

**BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION**

<b>IN THE MATTER OF SOUTHWESTERN</b>	)	
<b>PUBLIC SERVICE COMPANY'S</b>	)	
<b>APPLICATION FOR REVISION OF ITS</b>	)	
<b>RETAIL RATES UNDER ADVICE</b>	)	<b>CASE NO. 15-00139-UT</b>
<b>NOTICE NO. 255,</b>	)	
	)	
<b>SOUTHWESTERN PUBLIC SERVICE</b>	)	
<b>COMPANY,</b>	)	
	)	
<b>APPLICANT.</b>	)	
	)	

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**DIRECT TESTIMONY**

*of*

**JILL H. REED**

*on behalf of*

**SOUTHWESTERN PUBLIC SERVICE COMPANY**

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## **GLOSSARY OF ACRONYMS AND DEFINED TERMS**

<b><u>Acronym/Defined Term</u></b>	<b><u>Meaning</u></b>
AIP	Annual Incentive Program
Base Period	Calendar Year 2014
CEBS	Certified Employee Benefits Specialist
CEI	Customer Engagement Index
Commission	New Mexico Public Regulation Commission
FERC	Federal Energy Regulatory Commission
HDHP	High Deductible Health Plan
HSA	Health Savings Account
KPI	Key Performance Indicator
O&M	Operation and Maintenance
Operating Companies	Northern States Power Company, a Minnesota corporation; Northern States Power Company, a Wisconsin corporation; Public Service Company of Colorado, a Colorado corporation; and SPS
Operating Company	One of the Operating Companies
OSHA	Occupational Safety & Health Admin.
SAIDI	System Average Interruption Durage Index
SIP	Supplemental Incentive Program

<b><u>Acronym/Defined Term</u></b>	<b><u>Meaning</u></b>
SPS	Southwestern Public Service Company, a New Mexico corporation
Test Year	Calendar Year 2016
UOR	Unplanned Outage Rate
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.

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**I. WITNESS IDENTIFICATION AND QUALIFICATIONS**

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

2   A.   My name is Jill H. Reed. My business address is Xcel Energy, 414 Nicollet Mall,  
3       Minneapolis, Minnesota 55401.

4   **Q.   On whose behalf are you testifying in this proceeding?**

5   A.   I am filing testimony on behalf of Southwestern Public Service Company, a New  
6       Mexico corporation (“SPS”) and wholly-owned electric utility subsidiary of Xcel  
7       Energy Inc. (“Xcel Energy”). Xcel Energy is a registered holding company that  
8       owns several electric and natural gas utility operating companies.<sup>1</sup>

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

10  A.   I am employed by Xcel Energy Services Inc. (“XES”), the service company  
11       subsidiary of Xcel Energy, as Director of Employee Benefits.

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<sup>1</sup> Xcel Energy is the parent company of four wholly-owned electric utility operating companies: Northern States Power Company, a Minnesota corporation; Northern States Power Company, a Wisconsin corporation; Public Service Company of Colorado, a Colorado corporation; and SPS (collectively, “Operating Companies”; individually, “Operating Company”). Xcel Energy’s natural gas pipeline subsidiary is WestGas InterState, Inc. Xcel Energy also has two transmission-only operating companies, Xcel Energy Southwest Transmission Company, LLC and Xcel Energy Transmission Development Company, LLC, both of which are regulated by the Federal Energy Regulatory Commission (“FERC”).

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1   **Q.   Please briefly outline your responsibilities as Director of Employee Benefits.**

2   A.   I oversee the design and administration of Xcel Energy's retirement, health and  
3       welfare, and disability/leave of absence programs. I provide leadership and have  
4       responsibility for designing, developing, and implementing cost-effective benefit  
5       programs that align with the market and enhance Xcel Energy's ability to attract,  
6       motivate, and retain talent at all levels throughout the organization. In addition, I  
7       am responsible for ensuring that Xcel Energy's benefit programs and services are  
8       delivered accurately and meet all legislative requirements.

9   **Q.   Please describe your educational background.**

10  A.   I received a Bachelor of Science General Business Administration degree with a  
11       concentration in Public Relations in 1978 from the University of Wisconsin -  
12       Stout. I have also received the Certified Employee Benefits Specialist  
13       Designation ("CEBS") and CEBS Fellowship Designation from the International  
14       Foundation of Employee Benefit Plans and Wharton School of the University of  
15       Pennsylvania.

16  **Q.   Please describe your professional experience.**

17  A.   Prior to my employment with Xcel Energy, I worked for Methodist Hospital  
18       (Minneapolis, Minnesota), The Pillsbury Company, and Medtronic, Inc. in their

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1 Business and Human Resources (“HR”) departments. I began my employment  
2 with Xcel Energy in December 2000 as Director of Employee Retirement and  
3 served in that position until January 2009. As Director of Employee Retirement, I  
4 was responsible for the design and administration of qualified and non-qualified  
5 retirement programs. In February 2009, I became Director of Employee  
6 Compensation and was responsible for Xcel Energy compensation and executive  
7 compensation programs. In February 2010, I became Director of Retirement and  
8 HR Operations and, in 2014, I became director of all benefit programs.

9 **Q. Have you attended or taken any special courses or seminars relating to**  
10 **public utilities?**

11 A. Yes. In 2008, I attended The Executive Utility Course at the University of Idaho,  
12 in Moscow, Idaho. The course focused on financial, marketing, transmission,  
13 generation, and delivery activities of the utility industry.

14 **Q. Have you testified before any regulatory authorities?**

15 A. Yes. I have testified before the New Mexico Public Regulation Commission  
16 (“Commission”) regarding XES and Operating Company compensation and  
17 benefits programs and costs. In addition, I have filed testimony before the Public

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1           Utility Commission of Texas and the North Dakota Public Service Commission  
2           on those same topics.



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**II. ASSIGNMENT AND SUMMARY OF TESTIMONY AND  
RECOMMENDATIONS**

1   **Q.   What is your assignment in this proceeding?**

2   A.   SPS's proposed Test Year<sup>2</sup> revenue requirement includes compensation and  
3       benefits costs for SPS's employees and the XES and Operating Company  
4       employees who charge time to SPS. I will explain that these costs are reasonable  
5       and necessary. In particular, I discuss:

- 6           •       The base salary costs in the Base Period,<sup>3</sup> how the Test Year base  
7                   salary costs were calculated; and how the base salary increases  
8                   budgeted for Xcel Energy employees are competitive with the  
9                   market and, therefore, reasonable;
- 10          •       The structure for Xcel Energy's Annual Incentive Program  
11                   ("AIP"), how the structure changed for the Test Year, and the  
12                   changes in AIP costs from the Base Period to the Test Year;
- 13          •       The structure of Xcel Energy's Wholesale Marketing and Trading  
14                   Supplemental Incentive Program ("SIP"), what those costs were  
15                   for the Base Period, and how those costs were calculated for the  
16                   Test Year;
- 17          •       Xcel Energy's Recognition Program, what those costs were for the  
18                   Base Period, and how those costs were calculated for the Test  
19                   Year; and

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<sup>2</sup> The "Test Year" in this case is calendar year 2016.

