health care services
17 by participants. According to PricewaterhouseCoopers' Health Research Institute,
18 medical costs are expected to trend up six percent in 2020, up from 5.7 percent estimated
19 increases in both 2018 and 2019. Increased prescription costs and an increase in the
20 number of specialty drugs (which can cost as much as \$100,000 per prescription) have
21 contributed to increased expenses for the Company. While the long-term impact of
22 having the right prescription should lead to lower long-term costs, new high-cost
23 prescriptions on the market did contribute to an overall increase in health care costs per
24 participant for the Company in recent years. In addition, the Company's health care
25 plans continue to experience an increase in the number of large claims, defined as claims
26 over \$50,000. This increase in large claims not only affects the cost of the Company's

1 health care plans, but in cases where the large claims exceed the Company’s stop loss
2 insurance amount, they affect future stop loss premiums.

3
4 **Q. What steps has the Company taken to control health care costs?**

5 A. As discussed, Minnesota Power offers plans that encourage employees to be wise
6 consumers of health care, by designing plans that incentivize wise use of health care
7 services. Additionally, for 2020, the Company is changing health plan providers to
8 UnitedHealthcare in an effort to get the best negotiated rates with local health care
9 providers. The Board of Governors also feels that the change to UnitedHealthcare
10 provides participants better tools and programs designed to help control health care cost
11 by improving the overall health and well-being of our employees. Enhancements
12 include proactive outreach to participants to help modify behaviors and better manage
13 specific health care concerns, and educational materials that provide transparent cost
14 comparison tools to allow participants to get the right health care at the right price.

15
16 2. Dental Care

17 **Q. Please describe Minnesota Power’s dental plan.**

18 A. Minnesota Power’s dental plan provides basic, preventative and restorative dental care
19 with an annual benefit limit of \$1,000 per participant. No orthodontic coverage is
20 provided. The Company’s dental plan is self-funded and self-administered. The dental
21 plan is administered by the Board of Governors. Funding for the dental plan is provided
22 by employee and Company contributions. Employee contributions fund approximately
23 40 percent of the costs of the dental plan and Company contributions fund
24 approximately 60 percent of the costs. Table 8 summarizes the 2020 monthly
25 premiums.

26
27 **Table 8. 2020 Employee Dental Plan Monthly Premiums**

	Single	Family
Full-time active employee	\$15	\$39

1 **Q. What dental care costs are included in the 2020 test year?**

2 A. The 2020 test year includes \$437,657 Total Company, \$391,480 MN Jurisdictional, in
3 dental care costs for active employees.

4
5 3. Other Components of the Health and Welfare Benefit Plans

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

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

11
12 **Q. What is the flexible compensation plan?**

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

19
20 The flex credits that are part of the flexible compensation plan are available to non-
21 bargaining unit employees after one year of service to use towards eligible health and
22 welfare benefits in the amount of two percent of their base salary. The salary used to
23 calculate flex credits when an employee is first eligible is their current base salary at the
24 time of eligibility. For each year thereafter, flex credits are updated on January 1 during
25 the annual benefit election period and are calculated based on their October 1 salary of
26 the prior year. Rather than providing all employees with one type of additional benefit,
27 the flexible compensation plan allows the Company's employees to tailor benefit dollars
28 to meet their own individual needs. Employees can use the flex credits and/or before-
29 tax dollars to offset the cost of the following benefit plans: employee term life
30 insurance, AD&D insurance, medical reimbursement account, dependent care
31 reimbursement account, and transportation reimbursement account. If the employee

1 does not have sufficient flex credits to offset the entire cost of these benefits, the
2 employee may use before-tax dollars through pay conversion to pay the remaining costs.
3 The Company-provided flex credits are the costs shown on MP Exhibit ____ (Krollman),
4 Direct Schedule 2.

