

NOTICE OF CONFIDENTIALITY

**A PORTION OF THIS TESTIMONY OR TESTIMONY AND ATTACHMENTS
HAS/HAVE BEEN FILED UNDER SEAL.**

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO**

* * * * *

IN THE MATTER OF ADVICE LETTER)
NO. 1906-ELECTRIC OF PUBLIC)
SERVICE COMPANY OF COLORADO)
TO REVISE ITS COLORADO PUC NO.)
8-ELECTRIC TARIFF TO REVISE)
JURISDICTIONAL BASE RATE) PROCEEDING NO. 22AL-XXXXE
REVENUES, IMPLEMENT NEW BASE)
RATES FOR ALL ELECTRIC RATE)
SCHEDULES, AND MAKE OTHER)
PROPOSED TARIFF CHANGES)
EFFECTIVE DECEMBER 31, 2022.)

DIRECT TESTIMONY AND ATTACHMENTS OF MICHAEL P. DESELICH

ON

BEHALF OF

PUBLIC SERVICE COMPANY OF COLORADO

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Confidential: Attachment MPD-1C and Attachment MPD-2C

November 30, 2022

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LIST OF ATTACHMENTS

Attachment MPD-1C	Confidential 2021 Willis Towers Watson Competitive Total Direct Compensation Analysis
Attachment MPD-1	2021 Willis Towers Watson Competitive Total Direct Compensation Analysis - Slip Sheet
Attachment MPD-2C	Confidential 2022 Xcel Energy Non-Bargaining, Exempt Employee Annual Incentive Program
Attachment MPD-2	2022 Xcel Energy Non-Bargaining, Exempt Employee Annual Incentive Program- Redactions on Page 5

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DIRECT TESTIMONY AND ATTACHMENTS OF MICHAEL P. DESELICH

1 I. **INTRODUCTION, QUALIFICATIONS, PURPOSE OF TESTIMONY, AND**
2 **RECOMMENDATIONS**

3 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

4 A. My name is Michael P. Deselich. My business address is 401 Nicollet Mall,
5 Minneapolis, Minnesota 55401.

6 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?**

7 A. I am employed by Xcel Energy Services Inc. ("XES") as Sr. Consultant,
8 Compensation. XES, which is a wholly-owned subsidiary of Xcel Energy Inc. ("Xcel
9 Energy"), provides an array of support services to Public Service Company of
10 Colorado ("Public Service" or the "Company") and the other utility operating
11 company subsidiaries of Xcel Energy on a coordinated basis.

12 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THE PROCEEDING?**

13 A. I am testifying on behalf of Public Service.

1 **Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES AND QUALIFICATIONS.**

2 A. As Sr. Consultant, Compensation, I am responsible participating in the design,
3 development, and implementation of broad-based compensation programs that
4 are intended to attract, retain and motivate the skilled employees Public Service
5 needs to provide safe and reliable electric service. A description of my
6 qualifications, duties, and responsibilities is set forth in the Statement of
7 Qualifications attached to this testimony.

8 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

9 A. The overall purposes of my Direct Testimony are to: (1) address the
10 reasonableness of the “Total Rewards Program,” which is the term that Xcel
11 Energy uses to describe the suite of cash compensation and non-cash benefits
12 offered to Xcel Energy employees; and (2) demonstrate that the compensation and
13 benefits that Public Service asks the Colorado Public Utilities Commission
14 (“Commission”) to approve for the Test Year are just and reasonable.¹ In
15 furtherance of those purposes, my Direct Testimony:

- 16 • Explains that the Total Rewards Program is designed to attract, retain
17 and motivate skilled employees by offering the level and types of
18 compensation and benefits that are comparable to the compensation
19 and benefits offered by the employers with whom Public Service
20 competes for employees;
- 21 • Describes the base pay element of the Company’s compensation
22 structure and explains that the base pay levels requested by Public
23 Service in this case are reasonable and necessary costs of providing
24 electric service;

¹ The Test Year in this case is calendar year 2023. In addition, Public Service is providing information for an Informational Historical Test Year (“IHTY”), which is the twelve-month period ending June 30, 2022.