<sup>3</sup> The "Base Period" in this case is calendar year 2014.

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- The benefits offered to Xcel Energy employees, the initiatives undertaken by Xcel Energy to mitigate increases in these costs, and how the benefits are necessary and reasonable.

**Q. Please summarize your testimony and recommendations.**

A. Xcel Energy's objective is to provide market-competitive compensation and benefits to its employees to attract, retain and engage the skilled labor force SPS needs in order to provide safe, reliable electric service to its customers. Xcel Energy undertakes a comprehensive approach to ensure the compensation provided to SPS employees is comparable to what the market is offering. Studies show that Xcel Energy employees' compensation levels are comparable to what employees of other utilities receive. In addition to compensation, the benefit programs SPS employees receive are comparable to the market and necessary to attract and retain a qualified, skilled workforce. Therefore, the Commission should allow full recovery of the compensation and benefit costs included in SPS's requested Test Year revenue requirement.

**Table JHR-1**

Base Salaries Charged to Operation and Maintenance ("O&M") Expense	\$105,301,334
Annual Incentive Program	\$7,247,529
Supplemental Incentive Program	(\$103,281)
Recognition Program	\$449,752

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**III. COMPENSATION AND BENEFITS**

1   **Q.   How does your testimony on compensation and benefits costs correlate with**  
2       **the testimony of the other SPS witnesses who support SPS's proposed Test**  
3       **Year revenue requirement?**

4   A.   My testimony demonstrates that the level of compensation and benefit costs  
5       included in SPS's proposed Test Year revenue requirement are reasonable and  
6       necessary. Those costs assume no increase in the total number of employees  
7       above the level in the Base Period. I have provided these costs to SPS witness  
8       Arthur P. Freitas, who presents SPS's proposed Test Year revenue requirement.

9   **Q.   What is the structure of the compensation provided to SPS and the other**  
10       **Xcel Energy subsidiaries?**

11   A.   Xcel Energy operates a similar compensation structure for all employees in the  
12       Xcel Energy group of companies. Thus, SPS employees, XES employees, and  
13       employees of Xcel Energy's other subsidiaries are all covered by a similarly-  
14       designed compensation structure. The components of that compensation structure  
15       are: base salary; the AIP; the SIP; the Recognition Program; and the Long-term  
16       Incentive Plan.

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1   **Q.   Is SPS seeking recovery of all costs associated with its compensation**  
2       **components?**

3   A.   No. SPS is not requesting recovery of the costs associated with the Long-term  
4       Incentive Plan.<sup>4</sup> SPS witness Arthur P. Freitas presents an adjustment to remove  
5       those costs. Thus, in this rate case, SPS is seeking recovery only of the  
6       compensation costs related to base salary, the AIP, the SIP, and the Recognition  
7       Program.

8   **Q.   What are Xcel Energy's compensation goals?**

9   A.   SPS's customers rely on us to provide reliable, safe electric service 24 hours a  
10       day, 7 days a week, 365 days a year. However, the planning, maintenance, and  
11       operation of an electric utility is highly complex and technically demanding. The  
12       goal of Xcel Energy's compensation programs is to attract, retain, and motivate  
13       the talented employees necessary to provide safe, reliable electric service to  
14       customers, such as SPS's New Mexico retail customers, at a reasonable cost. The  
15       achievement of this goal requires that Xcel Energy provide its employees with

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<sup>4</sup> Xcel Energy's Long-term Incentive Compensation Plan covers a limited number of officers and other executives. Officers are granted long-term incentives both in the form of performance shares and performance-based restricted stock units. Other executives are granted long-term incentives only as performance-based restricted stock units. Since SPS is not requesting recovery of costs associated with this plan, I will not discuss it further.

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1 compensation, through the use of base salaries, annual incentive compensation,  
2 recognition, and long-term incentive compensation plans that are competitive with  
3 what is provided by employers with whom Xcel Energy competes for employees  
4 (*i.e.*, the market).

5 **Q. How does Xcel Energy ensure the compensation it provides to employees is**  
6 **competitive with the market?**

7 A. Xcel Energy undertakes a comprehensive job evaluation process, using external  
8 market data obtained from independent third-party surveys, to ensure its non-  
9 bargaining employee compensation is comparable to the market. Xcel Energy  
10 matches the skill sets of jobs within Xcel Energy to external market data to  
11 identify the market-competitive compensation rate being paid by other companies  
12 that compete with Xcel Energy for employees. Data is considered from a variety  
13 of surveys, including both utility and non-utility companies. Many of Xcel  
14 Energy's positions, however, exist only in the utility industry, so non-utility  
15 industry data is not used for those positions. When reviewing these surveys,  
16 essential job duties are defined in a position description. The 50th percentile of  
17 the survey data (that is, the median) is then used to determine the appropriate  
18 salary range for a position. After an appropriate salary range is determined, the

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1 components of the compensation are broken up between: (1) base salary; and (2)  
2 either AIP, or recognition compensation. By approaching cash compensation in  
3 this manner, SPS is able to ensure its employee compensation is comparable to  
4 the market and, thus, those costs are set at a reasonable level.

5 **Q. Why does Xcel Energy use third-party surveys?**

6 A. Xcel Energy uses third-party salary surveys because the surveys use rigorous  
7 methodologies to collect and aggregate compensation information from a wide  
8 array of companies. Surveys abide by Department of Justice/Federal Trade  
9 Commission Antitrust Safety Zone guidelines, which outline who can administer  
10 surveys and define minimums for the number of participants, the percent a  
11 provider can represent in weighted results, and the age of the data. In addition,  
12 surveys are confidential; they are available only to authorized users to encourage  
13 companies to share competitive information they would not otherwise release.  
14 Use of third-party salary surveys is a best practice for determining compensation  
15 across industries.

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1   **Q.    Do SPS's New Mexico retail customers benefit from Xcel Energy's ability to**  
2       **provide market-competitive compensation?**

3    A.    Yes. Providing market competitive compensation is necessary to attract, retain,  
4           and motivate experienced and talented employees, and these employees in turn  
5           perform the work necessary to provide quality electric service to SPS's customers.  
6           For example, Xcel Energy's ability to attract and retain qualified engineers, plant  
7           managers, and other professional positions would be adversely affected if Xcel  
8           Energy did not offer market competitive compensation.

9           Not only is market competitive compensation important in recruiting  
10          employees with the specialized knowledge and skills necessary to provide quality  
11          service, but without competitive compensation there would likely be a loss of  
12          skilled employees, resulting in added costs associated with recruitment, training,  
13          and lost productivity.