5
6 **Q. Please describe the reimbursement account programs.**

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

12
13 **Q. What is the employee resource program?**

14 A. The employee resource program is an essential component to Minnesota Power’s health
15 and welfare benefit package. This program provides outside counselors, resources, and
16 referrals to assist employees and their family members. It is designed to confidentially
17 help in resolving personal and work related problems that may be adversely affecting
18 employees. This comprehensive package is offered free to all employees and their
19 families.

20
21 **Q. Please describe the life insurance program.**

22 A. The Company provides core life insurance to active bargaining unit and non-bargaining
23 unit employees. The amount is two times annual salary for non-bargaining unit
24 employees and bargaining unit employees represented by IBEW Local 31, and one
25 times annual salary for bargaining unit employees represented by IBEW Local 1593.
26 This amount is included in MP Exhibit ____ (Krollman), Direct Schedule 2. In addition,
27 employees can purchase additional voluntary life insurance coverage for themselves and
28 their eligible children and spouses.

29

1 **Q. What are the other voluntary benefits?**

2 A. Minnesota Power also provides the opportunity for employees to purchase voluntary
3 benefits to complement the Company-provided benefits, such as AD&D insurance,
4 whole life insurance, and accident insurance.
5

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

8 A. The costs are included in MP Exhibit ___ (Krollman), Direct Schedule 2. In 2019,
9 Minnesota Power solicited bids for the administration of its employee resource program
10 and reimbursement accounts. In response to these bids, the Company chose
11 UnitedHealthcare in 2020. The transition to UnitedHealthcare for program
12 administration was coordinated with the overall transition to UnitedHealthcare that I
13 described above. The prior contracts for benefit plan administration were cost-
14 competitive so there is no material cost savings recognized with switching these
15 programs to UnitedHealthcare; however, having both the medical plan and these other
16 benefits plans with UnitedHealthcare simplifies administration for the Company and
17 provides a more streamlined process for participants.
18

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

21 A. Yes. Program administration costs are an essential component of the Company's overall
22 benefit program.
23

24 **B. Other Benefits**

25 **Q. Please describe other benefits Minnesota Power offers.**

26 A. *Tuition Reimbursement.* The Company provides funds to employees to assist with
27 qualified educational expenses.
28

29 *Long Term Disability Plan.* A Company-provided disability plan provides a benefit for
30 qualified active employees who become unable to work.
31

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

5
6 *Retirement Awards.* Awards are provided to employees at retirement. These awards
7 are given as gift cards, similar to spot bonus gift cards. Retirement awards are included
8 in the employee expense schedules described in the Direct Testimony of Company
9 witness Mr. Rostollan with additional detail in Volume 3, Schedule H – 7.

10
11 **Q. Is Minnesota Power seeking recovery for the costs associated with these other**
12 **benefits?**

13 A. Yes. They are an important component of the Company’s benefit program, and
14 especially support employee growth, retention, and recognition. The costs are set forth
15 on MP Exhibit ___ (Krollman), Direct Schedule 2.

16
17 **C. Retirement Benefits**

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

19 A. Minnesota Power provides eligible employees the following retirement benefits: (1) a
20 defined contribution plan (“DC Plan”), which has features of both an employee stock
21 ownership plan (“ESOP”) and a 401(k) retirement savings account, and which covers
22 both non-bargaining unit and bargaining unit employees; (2) defined benefit pension
23 plans (“DB Plans”) for certain employees based on their hiring date; and (3) Other-Post
24 Employment Benefits (“OPEB”), such as retiree medical, dental, and life insurance for
25 eligible employees. Minnesota Power continues to migrate away from the defined
26 benefit plan model and to the defined contribution model. The defined contribution
27 model encourages employees and the Company to have a shared responsibility in
28 building retirement savings, and in the defined contribution model, the Company’s
29 expenses and contributions are less volatile than in the defined benefit plan model. As
30 described below, the DB Plans are now closed to all new hires. Nevertheless, the DC