- 1 • Describes the structure of the Company’s Annual Incentive Program
 2 (“AIP”) and quantifies the AIP expense that Public Service asks the
 3 Commission to approve;
- 4 • Describes the structure of the Wholesale Marketing and Trading
 5 Supplemental Incentive Program (“SIP”) and quantifies the amount of
 6 SIP expense the Company is asking the Commission to approve;
- 7 • Describes the structure of the Long-Term Incentive (“LTI”)
 8 compensation program and quantifies the LTI costs that the Company
 9 is asking the Commission to approve;
- 10 • Describes the Recognition Program and quantifies the expense
 11 requested in connection with that program;
- 12 • Describes the health, welfare, and retirement benefits offered to Xcel
 13 Energy employees and the initiatives undertaken by Xcel Energy to limit
 14 increases in these costs; and
- 15 • Explains that the benefits offered in connection with the Total Rewards
 16 Program are reasonable and necessary.

17 **Q. ARE YOU MAKING ANY RECOMMENDATIONS IN YOUR DIRECT**
 18 **TESTIMONY?**

19 A. Yes. I recommend that the Commission approve the amounts of compensation
 20 and recognition expense included in the Test Year cost of service study, which are
 21 set forth in Table MPD-D-1 below:

TABLE MPD-D-1

Compensation Type	Informational HTY Actuals	Test Year
Bargaining wage expense	\$51,925,488	\$53,844,840
Non-Bargaining base pay	\$156,226,406	\$162,001,093
Annual incentive (AIP) at target	\$12,611,269	\$13,077,427
Supplemental incentive (SIP)	\$516,801	\$427,465
Long-Term Incentive (LTI)	\$4,030,779	\$4,030,779
Recognition Programs	\$1,014,188	\$1,014,188

1 **Q. ARE YOU SPONSORING ANY ATTACHMENTS AS PART OF YOUR DIRECT**
2 **TESTIMONY?**

3 A. Yes, I am sponsoring the Attachments MPD-1 and MPD-2:

- 4 • CONFIDENTIAL (and Public) Attachment MPD-1, which is the 2021
5 Willis Towers Watson Competitive Total Direct Compensation Analysis;
- 6 • CONFIDENTIAL (and Public) Attachment MPD-2, which is the 2021 and
7 2022 Xcel Energy Non-Bargaining, Exempt Employee Annual Incentive
8 Program.

9 **Q. DO ANY OTHER COMPANY WITNESSES ADDRESS ISSUES RELATED TO**
10 **COMPENSATION AND BENEFITS?**

11 A. Yes. Two other Company witnesses address compensation and benefit issues in
12 their Direct Testimonies:

- 13 • Richard R. Schrubbe supports the Company's request for active health
14 and welfare expense, pension and other post-employment benefit
15 expense, workers' compensation expense, and other benefit-related
16 costs; and
- 17 • Arthur P. Freitas supports the Cost of Service Study that includes the
18 forecasted costs for bargaining employee wages, non-bargaining
19 employee base pay, AIP, and LTI. The study also includes current
20 pension and benefit-related expense, and it reflects the prepaid pension
21 asset, the retiree medical asset, and the post-employment benefit
22 liability amount that the Company seeks to include in the rate base.

1 **II. PURPOSE OF TOTAL REWARDS PROGRAM**

2 **Q. WHAT IS XCEL ENERGY'S TOTAL REWARDS PROGRAM?**

3 A. The term "Total Rewards Program" refers collectively to all of the elements of
4 compensation and benefits that Public Service and the other Xcel Energy
5 subsidiaries offer to their employees. Those elements are:

- 6 • Cash compensation in the form of:
 - 7 ○ Base pay;
 - 8 ○ AIP incentive compensation;
 - 9 ○ SIP incentive compensation;
 - 10 ○ LTI incentive compensation; and
 - 11 ○ Recognition awards;
- 12 • Retirement benefits in the form of:
 - 13 ○ Qualified pension benefits;
 - 14 ○ Non-qualified pension benefits; and
 - 15 ○ Retiree medical benefits;
- 16 • Active health care benefits;
- 17 • Workers' compensation benefits;
- 18 • Long-term disability benefits;
- 19 • 401(k) matches; and
- 20 • Other miscellaneous benefits.