14   **Q.    Earlier you defined the employment and compensation market. With whom**  
15       **does Xcel Energy compete for employees?**

16    A.    Xcel Energy principally competes for employees with utility-sector employers,  
17           but also non-utility sector employers. Utility-sector competition generally takes  
18           place for jobs specific to utility operations and the delivery of utility services,

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such as control center operators, engineers, plant operators, technicians, welders, and machinists. Xcel Energy also competes with other utilities for corporate employees such as regulatory accountants and load forecasters. In addition, Xcel Energy competes with non-utility employers for jobs that are not specific to utilities, such as finance and accounting analysts, marketing analysts, designers, information technology specialists, human resource generalists, and customer service representatives.

**Q. Although Xcel Energy strives to provide market-competitive compensation to employees, do SPS and XES still experience a high level of attrition?**

**A.** Yes. Both XES and SPS are experiencing a high rate of attrition, as depicted in Table JHR-2 below:

**Table JHR-2**  
**Attrition by Year**

	2010	2011	2012	2013	2014	2015 YTD Actuals (Through 3/31/15)	2015 (Full Year Projected)	2016 (Full Year Projected)
<b>SPS</b>	6.5%	8.4%	5.8%	7.5%	6.9%	2.0%	6.9%	6.6%
<b>XES</b>	6.9%	6.5%	7.8%	9.8%	15%*	3.3%	9.9%	8.2%

\*A single business area drove the large increase. Excluding that area, attrition would have been 8.9%.



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1   **Q.    To what do you attribute the relatively high level of attrition?**

2    A.    The high rate of attrition experienced is impacted by a combination of: (1) the  
3           market's need for the types of skills and training that SPS and XES employees  
4           possess, for example, engineers, safety consultants, designers, technical  
5           instructors, load forecasters, and environmental analysts; (2) available jobs due to  
6           the significant growth in the oil and gas industries in SPS's service territory; (3)  
7           the overall improvement of the economy; and (4) retirement.

8   **Q.    Do you have concerns regarding the attrition levels that SPS and XES is**  
9       **experiencing?**

10   A.    Yes. On a going-forward basis, Xcel Energy projects that attrition will remain at  
11           the same level or rise even higher; particularly as many members of Xcel  
12           Energy's aging workforce retire. Thus, SPS expects to replace over half its  
13           workforce within the next 10 years, including many employees with specialized  
14           knowledge.

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1   **Q.    You mentioned above that the attrition rate will be driven by employees who**  
2       **retire. What percentage of Xcel Energy's workforce is eligible for retirement**  
3       **in the coming years?**

4    A.    It is projected that approximately 40% of Xcel Energy's (*i.e.*, both SPS and XES)  
5       current workforce will be eligible to retire in the next 10 years.

6   **Q.    Does SPS experience competition in recruiting and retaining employees?**

7    A.    Yes. Prospective employees with the skills and training required for the utility  
8       industry are in high demand. Many of the SPS and XES jobs require strong  
9       Science, Technology, Engineering, and Math skills. Contracting firms, utilities,  
10       and other sectors of the energy industry need these employees, too. Thus, SPS  
11       experiences steep competition in recruiting and retaining these employees.

12               In addition, SPS continues to see an imbalance in the supply and demand  
13       of engineers across a broad spectrum of production industries. Thus, there is a  
14       limited pool of candidates for many engineering jobs within SPS and SPS  
15       competes for qualified candidates on a national, regional, and local basis.

16   **Q.    Please provide examples of SPS's recruiting challenges.**

17    A.    Several examples relate to the ability to attract qualified engineers with the unique  
18       technical skill requirements in the SPS geographic region. As noted above, SPS

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1 competes with other utilities and consulting firms, which generally offer  
2 significantly higher pay and benefits according to feedback received from  
3 candidates. In the past year, SPS needed to fill five vacancies for engineering  
4 positions. This included a Welding Engineer, Meter Performance Engineer, and  
5 Substation Communications Engineers. Xcel Energy's current average time to  
6 hire is 58 days, but for these positions it took from 120 days to 265 days to fill the  
7 vacancies. Although there were a significant number of applicants for the jobs,  
8 only a small percentage met the requirements to be selected for interviews.  
9 Multiple job offers were declined and in most cases SPS had to provide higher  
10 base salaries and relocation assistance for the offers that were ultimately accepted.

11 Another recent SPS recruiting challenge was for a Contract Management  
12 Consultant position for the Supply Chain business area. This role is responsible  
13 for significant power generation capital projects and requires utility construction  
14 contracting experience. Of 49 applications, only four met the requirements to be  
15 selected for an interview and one of those ultimately withdrew his/her application  
16 even with relocation assistance being offered. A successful candidate was  
17 eventually hired after 105 days with the position opened to fill.

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1   **Q.    What do the recruiting challenges, the attrition data, and retirement outlook**  
2       **mean regarding the necessity to provide market-competitive compensation?**

3    A.    Given the current environment in which attrition for SPS and competition for  
4       employees is steadily increasing, while at the same time 40% of Xcel Energy's  
5       workforce will be eligible to retire in the next 10 years, it is imperative that SPS  
6       continue to provide market-competitive compensation to employees who, in turn,  
7       provide safe, reliable electric service to SPS's customers. Thus, the Commission,  
8       SPS, and SPS's customers should be aligned in making sure SPS's compensation  
9       goals are met.

**A.    Base Salary Increases and Base Salaries**

10   **Q.    Do SPS and XES offer base salary increases to its employees?**

11   A.    Yes. Historically, Xcel Energy's subsidiaries, such as SPS and XES, have  
12       provided non-bargaining employees an opportunity to annually earn merit  
13       increases in base salary. Bargaining employees are provided general wage  
14       increases as a part of their collective bargaining agreements. Typically,  
15       non-bargaining employees earn a base salary increase effective in March, and  
16       base wage increases are effective for bargaining employees on November 1<sup>st</sup>.

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1   **Q.    What base salary increases were given for 2014 and 2015 and are budgeted**  
2       **for 2016?**

3    A.   For non-bargaining employees, base salary increases of 3.0% were provided for  
4       2014 and 2015. A 3.0% base salary increase is budgeted for non-bargaining  
5       employees in 2016. For rate-making purposes SPS included a 3% increase in  
6       base salary for both 2015 and 2016.

7               For bargaining employees, the current collective bargaining agreement  
8       expired on October 31, 2014. Under the expired agreement, the last increase in  
9       base wages of 2.9% became effective on November 1, 2013. For rate-making  
10      purposes, SPS included a 3.0% base wage increase for both 2015 and 2016,  
11      consistent with the budgeted increase for bargaining employees for 2016.

12   **Q.    How does SPS determine base salary and base wage increases for employees?**

13   A.   For non-bargaining employees, Xcel Energy and its Operating Companies balance  
14      a multitude of factors to arrive at increases in base salary. The factors include:  
15      (1) review of external market surveys regarding base salary increases; (2)  
16      comparison of potential increases in base salary to our bargaining employees; (3)  
17      economic conditions; and (4) corporate and Operating Company performance.