1 Plan and the DB Plans both continue to be very important components of the Company's
2 overall benefits program.

3
4 1. DC Plan

5 **Q. Please describe Minnesota Power's DC Plan.**

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

9
10 **Q. Does Minnesota Power contribute to supplement employee contributions to the
11 401(k) component of the DC Plan?**

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

22
23 **Q. What is included in Minnesota Power's 2020 test year for annual DC Plan costs?**

24 A. The costs set forth in the 2020 test year for the DC Plan are the estimated Company
25 contributions and matches to employee accounts. The estimated Company contribution
26 and match are based on plan contribution design and estimated employee earnings and
27 contributions.

28

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

3 A. Table 9 compares DC Plan costs in the 2020 test year to 2017-2018 actuals and the 2019
4 projected year.

5

6

Table 9. DC Plan Costs 2017 – 2020

Year	Total Company	MN Jurisdictional
2017 (Actual)	\$7,592,625	\$6,606,563
2018 (Actual)	\$7,101,658	\$6,214,199
2019 (Projected Year)	\$7,136,557	\$6,349,345
2020 (Test Year)	\$7,422,470	\$6,639,333

7

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

9 A. The DC Plan costs went down from 2017 actuals to the 2019 projected year because of
10 the decrease in overall staffing levels. From the 2019 projected year to the 2020 test
11 year, the costs increase for two reasons. First, the Company anticipates a higher
12 percentage of its employees will be receiving benefits through the DC Plan. Because
13 the DB Plans are closed to all new hires, all new employees hired accrue 100 percent of
14 their retirement benefits through the DC Plan. Second, the Company’s contributions to
15 the DC Plan are based on a percentage of employees’ salaries. As salaries increase,
16 Company and employee contributions correspondingly also increase.

17

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

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

1 employees value as part of the compensation and benefits package offered by the
2 Company.

3
4 **Q. Why is it reasonable for DC Plan costs to be included in rates?**

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

19
20 2. DB Plans

21 **Q. Please describe Minnesota Power's DB Plans.**

22 A. Minnesota Power's DB Plans currently consist of two qualified pension plans: Plans B
23 and C, which are collectively referred to as Minnesota Power's pension. Minnesota
24 Power's DB Plans are all traditional defined benefit plans that use final average pay and
25 credited service in the benefit calculation. For non-bargaining unit employees hired
26 prior to October 1, 2006, the credited service is capped as of September 30, 2006, and
27 final average earnings was frozen as of November 30, 2018. For bargaining unit
28 employees hired prior to February 1, 2011, employees continue to accrue credited
29 service and final average pay components while eligible for the plan. Minnesota
30 Power's actuary, Mercer Survey, calculates the Company's pension expense using
31 actuarial analyses. As of Mercer's actuarial analysis performed in 2019, 210 non-

1 bargaining unit employees (approximately 28 percent of all non-bargaining unit
2 employees) and 345 bargaining unit employees (approximately 72 percent) were
3 eligible for the DB Plans.
4

5 **Q. What DB Plan Expenses are included in Minnesota Power’s 2020 test year and**
6 **how do these expenses compare to prior years?**

7 A. Table 10 compares DB Plans expenses in the 2020 test year to 2017-2018 actuals and
8 the 2019 projected year.
9

10 **Table 10. DB Plans Expenses 2017 – 2020**

Year	Total Company	Total MN Jurisdictional
2017 (Actual)	\$5,984,482	\$5,207,271
2018 (Actual)	\$3,519,301	\$3,079,512
2019 (Projected Year)	\$1,745,114	\$1,552,616
2020 (Test Year)	\$4,958,254	\$4,435,113

11
12 **Q. Please explain why the Company’s DB Plans expenses have changed over this time**
13 **period.**

14 A. The Company’s DB Plans expenses have changed over this time period for several
15 reasons. One of them is that the DB Plans underwent a series of changes over the last
16 several years.
17