21 **Q. DOES YOUR DIRECT TESTIMONY DESCRIBE AND QUANTIFY ALL OF**
22 **THOSE TYPES OF COMPENSATION AND BENEFITS?**

23 A. No. My Direct Testimony describes and quantifies the cash compensation
24 elements, and I justify the reasonableness of the overall level of benefits offered
25 through the Total Rewards Program. Company witness Mr. Schrubbe describes
26 the non-cash benefits and supports the Company's request to recover the costs of
27 those benefits.

1 **Q. WHAT ARE THE GOALS AND OBJECTIVES OF THE TOTAL REWARDS**
2 **PROGRAM?**

3 A. As a public utility, Public Service bears the responsibility of continually providing
4 customers with safe and reliable electric service. Maintaining that level of safety
5 and reliability is a highly complex and technically demanding undertaking that can
6 be accomplished only with the contributions of thousands of experienced and
7 dedicated employees. To attract, retain and motivate those employees, Public
8 Service must offer the levels and types of compensation and benefits that are
9 competitive with the levels offered by other companies in the labor marketplace.
10 Thus, the Total Rewards Program is intended to provide Public Service and the
11 other Xcel Energy subsidiaries with the tools to compete with other employers—
12 both within and outside of the utility industry—for the employees needed to provide
13 safe and reliable service to customers.

14 **Q. DOES PUBLIC SERVICE RELY ON ONLY ITS OWN EMPLOYEES TO HELP**
15 **ENSURE SAFE AND RELIABLE SERVICE?**

16 A. No. Public Service relies on a combination of its own employees and XES
17 employees to provide safe, reliable electric service. To avoid the need to
18 distinguish between Public Service and XES employees, I will refer generally to
19 the employees who provide service to Public Service as being Public Service
20 employees, except when necessary to identify XES specifically. In addition, my
21 Direct Testimony sometimes refers to Xcel Energy as a whole because the
22 compensation team takes a corporate-wide view of certain issues and programs.

1 **Q. DOES PUBLIC SERVICE FACE ANY OTHER CHALLENGES FOR**
2 **RECRUITING AND RETAINING EMPLOYEES?**

3 A. Yes. According to the Bureau of Labor Statistics,² Colorado had an unemployment
4 rate of 3.4 percent in August 2022, with a national unemployment rate of 3.7
5 percent. The relatively low unemployment rates – at both the national and local
6 level – are surpassed by the job openings rate in Colorado (7.1 percent)³, which
7 means there are abundant opportunities for existing and potential employees to
8 choose other employers, especially if the Total Rewards Program package
9 provided by Public Service is not market-competitive.

² [Colorado Economy at a Glance \(bls.gov\)](https://www.bls.gov/eag/eag.co.htm) August 2022 (accessed at www.bls.gov/eag/eag.co.htm).

³ [Table 6. Job openings levels and rates for total nonfarm by state, not seasonally adjusted - 2022 M07 Results \(bls.gov\)](https://www.bls.gov/news.release/jltst.t06.htm) August 2022 (accessed at www.bls.gov/news.release/jltst.t06.htm).

1 **III. BACKGROUND INFORMATION RELEVANT TO COMPENSATION**

2 **Q. WHAT TOPIC DO YOU DISCUSS IN THIS SECTION OF YOUR DIRECT**
3 **TESTIMONY?**

4 A. I provide the background information underlying the elements of compensation
5 paid to Public Service’s bargaining and non-bargaining workers, all of which are
6 discussed in later sections of my Direct Testimony.

7 **Q. PLEASE EXPLAIN WHAT YOU MEAN WHEN YOU REFER TO “BARGAINING”**
8 **AND “NON-BARGAINING” EMPLOYEES.**

9 A. Bargaining employees are those Public Service employees who are represented
10 for collective bargaining purposes by International Brotherhood of Electrical
11 Workers (“IBEW”) Local Union No. 111. Pursuant to federal labor law, Public
12 Service must collectively bargain with IBEW Local Union No. 111 regarding the
13 base wages and benefits of bargaining employees. All other Public Service
14 employees are considered to be non-bargaining employees whose base pay and
15 benefits are established outside of the collective bargaining process.