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1           For bargaining unit employees, the annual increases are included in the  
2           collective bargaining agreements.

3   **Q.   How are base salary increases earned by non-bargaining employees?**

4   A.   Consistent with Xcel Energy's pay-for-performance and market-competitive pay  
5           philosophy, managers determine the base salary increase amount to award based  
6           on an employee's performance (including additional skills acquired by the  
7           employee), position in the salary range (an indicator of market), and internal  
8           equity. Because base salary increases are based on these factors, some employees  
9           may earn less than the budgeted increase or no increase at all, while other  
10          employees may earn more than the budgeted increase percentage.

11 **Q.   When will the next collective bargaining agreement be negotiated?**

12 A.   SPS is currently in the process of negotiating a revised collective bargaining  
13          agreement. However, given the lack of an agreement resulting from negotiations,  
14          the matter will be subject to arbitration. This process is expected to be finalized  
15          in 2015.

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1   **Q.   How did SPS calculate the \$105.3 million base salary and base wage**  
2       **component for the Test Year cost of service?**

3   A.   For both bargaining and non-bargaining employees, the calculation began by  
4       using the Base Period labor costs and assumed no increase in head count for  
5       employees. The Base Period labor costs were adjusted to remove certain costs for  
6       rate-making purposes, which are explained further by SPS witness Arthur P.  
7       Freitas. The adjusted Base Period labor costs were then multiplied by the base  
8       salary or wage increases provided or budgeted to bargaining and non-bargaining  
9       employees for 2015 and budgeted for 2016.

10           At a high level, the Base Period labor costs were first increased by 3.0% to  
11       reflect the 2015 base salary or wage increase. The resulting amount was then  
12       increased by 3.0% to reflect the 2016 base salary or wage increase. For  
13       non-bargaining employees, the 3% increase was applied as of April each year and  
14       for bargaining employees the 3% increase was applied as of November each year.  
15       Mr. Freitas discusses the details of the wage adjustment.

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- 1   **Q.   Is it reasonable to include base wage increases for bargaining employees in**  
2       **the Test Year if no current collective bargaining agreement provides for**  
3       **increases in base wages?**
- 4   **A.**   Yes. Although no current agreement provides for base wage increases for 2015,  
5       historically these types of increases have been a part of the collective bargaining  
6       agreements. Furthermore, it is common for collective bargaining agreements to  
7       implement base wage increases retroactively to the expiration of the previous  
8       agreement – meaning that whenever a new collective bargaining agreement is  
9       finalized, the base wage increases likely will be implemented back to 2014. Table  
10      JHR-3 below shows the base wage increases for bargaining employees in recent  
11      years under collective bargaining agreements.

**Table JHR-3**  
**Recent base wage increases for SPS bargaining employees**

Year	Base Salary Increase
2008	3.50%
2009	3.50%
2010	4.00%
2011	2.15%
2012	2.25%
2013	2.90%



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1        Given the historical inclusion of base wage increases in collective bargaining  
2        agreements, it is reasonable to assume that base wage increases will be included  
3        in the next agreement.

4        **Q.    Is a 3.0% increase reasonable for 2014, 2015, and 2016 for bargaining**  
5        **employee base wage increases?**

6        A.    Yes. A 3.0 % increase in base wages for bargaining employees is a reasonable  
7        forecast because it falls below the average of historical base wage increases  
8        provided under prior collective bargaining agreements.

9        **Q.    Is the 3.0% merit increase in base salary for non-bargaining employees**  
10       **comparable to what the market provided in 2014 and 2015 and is expected to**  
11       **provide in 2016?**

12       A.    Yes. Based on my experience, a 3.0% base salary increase is comparable to what  
13       the market provided to non-bargaining employees in 2014 and 2015 and what will  
14       be provided in 2016.

**B.    Incentive Compensation**

15       **Q.    You stated that Xcel Energy's compensation structure includes incentive**  
16       **programs in addition to base salary. What is the role of the incentive**  
17       **programs in the compensation structure?**

18       A.    Employers can provide cash compensation to employees either solely through  
19       base salary or through a combination of base salary and incentive (*i.e.*, at-risk)

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1 compensation. Xcel Energy's AIP reflects the latter approach. That is, rather  
2 than providing all of an employee's compensation as base salary ("fixed pay"),  
3 Xcel Energy's compensation design includes an incentive component that eligible  
4 employees can earn. This compensation is a part of the total cash compensation  
5 package provided to employees, and it is only with the inclusion of the AIP that  
6 Xcel Energy's cash compensation levels are competitive with what is paid by the  
7 market.

8 **Q. Is it common practice for large companies such as utilities to use annual**  
9 **incentive compensation as part of their compensation packages?**

10 A. Yes. The use of incentive compensation by employers is a prevalent practice  
11 throughout the United States. In fact, performance-based award programs, in  
12 which a portion of compensation must be re-earned each year, remained very high  
13 in 2014, with 91% of employers using this type of program according to an Aon  
14 Hewitt survey of 1,064 U.S. companies.<sup>5</sup> According to the 2014 Towers Watson  
15 Compensation Study, 100% of energy companies in the national sample maintain  
16 an annual incentive plan, and 100% of energy companies in the revenue-based  
17 sample maintain an annual incentive plan.

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<sup>5</sup> <http://aon.mediaroom.com/New-Aon-Hewitt-Survey-Shows-2014-Variable-Pay-Spending-Spikes-to-Record-High-Level>

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1   **Q.    Why does Xcel Energy include incentive compensation as part of its overall**  
2       **compensation plan?**

3    A.    There are two fundamental tenets related to incentive compensation that are  
4       well-accepted in the industry: (1) it promotes superior employee performance;  
5       and (2) it reduces labor costs.   Thus, Xcel Energy incorporates incentive  
6       compensation to provide these benefits for customers.

7   **Q.    Please explain how incentive compensation promotes superior employee**  
8       **performance.**

9    A.    A well-designed incentive compensation plan provides incentives for employees  
10       to meet specific goals.   For example, Xcel Energy's AIP focuses on objectives  
11       that benefit customers, including promoting customer satisfaction, reliability,  
12       safety, and environmental goals.   An employee receives annual incentive  
13       compensation only if the employee demonstrates that the employee has met his or  
14       her annual objectives, which are generally developed to support business area and  
15       overall corporate goals.   Annual incentive compensation awarded in the manner  
16       of the AIP motivates employees to accomplish these goals, thereby helping Xcel  
17       Energy and SPS achieve overall operational excellence.

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1           In addition, an approach that includes incentive compensation, in contrast  
2           to a pure base salary approach, strengthens the link between pay and performance,  
3           because the performance must occur in order for the pay to be realized. Using  
4           base salaries alone allows for the pay to be realized regardless of whether annual  
5           performance objectives are met. Thus, sole reliance on base salary would  
6           significantly limit Xcel Energy's ability to motivate and reward its employees for  
7           delivering superior performance.