18 The Company previously had a Plan A, which was for non-bargaining unit employees
19 hired prior to October 1, 2006. Plan B was created for active bargaining unit employees
20 hired prior to January 31, 2011. Plan C was created and was effective as of January 1,
21 2016. When Plan C was created, anyone in Plan A or Plan B who was inactive (meaning
22 non-bargaining unit participants with a deferred vested benefit; retired participants
23 (including surviving spouses); and bargaining unit participants or retirees (including
24 surviving spouses), who were no longer represented by the union contract as of
25 December 31, 2015) was rolled into Plan C. But Plan A remained active for active
26 employees. Then, effective November 30, 2018, Plan A was discontinued and all

1 remaining participants in Plan A were rolled into Plan C. The net effect is that Plan B
2 includes all eligible active bargaining unit employees, and Plan C includes all other
3 eligible participants.

4
5 **Q. How do the overall DB Plan expenses for the 2020 test year break down among**
6 **Plans A, B, and C?**

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

8
9 **Table 11. DB Plans Expenses For 2020 Test Year**

	Total Company	MN Jurisdictional
Plan A – Non-Bargaining Unit Employees	-	-
Plan B – Bargaining Unit Employees	\$9,690,742	\$8,668,281
Plan C – Inactive Participants	\$(4,732,488)	\$(4,233,168)
TOTAL	\$4,958,254	\$4,435,113

10
11 **Q. Why did the Company make these changes in the DB Plans?**

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

16
17 **Q. Why else did the expenses of the DB Plans change from 2017 through the 2020 test**
18 **year?**

19 A. Among other reasons, DB Plans expenses were affected by changes in staffing levels,
20 which is described in detail in the Direct Testimony of Company witness Mr. Cutshall.

21
22 **Q. What percentage of the Company's employees covered by the DB Plans also**
23 **contribute to the 401(k) plan?**

24 A. Nearly 88 percent of employees eligible for the DB Plans also contribute to the 401(k)
25 plan, at an average deferral rate of at least 10 percent. These employees' contributions
26 to their 401(k) plans demonstrate that the Company's employees are paying for a portion

1 of their retirement costs and that these costs are not being borne entirely by the
2 Company's customers.

3
4 **Q. Are Minnesota Power's DB Plan-eligible employees able to make similar pre-tax**
5 **contributions to the DB Plans?**

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

12
13 **Q. Are public sector employees subject to different taxation rules for defined benefits**
14 **plans?**

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

19
20 **Q. Do Minnesota Power's DB Plans provide a full retirement benefit?**

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

26
27 **Q. How do the costs of Minnesota Power's DB Plans compare to the costs of its DC**
28 **Plan?**

29 A. For 2020, the estimated costs for the DB Plans are \$4,958,254 Total Company (based
30 on Mercer's actuarial analysis) and for the DC Plan they are \$7,422,470 Total Company,

1 covering an estimated 624 non-bargaining unit employees and 396 bargaining unit
2 employees.

3
4 **Q. Were defined benefit plans common when Minnesota Power established its plan in**
5 **1952?**

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

13
14 **Q. Why is it reasonable to include the costs for the Company's DB Plans in rates?**

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

25
26 **Q. Overall, are Minnesota Power's benefit plans for employees reasonable compared**
27 **to the market?**

28 A. As previously described, Minnesota Power uses market survey and benefit consulting
29 data analysis to compare its retirement benefits program to those offered by peer utilities
30 and companies across other sectors. Minnesota Power routinely participates in the
31 Willis Towers Watson Energy Services BenVal Study. An excerpt from the 2019

1 version of that study is provided in MP Exhibit ___ (Krollman), Direct Schedule 3. As
2 shown on the BenVal graphs, the Company's benefits overall are slightly below the 50th
3 percentile when compared to the other utility companies in the survey.
4

5 3. Other Post-Employment Benefits

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

7 A. The Company's OPEB consists of health, dental, and life insurance benefits that are
8 available post-employment, that is, to eligible retirees.
9

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

11 A. Minnesota Power employees hired before January 1, 2011, and who work until age 55
12 with 10 years of participation within the plan or 10 years of service with the Company
13 are eligible to participate in the retiree health plans.
14

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

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

1 Participants' medical and prescription expenses, not including monthly premiums, are
2 limited by an annual out-of-pocket maximum.