16 **Q. ARE THE BARGAINING AND NON-BARGAINING EMPLOYEES ELIGIBLE**
17 **FOR THE SAME ELEMENTS OF COMPENSATION?**

18 A. No. Bargaining employees are eligible for the hourly wage amounts agreed to as
19 part of the collective bargaining agreements, including the amounts negotiated for
20 overtime work. In contrast, non-bargaining employees are eligible for base pay
21 and may be eligible for one or more of the following types of incentive
22 compensation:

- 1 • Annual incentive compensation (AIP);
- 2 • the Wholesale Energy Marketing and Trading supplemental incentive
- 3 compensation (SIP);
- 4 • Long-term incentive compensation (LTI); and
- 5 • Recognition awards.

6 The respective compensation components vary by employee based on eligibility,
7 but the combination of components is designed to provide each non-bargaining
8 employee with 100 percent of the market-based compensation relative to his or
9 her job.

10 **Q. PLEASE EXPLAIN WHAT YOU MEAN WHEN YOU STATE THAT THE**
11 **COMPENSATION COMPONENTS FOR NON-BARGAINING EMPLOYEES**
12 **VARY BY EMPLOYEE BASED ON ELIGIBILITY.**

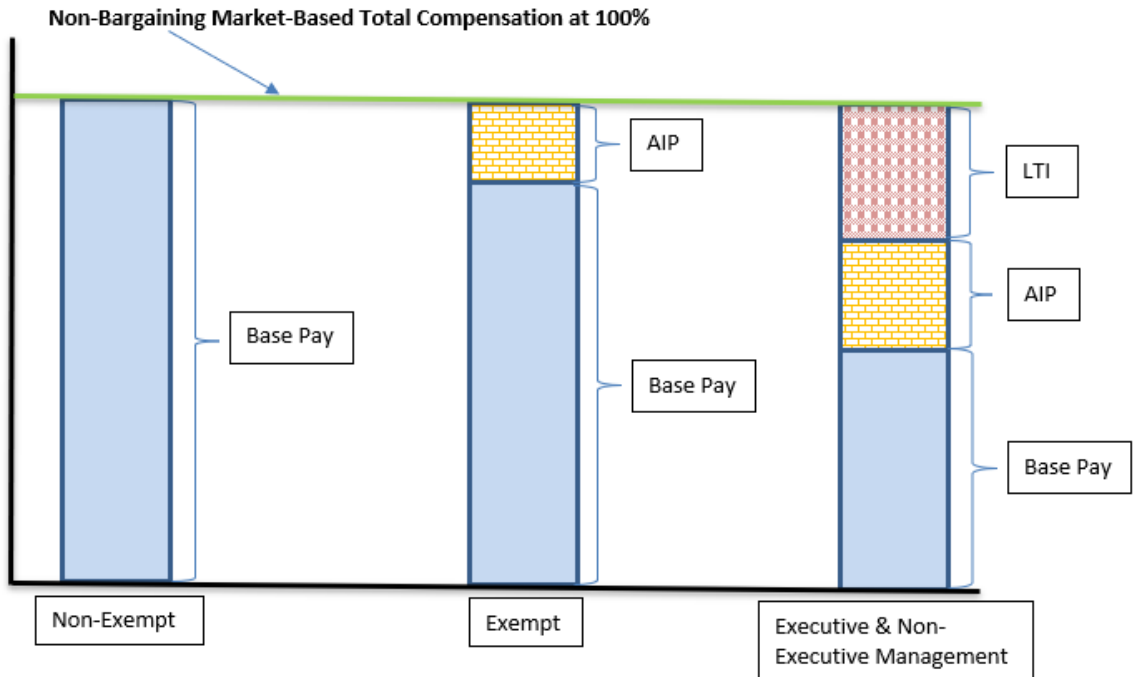
13 A. The eligibility for particular components of compensation varies depending on
14 whether a non-bargaining employee is considered to be an “exempt” employee or
15 “non-exempt” employee under the Fair Labor Standards Act (“FLSA”). Non-
16 exempt employees, which are defined in the FLSA as those employees paid on an
17 hourly basis, are eligible only for base pay and recognition awards. Exempt
18 employees, which are defined in the FLSA as salaried workers, are eligible for both
19 base pay and various types of incentive compensation, depending on their jobs or
20 job levels.