8   **Q.   How does incentive compensation provide cost savings for customers?**

9   A.   If SPS offered all compensation solely through base salary, a merit increase  
10       would become an annual fixed cost on the entire cash-based compensation. In  
11       contrast, the AIP requires the employee to re-earn the incentive reward every  
12       year, and if performance expectations are not met incentive pay is reduced or  
13       eliminated. Incentive pay, therefore, does not become a permanent fixed cost.  
14       Thus, by moving a portion of each employee's pay from base pay to incentive  
15       pay, the AIP reduces overall labor costs by avoiding the compounding effect of  
16       annual base pay increases.

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*I.     AIP*

1     **Q.     Please summarize Xcel Energy's AIP.**

2     A.     Xcel Energy's AIP is a broad-based program that covers exempt,<sup>6</sup> non-bargaining  
3           employees across all states in which Xcel Energy operates. Each eligible  
4           employee has a set of performance objectives upon which incentive compensation  
5           is tied. The employee's target annual incentive compensation is expressed as a  
6           percentage of base salary. The percentage is determined by the employee's  
7           position or level within the organization and, when combined with the employee's  
8           base salary, delivers a market-competitive level of total cash compensation. The  
9           program uses the earnings per share of Xcel Energy as an affordability trigger for  
10          payments from the AIP. If the overall affordability trigger for payment is not met,  
11          the program does not pay any incentive compensation.

12    **Q.     What performance objectives are reflected in the AIP?**

13    A.     Performance goals in the AIP are set at the Individual, Business Area, and  
14          Corporate levels as follows:

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<sup>6</sup> Exempt employees are salaried employees as opposed to hourly employees.

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**Table JHR-4**

<b>Performance Component</b>	<b>Types of Goals within Component</b>	<b>Purpose of Goals within Component</b>
Individual	The individual component is based on the individual performance results of specific goals identified by the employee and his or her manager.	Goals are tied specifically to the employee's job functions and competencies and are developed in alignment with business area and corporate objectives.
Business Area	The business area component consists of goals and key performance indicators ("KPI") specific to the business area in which the employee works.	Goals are typically comprised of measures related to operational performance and are aligned to the corporate scorecard goals and priorities.
Corporate	The corporate component consists of goals and KPI focused on operational, environmental, and safety measures.	Goals represent customer and employee interests.

**Q. Are each of the three plan components equally important in assessing the performance of an employee?**

A. No. In assessing a particular employee's performance, the importance of each of the objectives will vary based upon the employee's position and level of responsibility. The weightings are designed such that the employee's goals are more strongly linked to objectives that he or she has the greatest potential to

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1 affect. For example, the weighting for non-supervisory employees focuses on the  
2 Individual and Business Area goals that are tied to customer satisfaction, safety,  
3 and reliability. In contrast, the weighting for more senior level positions focuses  
4 on Corporate goals. Table JHR-5 shows the weightings of these different  
5 categories for the 2014 AIP. The 2015 AIP weightings are not yet available.

**Table JHR-5**  
**Weightings of AIP by Employee Position**

	<b>2014 AIP Weights (Exempt, Non-Bargaining Employees)</b>		
<b>Salary Tiers/Grades</b>	<b>Individual</b>	<b>Business Area</b>	<b>Corporate</b>
Exempt M, N, O* Engineer A, B*	75%	15%	10%
Exempt P, Q* Engineer C*	50%	30%	20%
Engineer D, E* Management R-T**	40%	30%	30%
Management U-V**	20%	30%	50%
Management W-X**	20%	30%	50%
Business Area Vice President	0%	40%	60%
Executives	0%	0%	100%
* Positions in these tiers are in operations or professional roles. ** Positions in these tiers are in professional, manager, director, or vice president roles.			

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1   **Q.   Do the category weightings change the total amount of target incentive**  
2       **compensation that can be earned?**

3   A.   No. The weightings modify the mix of accomplishments needed for employees to  
4       achieve the target levels, but do not change the target levels.

5   **Q.   Is the amount of an employee's incentive compensation that can be earned**  
6       **always at the "target" amount?**

7   A.   No. If the employee achieves 100% of his or her applicable performance  
8       objectives and the Business Area and Corporate results are at 100%, then the  
9       employee receives the target annual incentive. Actual payment to an employee  
10      may exceed or fall below the target amount, however, depending upon the actual  
11      performance of the three AIP components. The maximum payout is 150% of the  
12      target amount based on exceptional performance, and the minimum payout is 50%  
13      of the target. Performance below the 50% level results in no incentive  
14      compensation. As noted above, SPS is only seeking recovery of the target level  
15      of AIP as a part of the Test Year revenue requirement.

16   **Q.   What were the Corporate performance objectives for the 2014 AIP?**

17   A.   The 2014 Corporate Scorecard is provided below:



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**Table JHR-6**  
**2014 AIP Corporate Scorecard**

Goal	Key Performance Indicator	Measurement
Operational Excellence	System Average Interruption Duration Index (“SAIDI”)	SAIDI measures the average annual duration of sustained interruptions seen by the average electric customer on our system.
	Unplanned Outage Report (“UOR”)	UOR measures the percentage of time when a generating plant is not available for reasons other than planned outages.
Goal	Key Performance Indicator	Measurement
Value to the Customer	Public Safety Index	The Public Safety Index measures response time to calls about our electric service from customers and contractors.
	Customer Value	The existing Voice of the Customer survey, which has been conducted since 2005, measures survey responses from residential, small business, and large business customers to the question: <i>Considering the price you pay relative to the quality of the products and services you receive, how would you rate Xcel Energy’s overall value?</i>
	O&M Growth Management	Annual O&M growth rate percentage.
Employee Safety and Engagement	OSHA Recordable Incident Rate	The OSHA Recordable Incident Rate is used to measure safety performance. It is the standard measurement used in the utility and general industry.
	Employee Engagement	Our ability to utilize the full potential of our workforce requires that we foster a culture of engagement. Research shows that engaged employees are safer, more productive, commit more of their discretionary effort, and bring more positive energy to the communities we serve.

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1   **Q.   Please describe how the 2014 Corporate performance goals benefit**  
2       **customers.**

3   A.   The Operational Excellence goal benefits customers as it directly relates to the  
4       System Average Interruption Duration Index (“SAIDI”) and Unplanned Outage  
5       Rate (“UOR”). SAIDI measures the average annual duration of sustained  
6       interruptions experienced by the average electric customer. UOR measures the  
7       percentage of time when generating plants are not available due to unplanned  
8       outages. Focusing employees’ efforts on obtaining the best scores possible for  
9       SAIDI and UOR directly benefits customers through the provision of reliable  
10      electric service.

11           The Value to Customer goal is based upon the Public Safety Index, which  
12      measures SPS response time to calls regarding electric service from customers  
13      and contractors. The Value to Customer goal is also based upon responses to  
14      customer satisfaction survey results. Again, this goal directly benefits and relates  
15      to the quality of service provided to SPS’s customers. In addition, mitigating the  
16      growth of O&M benefits customers by encouraging increased productivity and  
17      improved efficiencies in operational performance.