3
4 **Q. Describe the Company's dental plan for eligible retirees.**

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

10
11 **Q. Does Minnesota Power provide other OPEBs?**

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

17
18 **Q. What costs are included in the 2020 test year for OPEB?**

19 A. Minnesota Power's 2020 test year includes \$2,885,794 Total Company, \$2,581,317 MN
20 Jurisdictional in OPEB costs. In his Direct Testimony, Company witness Mr. Cutshall
21 discusses how the 2020 test year OPEB expense was calculated. As he describes, the
22 significant increase in the 2020 test year OPEB amount as compared to the 2019
23 projected year is solely the result of changes in actuarial assumptions. This increase
24 would have been even higher if not for steps taken by the Company to control the rising
25 costs of OPEB.

26
27 **Q. What steps has Minnesota Power taken to control the rising costs of OPEB?**

28 A. Minnesota Power provides retiree life insurance to bargaining unit employees
29 represented by IBEW Local 31 because it is obligated to do so under the collective
30 bargaining agreement. Bargaining unit employees represented by IBEW Local 1593 do
31 not have retiree life insurance. For bargaining unit employees represented by IBEW

1 Local 31, during 2017 renegotiations of the collective bargaining agreement, the
2 Company negotiated to increase the life insurance benefit for active employees from
3 one times annual base salary to two times annual base salary, while reducing the life
4 insurance benefit for employees retiring after December 31, 2018, from half of annual
5 base salary to a flat \$20,000. This shift allowed the Company to align with
6 benchmarking data for life insurance, while providing cost savings.

7
8 As to the retiree health plans, starting for retirements after December 31, 2018, the
9 Board of Governors approved closing the retiree health PPO plan. Eligible retirees who
10 retire after that date are required to choose one of the CDHPs. Most recently, the Board
11 of Governors approved plan design changes for the retiree health plans for 2020 and
12 forward that will result in savings and will align with the medical plan philosophy that
13 encourages wise use of health care services and healthy choices.

14
15 4. Other Executive Retirement Benefits

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

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

23
24 The SERP pension benefit is a non-qualified pension benefit calculated similar to a
25 qualified defined benefit plan, except that employee wages over the Internal Revenue
26 Code wage limits and annual incentive awards are included when calculating final
27 average earnings. The Company is not seeking recovery of its SERP pension benefit-
28 related costs.

29
30 The SERP annual restoration plan provides an annual benefit for annual compensation
31 that is above the Internal Revenue Code limits for the flexible compensation plan and

1 the DC Plan. The Company is not seeking recovery of its costs for the SERP annual
2 restoration plan.

3
4 The EDA offers certain employees an additional opportunity to save for retirement
5 through salary or bonus deferral. This plan was put in place to provide a deferral
6 opportunity for compensation that could not be deferred into the DC Plan because of
7 the qualified deferred compensation contribution limits in the Internal Revenue Code.
8 The Company is not seeking recovery of its costs related to the EDA plan.

9
10 **Q. What has Minnesota Power included in the 2020 test year for SERP and EDA**
11 **costs?**

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

14
15 **Q. Does Minnesota Power have any other costs associated with executive benefits?**

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

19
20 **Q. Please describe the Executive Investment Plan.**

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

30

1 **Q. Please describe the legacy employment agreements.**

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

13
14 **Q. What is the total amount of the compensation and benefit costs for which the
15 Company is not seeking recovery in the 2020 test year?**

16 A. In this initial rate request, Minnesota Power is foregoing compensation and benefit costs
17 for the 2020 test year totaling \$7.17 Total Company, as set forth in Table 12.