21 **Q. ARE THE COMPENSATION PACKAGES STRUCTURED THE SAME FOR ALL**
22 **EXEMPT NON-BARGAINING EMPLOYEES?**

23 A. No. As shown in Figure MPD-D-1, senior exempt employees receive a greater
24 percentage of their compensation in the form of incentive compensation than more

1 junior exempt employees do. This is similar to how other employers with whom
2 Public Service competes for employees structure their compensation elements.

3 **FIGURE MPD-D-1**



4 Although the combinations and values of each element of compensation (base
5 pay, annual incentive, and long-term incentive) differ by job and individual
6 employee, Public Service's compensation structure is designed to provide a total
7 compensation package based on the market-competitive compensation levels and
8 types necessary to attract, retain, and motivate employees at varying levels of the
9 Company.

10 **Q. IS PUBLIC SERVICE SEEKING RECOVERY OF ALL COSTS ASSOCIATED**
11 **WITH ITS COMPENSATION COMPONENTS?**

12 A. No. As I will explain in more detail later in my Direct Testimony, Public Service
13 has not included the LTI costs associated with relative total shareholder return as

1 a part of its requested compensation expense in this electric rate case. In addition,
2 Public Service is limiting recovery of AIP costs to “target” levels of an employee’s
3 base pay based on budgeted levels.⁴ However, all of the expenses of the
4 Company’s compensation programs are necessary and reasonable costs of
5 attracting, retaining and motivating the employees needed to provide safe and
6 reliable electric service, and therefore Public Service reserves the right to request
7 full recovery of those costs in future base rate proceedings.

⁴I explain in the next section of my Direct Testimony what is meant by a “target” level of incentive compensation.

1 **IV. REQUESTED ELEMENTS OF COMPENSATION**

2 **Q. WHAT TOPIC DO YOU DISCUSS IN THIS SECTION OF YOUR TESTIMONY?**

3 A. I describe the five elements of compensation that the Company asks the
4 Commission to approve as reasonable and necessary expenses of providing
5 electric service: (1) base wages and base pay; (2) annual incentive compensation;
6 (3) supplemental incentive compensation; (4) certain types of long-term incentive
7 compensation; and (5) recognition awards. I will discuss the Company's request
8 regarding each of those elements of compensation in the following subsections.

9 **A. Base Wages and Base Pay**

10 **1. Bargaining Employee Base Wage**

11 **Q. HOW ARE THE BARGAINING EMPLOYEE BASE WAGE AMOUNTS**
12 **DETERMINED?**

13 A. Bargaining employee base wage amounts, including the annual wage increases,
14 are based on the collective bargaining agreement between Public Service and
15 IBEW Local Union No. 111.

16 **Q. WHAT IS THE STATUS OF THE CURRENT COLLECTIVE BARGAINING**
17 **AGREEMENT?**

18 A. The current collective bargaining agreement classification and wage scale, as
19 amended, was effective on June 1, 2020 and will remain in effect through May 31,
20 2023. Under that agreement, a base wage increase of 2.8 percent took effect on
21 June 1, 2021, and another base wage increase of 2.8 percent took effect on June
22 1, 2022.

1 **Q. WHAT DOES THE COMPANY ANTICIPATE THE BARGAINING WAGE**
2 **INCREASE WILL BE ON JUNE 1, 2023?**

3 A. The Company is anticipating an increase of 6.1 percent to be effective on June 1,
4 2023 and another 3.5 percent increase to be effective on June 1, 2024. This
5 increase amount is comparable to the recently negotiated outcomes in other Xcel
6 Energy jurisdictions. If the actual negotiated percentage turns out to be different
7 from 6.1 percent, Public Service will update that percentage in Rebuttal Testimony.

8 **Q. HAS THE COMPANY INCLUDED THE BASE WAGE INCREASES**
9 **SCHEDULED FOR 2023 AND 2024 AS A PART OF ITS COST OF SERVICE?**

10 A. Yes. The rates established in this case went into effect in 2022, and the bargaining
11 wage increases occurring in 2023 and 2024 are forecasted adjustments.
12 Therefore, it is appropriate to include the 2023 and 2024 increases in the base
13 wage amount approved for bargaining employees.