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1           The Employee Safety and Engagement goal benefits customers as it  
2           relates to the Occupational Safety and Health Administration (“OSHA”)  
3           recordable incident rate achieved. The OSHA recordable incident rate is used to  
4           measure safety performance and is the standard measure used in the utility  
5           industry. The higher the safety level of our employees, the more productive and  
6           reliable the service. Similarly, engaged employees are necessary to every facet of  
7           Xcel Energy’s business – especially in today’s environment, as Xcel Energy seeks  
8           to improve productivity and keep costs competitive for customers.

9   **Q.   Did the Corporate Scorecard change for 2015?**

10  A.   Yes. For 2015, the Customer Value metric has changed from the Voice of the  
11       Customer Survey to the Customer Engagement Index (“CEI”). The 2015  
12       Corporate Scorecard is shown in Table JHR-7 below:

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**Table JHR-7**

**2015 AIP Corporate Scorecard**

<b>Priority</b>	<b>Key Performance Indicator</b>	<b>Measurement</b>
Operational Excellence	SAIDI	SAIDI measures the average annual duration of sustained interruptions seen by the average electric customer on our system.
	UOR	UOR measures the percentage of time when a generating plant is not available for reasons other than planned outages.
<b>Priority</b>	<b>Key Performance Indicator</b>	<b>Measurement</b>
Customer Focus Excellence	Public Safety Index	The Public Safety Index measures response time to calls about our electric service from customers and contractors.
	Customer Engagement Index	The CEI provides a 360-degree view of the operations, product and service offerings, and trusted brand components of Xcel Energy's relationship with its customers.
	O&M Growth Management	Annual O&M growth rate percentage.
Workforce Excellence	OSHA Recordable Incident Rate	The OSHA Recordable Incident Rate is used to measure safety performance. It is the standard measurement used in the utility and general industry.
	Employee Engagement	Our ability to utilize the full potential of our workforce requires that we foster a culture of engagement. Research shows that engaged employees are safer, more productive, commit more of their discretionary effort, and bring more positive energy to the communities we serve.

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1   **Q.    Do the 2015 Corporate performance goals benefit customers?**

2    A.    Yes. As noted above, for 2015 the Customer Value metric has changed from the  
3       Voice of the Customer Survey to CEI. The CEI results from a nationwide  
4       syndicated study fielded by an independent third party market research firm. Xcel  
5       Energy is one of many utilities moving from customer satisfaction and value  
6       metrics towards stronger customer engagement measures. The remaining goals  
7       continue to benefit customers as described above.

8   **Q.    Is the AIP Corporate scorecard for 2014 and 2015 representative of what can**  
9       **be expected for 2016?**

10   A.    Yes.

11   **Q.    What percentage of the requested Test Year AIP expenses resulted from**  
12       **operational-based incentive goals versus financial-based incentive goals?**

13   A.    The operational-based and financial-based incentive percentages of the target  
14       level incentive amounts for 2014 and 2015 for SPS and XES are reflected in  
15       Tables JHR-8 and JHR-9 below.

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**Table JHR-8 - SPS**

<b>Year</b>	<b>Operational</b>	<b>Financial</b>
2014	88.8%	11.2%
2015	90.3%	9.7%

**Table JHR-9 - XES**

<b>Year</b>	<b>Operational</b>	<b>Financial</b>
2014	82.1%	17.9%
2015	87.1%	12.9%

**Q. Do SPS's New Mexico retail customers benefit from the financial-based components in certain individual business area scorecards?**

**A.** Yes. The inclusion of a financial component in certain individual business area scorecards is reasonable for many reasons.

For example, a financially healthy utility has greater access to capital when needed and is able to raise capital at a lower cost than a less financially healthy company. Customers benefit from lower financing costs through a lower weighted overall cost of capital. In addition, individual business area financial goals give employees further incentive to focus on cost cutting, reducing the rate of cost increases, and increasing efficiency. These efforts to reduce or contain

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1 costs are reflected in a test year revenue requirement. Given that SPS's rates are  
2 based upon adjusted Test Year costs, this focus upon cost containment and  
3 efficiency benefits customers by producing costs that are lower than they  
4 otherwise would be.

5 Further, employees who have an interest in a firm's financial performance  
6 are more likely to make better investment decisions regarding both large items  
7 such as generation, transmission, or distribution components and smaller items  
8 such as telephone systems or computer hardware. Again, the results of these  
9 decisions are reflected in operational performance and the Test Year revenue  
10 requirement, both of which affect customers.

11 **Q. What is the dollar amount of the expenses for the AIP that SPS seeks in this**  
12 **case?**

13 A. SPS requests \$7,247,529 (total company) of expenses for the AIP. The target  
14 incentive level of expense is the dollar amount that employees receive based on  
15 the achievement of the various operational and financial goals in the annual  
16 incentive program.

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1   **Q.    How was the \$7,247,529 figure determined for Test Year purposes?**

2    A.    The same methodology used for the base salaries component was also used to  
3           calculate the Test Year AIP dollar amount. In particular, the calculation began  
4           using the AIP costs accrued for the Base Period. That figure was then increased  
5           by 3.0% to reflect the increase in base salaries for 2015. The resulting amount  
6           was then increased by 3.0% for the increase in base salaries for 2016. The 3%  
7           increase was applied as of April each year for non-bargaining employees and  
8           November of each year for bargaining employees to coincide with the increases in  
9           the underlying base wage component upon which the AIP is based.

2.       SIP

10   **Q.    Please summarize Xcel Energy's SIP.**

11   A.    The Xcel Energy SIP is designed to provide certain eligible employees who work  
12           in wholesale energy trading activities with competitive compensation  
13           opportunities that are consistent with compensation practices in the wholesale  
14           energy trading sector. The program is a supplement to the AIP and is part of the  
15           total cash compensation offered to Xcel Energy wholesale energy trading  
16           employees. The incentives are based on the wholesale energy trading profit  
17           margins. A large percentage of these margins are shared with customers through  
18           the fuel factor.



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1   **Q.     What amount does SPS seek for recovery of its SIP?**

2   A.     SPS requests (\$103,281) (total company) for the SIP.

3   **Q.     How was the (\$103,281) SIP figure determined for Test Year purposes?**

4   A.     The same methodology used for the base salaries and AIP Test Year dollar  
5           amounts was also used to calculate the SIP Test Year amount (*i.e.*, the Base  
6           Period SIP amount was annually increased by the base salary increases for 2015  
7           through 2016).

8   **Q.     Why is the SIP amount negative?**

9   A.     The amount of SIP compensation SPS expects to incur in the Test Year is not a  
10          negative value; however, the amount was recorded incorrectly in the Base Period  
11          data and was not corrected for Test Year cost of service purposes.