18
19 **Table 12. Employee and Retiree Compensation and Benefit Costs**
20 **Not Included in the 2020 Test Year (\$ in millions)**

Category	2020 Test Year (Total Company)	2020 Test Year (MN Jurisdictional)
AIP in excess of 20%	\$1.15	\$1.02
LTIP	\$2.61	\$2.33
SERP – Retirement	\$1.13	\$1.01
SERP – Annual Restoration Plan	\$0.32	\$0.28
Executive Deferral Account	\$1.39	\$1.24
Executive Investment Plan	\$0.43	\$0.38
Executive Investment Plan – Survivor Benefits	\$0.07	\$0.06
Legacy Employment Agreements	\$0.08	\$0.07
TOTAL	\$7.17	\$6.41

21

V. CONCLUSION

1

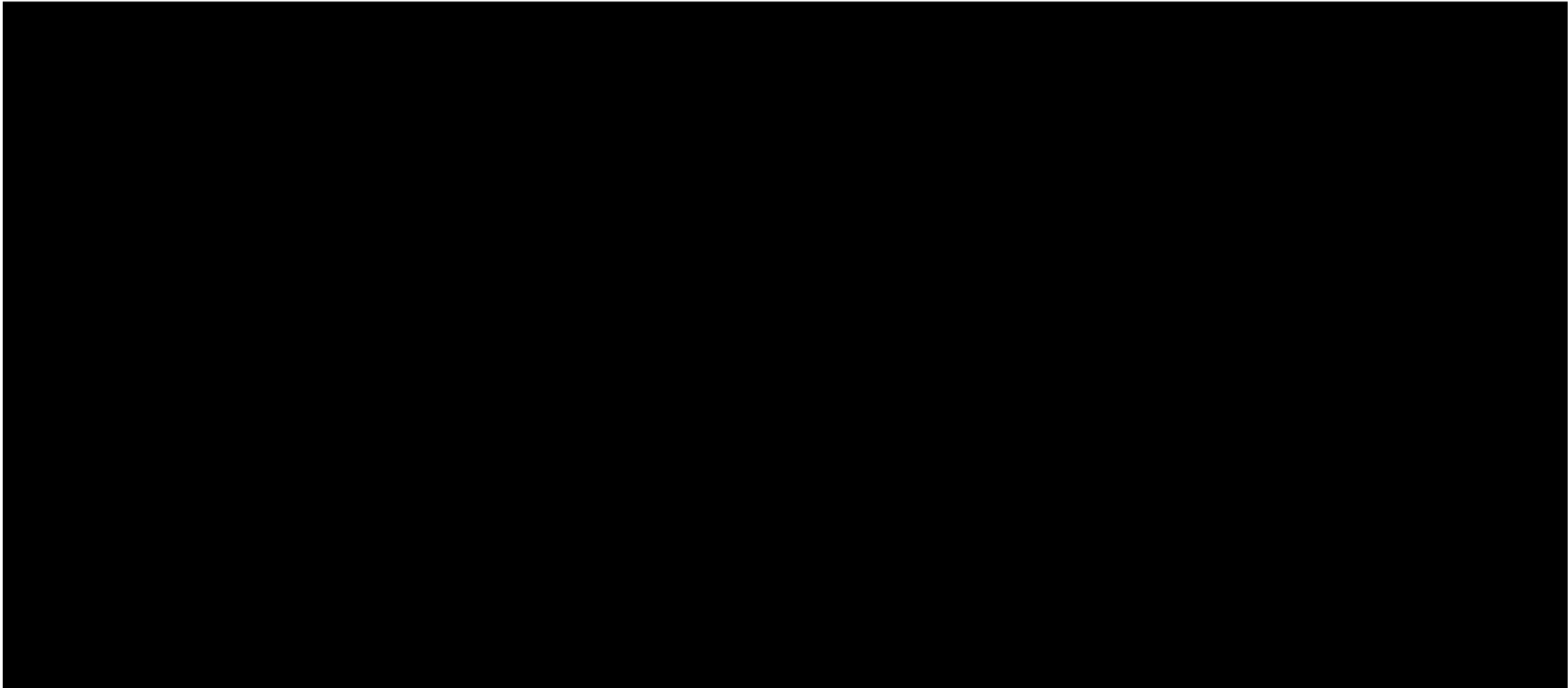
2 **Q. Does this complete your testimony?**