14 **Q. WHAT AMOUNT IS PUBLIC SERVICE ASKING THE COMMISSION TO**
15 **APPROVE FOR BARGAINING WAGE EXPENSE?**

16 A. Public Service asks the Commission to approve \$53,844,840 of base wages for
17 bargaining employees.

18 **Q. IS THE COMPANY'S REQUESTED BASE WAGE AMOUNT FOR BARGAINING**
19 **EMPLOYEES REASONABLE?**

20 A. Yes. The base wage amount for bargaining employees will be negotiated as part
21 of a collective bargaining agreement between the Company and IBEW Local Union
22 No. 111. Public Service is obligated to pay the wage amounts negotiated under
23 the collective bargaining agreement.

1 **2. Non-Bargaining Employee Base Pay**

2 **Q. HOW ARE BASE PAY AMOUNTS ESTABLISHED FOR NON-BARGAINING**
3 **EMPLOYEES?**

4 A. On behalf of Public Service and its other subsidiaries, Xcel Energy undertakes a
5 comprehensive evaluation process for each non-bargaining position using external
6 market data obtained from independent third-party compensation surveys to
7 ensure its non-bargaining employee compensation levels are comparable to the
8 market. To develop an apples-to-apples comparison, Xcel Energy must first match
9 the job responsibilities of the Public Service positions to the job responsibilities of
10 the positions within other companies that compete with Xcel Energy for employees.
11 After that, Xcel Energy considers data from a variety of surveys, including data for
12 both utility and non-utility companies.⁵ Xcel Energy then uses the 50th percentile
13 (that is, the median) to determine the appropriate pay range for a position. After
14 Xcel Energy determines an appropriate pay range for a particular position, it breaks
15 up the components of the compensation package among base pay, AIP, SIP, and
16 LTI, as applicable. By approaching compensation in this manner, Xcel Energy is
17 able to ensure that its total compensation levels are comparable to the market and,
18 thus, that those costs are set a reasonable level.

19 **Q. CAN NON-BARGAINING EMPLOYEES EARN BASE PAY INCREASES?**

20 A. Yes. Although base pay is considered to be a fixed component of cash
21 compensation, managers are allowed to award base pay increases based on

⁵ If the Public Service position is unique to the utility industry, Xcel Energy may restrict its comparison to only the utility-specific data in the surveys.

1 employees' performance, their position in the pay range (an indicator of relative
2 market position), and internal equity between employees. Base pay increases
3 tend to be higher for employees who have high levels of performance and who are
4 currently at the low end of the pay range. On the other hand, average performers
5 who are at the higher end of the pay range for their job classification may only
6 receive a small base pay increase, and a poor performer generally receives no
7 base pay increase.

8 **Q. ARE THE BASE PAY INCREASES EARNED BY NON-BARGAINING**
9 **EMPLOYEES THE SAME AS COST-OF-LIVING INCREASES?**

10 A. No. An employee must earn a base pay increase based upon performance,
11 among other factors. That is distinct from cost-of-living increases in base pay,
12 which are typically provided to all employees, regardless of performance. Public
13 Service has not historically provided any cost-of-living increases.

14 **Q. HOW DOES THE COMPANY DETERMINE THE ANNUAL BUDGET FOR BASE**
15 **PAY INCREASES?**

16 A. For non-bargaining employees, Public Service balances a number of factors to
17 arrive at budgeted base pay increases. The factors include:

- 18 • A review of external market surveys regarding base pay increases;
- 19 • Economic conditions;
- 20 • Company performance; and
- 21 • A comparison to potential or negotiated wage increases for bargaining
22 employees.

1 **Q. WHAT BASE PAY INCREASE DID NON-BARGAINING EMPLOYEES EARN IN**
2 **2022?**

3 A. Effective March 2022, eligible Public Service non-bargaining employees earned,
4 on average, a 4.0 percent base pay increase. To earn a base pay increase, a non-
5 bargaining employee had to be eligible based on job performance and had to be
6 employed by Public Service on the effective date of the base pay increase.

7 **Q. WHAT AMOUNT OF BASE PAY INCREASE HAS PUBLIC SERVICE**
8 **BUDGETED FOR 2023 AND 2024?**

9 A. For 2023 and 2024, the Company anticipates a budgeted base pay increase of 4.0
10 percent for non-bargaining employees.