12  **Q.     Do SPS's New Mexico retail customers benefit directly from the SIP**  
13  **program?**

14  A.     Yes. The SIP creates an incentive for the eligible wholesale energy trading  
15          employees to provide superior work performance. The superior performance  
16          drives employees to achieve the maximum amount of margins and trading results  
17          possible, which in turn increases the amount of margins shared with customers.  
18          Thus, the benefits for customers are immediate and directly flow from the SIP.

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3. Recognition Programs

1 **Q. Please summarize Xcel Energy's recognition programs.**

2 A. The recognition programs are a years-of-contribution program, a corporate  
3 recognition program, and the Spot On Award program. The years-of-contribution  
4 program recognizes employee loyalty and cumulative career effort every five  
5 years. The corporate recognition program provides thank you cards, nominal gift  
6 cards, and small gifts to recognize individuals and groups of employees for  
7 above-and-beyond performance. The Spot On Award program was created as a  
8 tool for managers to reward outstanding performance for non-exempt, non-  
9 bargaining employees (*i.e.*, those employees removed from eligibility for the AIP  
10 in 2011).

11 **Q. Are AIP-eligible employees also eligible for the Spot On Award Recognition**  
12 **Program?**

13 A. No. Employees eligible for the AIP are not eligible for awards under the Spot On  
14 Award Program.

15 **Q. What amount does SPS seek for recovery of its Recognition Programs?**

16 A. SPS requests \$449,752 (total company) for Recognition Programs.

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1   **Q.    How was the \$449,752 Recognition Program figure determined for Test Year**  
2       **purposes?**

3    A.    The amount requested is based on the 2014 program design and uses a set amount  
4       for each eligible employee.

5   **Q.    Are any of the expenses related to the Recognition Programs the result of**  
6       **financial-based incentive goals?**

7    A.    No. Recognition awards are earned based on the individual performance of the  
8       employee. For example, customers have the opportunity to evaluate call center  
9       personnel after assistance is provided. If call center personnel achieve perfect  
10      scores for the evaluations, they may be eligible to receive a recognition award.

**C.    Reasonableness of Total Cash Compensation**

11   **Q.    Has Xcel Energy compared its cash compensation levels to the competitive**  
12       **market, including other utilities?**

13   A.    Yes, as explained earlier, Xcel Energy utilizes the median of market survey data  
14       to ensure its cash compensation levels are consistent with the market. In addition,  
15       Xcel Energy commissioned Towers Watson to perform the 2014 Towers Watson  
16       Study, which included both Xcel Energy and SPS non-bargaining exempt and

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1 executive employees and shows how Xcel Energy's 2014 target total cash  
2 compensation compares with the compensation of other utility companies.

3 **Q. Please describe the specific elements of the 2014 Towers Watson Study.**

4 A. The 2014 Towers Watson study consists of the following elements:

- 5 • Xcel Energy's total cash compensation levels (base salary plus target  
6 annual incentive) were compared with competitive market target total  
7 cash compensation levels;
- 8 • Xcel Energy's base salary levels were compared with competitive  
9 market total cash compensation levels (total cash compensation is  
10 defined as base salary plus target annual incentive compensation); and
- 11 • Xcel Energy's annual incentive targets were compared with market  
12 annual incentive targets.

13 The 2014 Towers Watson Study compared Xcel Energy's level of compensation  
14 to the median and average levels of compensation paid by the comparison groups.

15 **Q. What comparison groups did the 2014 Towers Watson Study use?**

16 A. Compensation levels were compared with two sets of data. The first set of  
17 comparison data was national data reflecting a large majority of investor-owned  
18 utilities including those both smaller and larger than Xcel Energy. The second set  
19 of comparison data was data reflecting investor-owned utilities similar in revenue  
20 size to Xcel Energy. The second set of data is significant because it includes only  
21 larger companies. Managerial positions in larger organizations typically have

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greater complexity and therefore require more skill, which in turn increases the compensation requirements.

**Q. What were the results of the 2014 Towers Watson Study?**

A. As shown on Table JHR-10 below, the 2014 Towers Watson Study finds that with the inclusion of the AIP, Xcel Energy's median total cash compensation levels are comparable to other utilities. Without the AIP, however, the median total cash compensation provided by Xcel Energy would be well below the overall utility market and would put Xcel Energy at a material disadvantage in the competition for skilled employees.

**Table JHR-10**

<b>Components of Xcel Energy Compensation</b>	<b>Compared to Base Salaries and Incentive of Utilities with Similar Revenues (Revenue Sample)</b>	<b>Compared to Base Salaries and Incentive of Utilities Across the Nation (National Sample)</b>
Base Salary Only	Below Market by 14.3%	Below Market by 10.2%
Target Total Cash Compensation (Base Salary + Target Incentive)	Above Market by 1.1%	Above Market by 2.7%

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1   **Q.    What do you conclude from the 2014 Towers Watson Study?**

2    A.    The 2014 Towers Watson Study validates that the Xcel Energy compensation  
3           structure provides a level of compensation that is comparable to the market,  
4           which confirms that SPS's requested compensation expense is appropriate and  
5           reasonable. The study also confirms that the target level annual incentives  
6           provided to employees through the AIP are aligned with those for similar  
7           positions in the external market. Without the AIP, however, SPS's total cash  
8           compensation would lag the market by 14.3% (compared to utilities with similar  
9           revenues), which would put SPS at a material disadvantage when competing for  
10          skilled employees.

11   **Q.    Are Xcel Energy's base salary and annual incentive compensation plans**  
12          **necessary and reasonable?**

13   A.    Yes. SPS and Xcel Energy must provide a market-competitive level of total  
14          compensation to attract and retain the employees who in turn provide safe and  
15          reliable electric service to SPS's customers. A base salary coupled with the AIP,  
16          the SIP, or the Spot On Award Recognition Program are appropriate methods of  
17          providing market competitive total cash compensation.

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**D. Benefits**

1   **Q.   What benefits does Xcel Energy provide to its employees?**

2   A.   Xcel Energy provides a comprehensive benefit program to all of its benefit-  
3       eligible employees, including employees of SPS and its affiliates. These  
4       programs include coverage for medical, dental, vision, life insurance, short-and  
5       long-term disability, employee assistance programs, adoption assistance, tuition  
6       assistance, pre-tax reimbursement accounts, paid time off, 401(k) savings plans,  
7       pension, and other post-retirement benefits.

8   **Q.   Please briefly summarize the features of Xcel Energy's retirement programs.**

9   A.   Xcel Energy's pension or defined benefit programs are non-contributory  
10       programs (*i.e.*, programs to which employees do not contribute), which provide  
11       retirement benefits to eligible employees. The 401(k) savings plan encourages  
12       employees to save regularly for their retirement through pre-tax and after-tax  
13       employee deferrals and provides an employer matching contribution. The amount  
14       of the employer contribution is 50% of employee contributions up to 8% of pay,  
15       which results in a maximum employer contribution of 4% of eligible pay.

