



SUPPLY CHAIN MANAGEMENT

We manage a reliable and secure supply chain through well-established processes and by regularly monitoring our nearly 4,000 suppliers.

Suppliers play an essential role in our company's ability to lower costs, operate efficiently and deliver the energy that our customers value. That is why we constantly evaluate our sourcing practices and look for opportunities to improve. After all, if we can increase productivity, reduce waste or negotiate better prices, those savings are passed on to customers and help to keep energy bills low.

We manage the continuity of our supply chain through strong business relationships and planning. Our goal is to make sure we always have the materials and services available to avoid significant disruptions to our operations and the service we provide.

The majority of our suppliers are located within our eight-state territory. As much as possible, we try to do business within our service area to support local economies. We also seek business partners that share our priorities around safety, diversity and environmental protection and that will adhere to our Code of Conduct, which sets the standards by which Xcel Energy and its partners conduct business.



HIGHLIGHTS

- We spent \$486 million, directly and indirectly, with businesses owned by women, minorities or veterans in 2019 and achieved our goal to spend 11.5% of total annual spending with diverse suppliers. Overall, our spending with diverse suppliers was \$89 million less than projected in 2019 due to construction delays associated with the Sagamore Wind Project. The project is now on track, and we expect to make up for the lower spending in 2020 as Wanzek Construction, which is a local and minority owned business, completes the project.
- In 2019, our supply chain spending was approximately \$4.2 billion, with more than \$3.1 billion, or nearly 73%, going to local businesses in the states we serve. While not all materials and services can be sourced locally, we build relationships and set targets to support economies within our eight-state territory.
- Through engagement with small and diverse suppliers in 2019, Xcel Energy contributed more than \$2.3 billion to the U.S. economy and supported 16,654 jobs. Full results are published in our [2019 Supplier Diversity Economic Impact Report](#).
- Through our supply chain, we saved approximately \$328 million in 2019, which was first-quartile performance in a benchmarking of peer utilities.
- Xcel Energy received the Corporate Equality award in 2020 from the Quorum Gay, Lesbian, Bisexual and Transgender (GLBT) Chamber of Commerce in Minnesota. Local community members nominated our company for its commitment to supplier diversity and creating an inclusive workplace culture.
- The Hispanic Chamber of Commerce of Metro Denver named Xcel Energy its Corporate Advocate of the Year in early 2019 for the company's ongoing support and work with member companies. Three of our largest contractors in Colorado are chamber members, including Alvarado Construction, Campos EPC and Redeker Excavating.

SUPPLY CHAIN PROCESS

Our central Supply Chain organization is responsible for the sourcing and procurement of goods and services, materials management and fleet management for all Xcel Energy operations. They negotiate contracts for everything from day-to-day business necessities, such as office supplies and furniture, to capital items used to construct, operate and maintain our generation and transmission assets, including transmission poles and transformers. They develop supplier and contractor management strategies and policies, handle accounts payable, and execute company-wide sourcing and procurement strategies.

We employ a systematic sourcing method to deliver needed materials and services to the right place at the right time for the right price. To select suppliers, we use a five-step sourcing process that includes: preparation, request for information, request for proposal, contract evaluation and negotiation, and implementation.

Four key business objectives — each associated with specific initiatives — drive our supply chain strategy. These include:

- Maximizing investment yield
- Achieving operational excellence
- Managing risks and opportunities
- Supporting community and environmental leadership

In 2020, we expect to spend approximately \$4.75 billion on materials and services that fall into 36 categories with more than 800 subcategories. These categories are used to determine risk, opportunity and negotiation leverage with suppliers. We have developed guidelines for bid analysis for all categories. Within these guidelines, up to 20% of the bid analysis weight can be allocated to social and environmental factors such as diversity, safety and environmental performance.

Supply Chain Spending Categories			
Battery	Engineering Services	Meters	Steel Structures
Boiler Systems	Environmental	MRO Materials	Transformers
Cable and Wire	Fleet	Other Plant Systems	Transportation Services
Chemicals Gases and Lubes	Gas Materials	Property Services	Travel Services
Circuit Breakers	HR and Benefits	Radiation Protection	Turbine and Generator Systems
Construction	IT and Telecom	Revenue Cycle	Vegetation Management
Consulting Services	Logistics Integrator	Safety	Wind
Dry Fuel Storage	Maintenance Services	Solar	Wood Poles
Electrical Materials and Equipment	Marketing and DSM	Staff Augmentation	Aggregates

RISK MANAGEMENT

Through our Supplier Qualification program, we use services such as Dunn & Bradstreet to regularly monitor all active suppliers for Office of Foreign Assets Control, Excluded Parties List System, OSHA and EPA violations, as well as criminal proceedings and disaster events. We assess suppliers' financial health, safety and use of diverse subcontractors before contracting with them, and suppliers who will have access to our confidential data must undergo a data security review.