3 **A. Yes.**

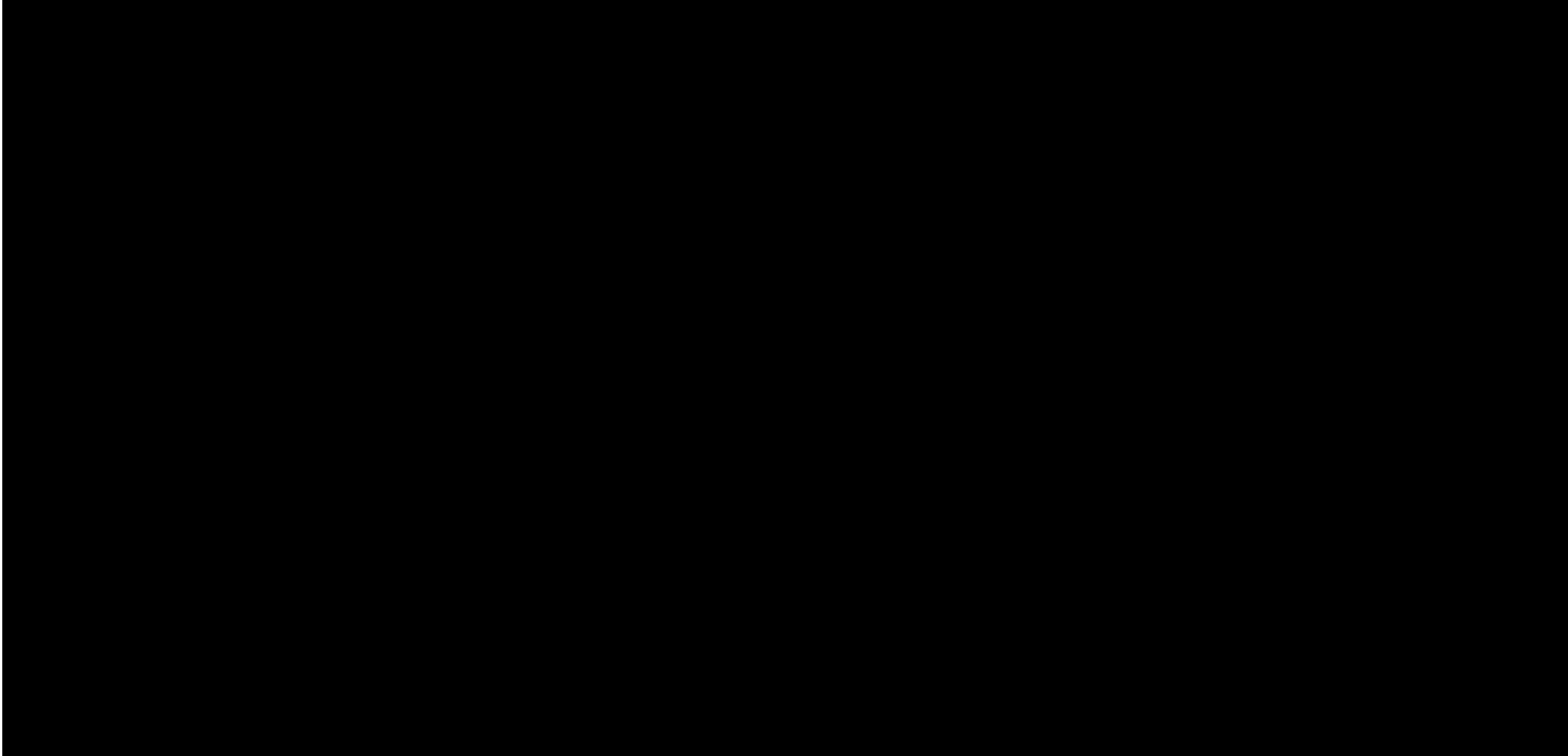
Summary of Compensation and Benefit Costs		2017	2018	2019	2020	2020	
	FERC Accounts	Actual, Total Company	Actual, Total Company	Projected Year, Total Company	Test Year, Total Company	Test Year MN Jurisdictional	
Compensation, including Spot Bonuses	Multiple	71,339,881	65,772,406	55,999,908	64,147,373	57,346,185	
High Performance Awards	92000	267,594	194,670	245,721	233,519	208,832	
Defined Benefit Pension Plans	92608	5,984,482	3,519,301	1,745,114	4,958,254	4,435,113	
Defined Contribution Plan	92606-92607	7,592,625	7,101,658	7,136,557	7,422,470	6,639,333	
Other-Post Employment Benefits	92611-92613	(712,350)	(945,610)	(723,236)	2,885,794	2,581,317	
Health Care Plans	92605	8,869,519	8,206,384	9,518,089	8,460,813	7,568,121	
Dental Plan	92604	432,562	416,926	460,481	437,657	391,480	
Group Life Insurance	92601	228,582	211,140	256,505	289,730	259,161	
Flexible Credits	92602	974,578	944,766	942,955	956,334	855,432	
Tuition Reimbursement Program	92603	178,534	117,159	122,041	126,528	113,178	
Employee Resource Program	92610	16,265	25,218	23,343	24,201	21,648	
Reimbursement Accounts	92610	28,457	26,788	31,128	32,271	28,867	
Long-term Disability Plan	92614	274,143	304,346	286,675	463,641	414,723	
Service Awards	92000	24,544	24,302	21,050	28,022	25,060	
Retirement Awards	92000	12,398	19,368	13,310	13,797	12,339	