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1   **Q.   Have initiatives been undertaken to manage costs related to retirement**  
2       **programs?**

3   A.   Yes. Effective January 1, 2012, bargaining and non-bargaining new hires and  
4       rehired employees are no longer eligible for legacy pension plan formulas, which  
5       provided a higher level of benefit. Instead, these employees participate in a 5%  
6       Cash Balance Plan formula without pension supplements (*i.e.*, Retirement Savings  
7       Account or Social Security Supplement) or retiree medical subsidies. As  
8       addressed by SPS witness Richard R. Schrubbe, this initiative has assisted in  
9       lowering the overall level of pension cost that SPS seeks to recover in its Test  
10      Year.

11   **Q.   Please explain the new Cash Balance Plan formula.**

12   A.   Through the Cash Balance Plan formula, Xcel Energy annually places a  
13       percentage of an eligible employee's wages into a notational account, which has  
14       interest credited annually. The interest is based on the 30-year treasury rates and  
15       has no minimum guarantees. This plan acts similarly to a savings account or a  
16       401(k) plan and will reduce Xcel Energy's pension obligations prospectively.



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1   **Q.   Please briefly summarize the features of Xcel Energy’s health benefits**  
2       **programs.**

3   A.   In the health care arena, Xcel Energy offers employees one medical plan option,  
4       the High Deductible Health Plan (“HDHP”) with a Health Savings Account  
5       (“HSA”). Employees and their eligible dependents are responsible for an upfront  
6       annual deductible of \$2,750 per individual or \$5,500 per family. After that  
7       deductible is satisfied, the plan covers 90% of costs, with employees or their  
8       dependents contributing ten percent of costs until they reach an annual out-of-  
9       pocket maximum, which is \$3,500 per individual or \$7,000 per family. After the  
10      out-of-pocket maximum is met, the plan covers the remaining eligible medical  
11      and pharmacy expenses for the calendar year. The HSA is a tax-advantaged  
12      medical savings account that Xcel Energy offers to employees to provide a  
13      vehicle for them to save for their out-of-pocket costs under the plan.

14   **Q.   Has Xcel Energy undertaken any initiatives to slow the rate of growth in**  
15       **health and welfare related benefit costs?**

16   A.   Yes. Over the past several years, Xcel Energy has made several design changes  
17       and undertaken an array of initiatives to help mitigate health care costs. Many of  
18       these initiatives have resulted in a greater share of healthcare costs being borne by

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1 employees but they have also allowed Xcel Energy to better manage overall  
2 healthcare costs and the rate at which costs increase. These initiatives include:

- 3 • Reducing the number of health insurance plans available to employees  
4 from four to one. Since 2009, the only medical plan that Xcel Energy has  
5 made available to employees is the HDHP described earlier. This helps to  
6 manage overall plan costs by increasing employee awareness of medical  
7 costs;
- 8 • Beginning in 2011, Xcel Energy increased employees' out-of-pocket costs  
9 in the HDHP by introducing co-insurance, which means that even after  
10 meeting their high deductible, employees continue to pay co-insurance on  
11 additional medical and pharmacy claims up to \$3,500 per individual or  
12 \$7,000 per family;
- 13 • Beginning in 2011, Xcel Energy implemented pharmacy cost-containment  
14 programs that require employees to pay additional out-of-pocket expenses  
15 if they choose to purchase drugs in a less cost-effective manner;
- 16 • In 2012, Xcel Energy re-introduced a monthly employee premium under  
17 the HDHP;
- 18 • In 2010, adult orthodontia coverage was eliminated from the dental plan;
- 19 • In 2011, the Short-Term Disability program was reduced from 100%  
20 income replacement for 26 weeks to 100% for the first 13 weeks, and then  
21 70% of income replacement for the remaining 13 weeks;
- 22 • In 2012, Xcel Energy launched a new wellness program, *My Health*  
23 *Choices*. It encourages employees to understand their current health status  
24 and make better decisions about their health by providing a contribution to  
25 an HSA for employees who are healthy or trying to become healthier.  
26 Those that choose not to engage in the program ultimately pay more for  
27 medical coverage;
- 28 • Vendor contracts are continually monitored and contracts with all major  
29 benefit vendors have been renegotiated over the past three years. These  
30 negotiations resulted in fee reductions, better performance guarantees, and  
31 improved discounts on provider networks, all contributing to reducing or

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1 slowing down the increase in future medical and benefit administration  
2 costs. For example, in 2011, the pharmacy benefit manager contract was  
3 renegotiated for additional fee savings over the next three years;

- 4 • Bargaining employees hired after January 1, 2012 no longer receive  
5 post-retirement medical benefits. This change will reduce Xcel Energy's  
6 future Other Post Employment Benefit costs prospectively; and
- 7 • Xcel Energy recently completed a thorough evaluation of the healthcare  
8 options available to Medicare-eligible retirees through the individual  
9 market related to medical and prescription drug coverage, and SPS found  
10 that those plans provide broad, comprehensive coverage at affordable  
11 costs. Therefore, SPS took a new approach effective January 1, 2013 to  
12 transition non-bargaining Medicare-eligible retirees and their Medicare-  
13 eligible spouses and dependents from the Xcel Energy plan options to the  
14 individual market. This reduced SPS's financial liability and  
15 administrative responsibilities, and it gave SPS the opportunity for  
16 significant cost savings for retiree groups that still had premium subsidies.

17 **Q. Are Xcel Energy's benefits programs and their costs necessary and**  
18 **reasonable?**

19 A. Yes. Xcel Energy provides competitive benefit programs that are necessary to  
20 attract and retain a qualified, skilled workforce. Based upon my experience  
21 designing, implementing, and administering benefits plans, and my familiarity  
22 with corporate benefits practices, Xcel Energy's benefit plans are reasonable,  
23 appropriate, and competitive.

1     **Q.     What amount has SPS included in its Test Year Budget for O&M costs for**  
2     **the Benefits?**

6     **Q.     Please provide a breakout by FERC account for the costs your testimony**  
7     **covers.**

12 **Table JHR-11**48

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**IV. CONCLUSION**

- 1    **Q.     Does this conclude your pre-filed direct testimony?**
- 2    **A.     Yes.**

**VERIFICATION**

STATE OF COLORADO                    )  
  ) ss.  
COUNTY OF DENVER                 )

JILL H. REED, first being sworn on her oath, states:

I am the witness identified in the preceding direct testimony. I have read the testimony and am familiar with its contents. Based upon my personal knowledge, the facts stated in the testimony are true. In addition, in my judgment and based upon my professional experience, the opinions and conclusions stated in the testimony are true, valid, and accurate.

  
\_\_\_\_\_  
JILL H. REED

SUBSCRIBED AND SWORN TO before me this 29 day of May, 2015.

  
\_\_\_\_\_  
Notary Public, State of Minnesota  
My Commission Expires: January 31, 2020