Periodically, we conduct key risk assessments, looking at categories such as commodity price risk, supply continuity, quality and governance processes. We also design sourcing strategies that take into account multiple fulfillment locations and supply channels that can minimize potential supply disruptions in case of extreme weather or disaster-related events.

Our company works with a broad range of suppliers. The majority of our spending is with American suppliers, but we also do significant work with American-based affiliates of foreign suppliers and a small amount of work with foreign suppliers.

We have recently implemented a program for Security Vendor Risk Assessment that focuses on exposure to cyber, information and other security risks to Xcel Energy that could result from suppliers' access to our systems, confidential information and critical infrastructure. The requirement for this additional level of scrutiny is established in sourcing and contracting processes and involves a comprehensive testing of the supplier's security environment by our Enterprise Security Services team.

All contractors that provide services or materials at our sites are required to complete a contractor health and safety questionnaire and submit five years of safety-related performance data. Our contractor safety department reviews this data and may reject a contractor or require a safety improvement plan. We continue to monitor safety performance once a contract is implemented.

In addition, all contracts include a clause requiring suppliers to abide by equal employment opportunity and affirmative action mandates prohibiting discrimination on the basis of race, color, religion, sex, national origin, actual or perceived sexual orientation or gender identity of an individual, or physical or mental disability. All suppliers are expected to comply with our Code of Conduct, which is referenced in our standard agreement language and is made available to them upon request.

Supplier Classifications

We classify our suppliers in four tiers based on a combination of overall supplier spend and their importance or risk to our operations. Critical suppliers provide essential materials and services required to support daily operations. Tier one suppliers, including those who are critical to our operations, are part of our Supplier Relationship Management program. The program enables us to build longer-term contracts with these strategic suppliers and implement continuous improvement initiatives to benefit both the supplier and Xcel Energy in terms of costs and operations. Suppliers are also tiered, based on their total spend.

Tier	Annual Spending	No. of Suppliers	% of Annual Spend
Tier 1	More than \$10 million	66	74%
Tier 2	Between \$4-10 million	54	8%
Tier 3	Between \$1-4 million	211	10%
Tier 4	Less than \$1 million	2,925	8%

We support suppliers in non-tier one spending classifications through collaborative initiatives and programs. For example, we are a founding member of the ITASCA-Project in the Twin Cities, which is dedicated to helping smaller local suppliers grow through procurement opportunities. The ITASCA-Project group is made up of chief supply chain personnel from large corporations, such as Xcel Energy, U.S. Bank, Target, United Health and General Mills, who meet monthly to discuss ideas for supporting the local economy by growing the capacity of small- and medium-sized businesses.

SUPPLIER DIVERSITY PROGRAM

Our corporate policies underscore our commitment to [supplier diversity](#) by recognizing that it is in our best interest to encourage a broad base of supplier relationships. Using diverse suppliers contributes to the economic growth and expansion of the communities we serve. Our policy is to offer these businesses the opportunity to compete in our procurement for products and services. We develop and strengthen business relationships with diverse suppliers by:

- Conducting outreach efforts to seek, identify and encourage supplier diversity in our procurement processes
- Facilitating alliances and partnerships
- Educating businesses about our procurement and business processes
- Identifying and encouraging subcontracting (tier two) opportunities with major suppliers when direct participation is not possible

For 2020, we have set a goal of approximately \$599 million, or roughly 12.6% of total spending, to spend with diverse suppliers. Most of the recent increases in our goal have been associated with Xcel Energy’s continued investment in renewable energy, especially in constructing new wind farms. Wanzek, one of our diverse suppliers, is constructing multiple new wind projects on our system.

We are an active member of the Edison Electric Institute's Supplier Diversity Best Practices Group, as well as the Mountain Plains and North Central Minority Supplier Development councils, the Women's Business Enterprise National Council, the National Veteran-Owned Business Association, National Veteran Business Development Council, National Gay and Lesbian Chamber of Commerce, Disability: IN, and most local chambers of commerce in our service territory.

	2017	2018	2019
Dollars Spent	\$378 million	\$533 million	\$486 million
% of Total Purchases	10.5%	12.4%	11.5%