Memorials	92000	3,308	2,542	3,276	-	-	
Severance	92000	526,957	2,093,713	-	-	-	
Annual Incentive Plan	92000	3,329,296	4,130,982	3,454,428	3,360,672	3,005,392	Request capped at 20%
Long Term Incentive Plan	92000	2,357,997	2,478,427	2,913,157	2,609,916	2,334,004	Not seeking recovery
Executive Deferral Plan	92000	1,929,102	740,855	1,384,214	1,391,388	1,244,295	Not seeking recovery
Executive Investment Plan	92000	476,399	458,707	486,353	427,332	382,156	Not seeking recovery
Executive Investment Plan - Survivor Benefits	92000	74,608	65,577	72,070	72,070	64,451	Not seeking recovery
Legacy Employment Agreements	92000	88,231	82,318	76,004	75,996	67,962	Not seeking recovery
Supplemental Executive Retirement Plan pension benefit	92615	1,302,116	1,349,334	1,004,851	1,127,005	1,008,096	Not seeking recovery
Supplemental Executive Retirement Plan annual restoration plan	92615	137,912	179,963	306,578	317,813	284,281	Not seeking recovery

Willis Towers Watson BenVal Results
Group A
Compared to Small Utility Companies (revenue range up to \$1,400 million)

[TRADE SECRET DATA EXCISED]



Willis Towers Watson BenVal Results
Group B
Compared to Mid-size Utility Companies (revenue range \$1,401 - \$4,200 million)



Willis Towers Watson BenVal Results
Group C
Compared to Large Utility Companies (revenue range \$4,201 million and over)