11 **Q. IS PUBLIC SERVICE SEEKING TO INCLUDE THE BUDGETED 4.0 PERCENT**
12 **INCREASES FOR 2023 AND 2024 IN THE TEST YEAR COST OF SERVICE IN**
13 **THIS CASE?**

14 A. Yes. The 4.0 percent base pay increase will be effective in March 2023, which is
15 prior to the time the rates established in this case go into effect. Over the past
16 several years, independent third-party surveys demonstrate that the base pay
17 increase budget has been increasing. The budgeted 4.0 percent increase is
18 comparable to the projected increases by other employers with whom Public
19 Service competes for employees.

1 **Q. WHY DOES PUBLIC SERVICE RELY ON INDEPENDENT THIRD-PARTY**
2 **SURVEYS TO SET BASE PAY AMOUNTS AND TO EVALUATE BASE PAY**
3 **INCREASE AMOUNTS?**

4 A. Public Service relies on independent third-party compensation surveys because
5 the survey vendors use rigorous methodologies to collect and aggregate
6 compensation information from a wide array of companies. Those surveys are
7 compiled in compliance with Department of Justice and Federal Trade
8 Commission Antitrust Safety Zone guidelines, which specify who can administer
9 surveys and define such parameters as the minimum number of participants in the
10 survey, the percentage of data a single survey participant can represent in
11 weighted results, and the age of the data. In addition, the results of the surveys
12 are available only to authorized users, which acts as an incentive for companies
13 to share competitive information they would not otherwise release. Use of
14 independent third-party compensation surveys is a best practice for determining
15 compensation across industries.

16 **Q. CAN YOU DEMONSTRATE THAT THE 4.0 PERCENT BASE PAY INCREASES**
17 **EARNED BY NON-BARGAINING EMPLOYEES IN 2022 AND BUDGETED FOR**
18 **2023 AND 2024 ARE REASONABLE?**

19 A. Yes. The independent third-party surveys that I described above demonstrate that
20 for 2022, the 4.0 percent base pay increase for Public Service employees was
21 competitive with the market as a whole. In particular, five different survey sources
22 reported the following base pay increase ranges:

23

- 3.5 percent to 4.2 percent for all utilities on a national basis; and

- 3.5 percent to 4.2 percent for all companies on a national basis.⁶

As these independent surveys show, the 4.0 percent base pay increase for Public Service's non-bargaining employees was reasonable when compared to the market in 2022.

Q. IS A 4.0 PERCENT BASE PAY INCREASE CONSISTENT WITH TRENDS FOR BASE PAY INCREASES?

A. Yes. Table MPD-D-2 identifies the projected and actual non-bargaining base pay increase percentages available from 2019 through the 2023 projected increase, using the survey methodology described above:

TABLE MPD-D-2

Year	Projected Increase	Actual Increase
2019	3.0% - 3.3%	3.0% - 3.5%
2020	3.1% - 3.7%	2.6% - 3.5%
2021	2.6% - 3.5%	2.7% - 3.9%
2022	3.0% - 4.1%	3.5% - 4.2%
2023	4.1% - 4.3%	Pending

Q. BASED ON THESE SURVEYS, WHAT DO YOU CONCLUDE ABOUT PUBLIC SERVICE'S BASE PAY INCREASES FOR NON-BARGAINING EMPLOYEES?

A. I conclude that the 2023 and 2024 base pay increases for non-bargaining employees are reasonable and should be included in the Company's Test Year cost of service. Accordingly, Public Service requests that the Commission approve \$162,001,093 for non-bargaining base pay.

⁶ WorldatWork "2022-2023 Salary Budget Survey"; The Conference Board "2022-2023 Salary Increase Budget Survey Results"; Willis Towers Watson, "2022 General Industry Salary Budget Survey"; Mercer "2022/2023 US Compensation Planning Survey Report"; and Aon Hewitt "2022 Salary Increase and Turnover Study-United States."

1 **Q. HAS PUBLIC SERVICE OFFSET THE BARGAINING AND NON-BARGAINING**
2 **BASE LABOR INCREASES WITH A PRODUCTIVITY ADJUSTMENT?**

3 A. No. The Company does not believe that a productivity adjustment is appropriate
4 in this case because, while there have been slight gains in productivity calculation
5 recently, the recent increases in the cost of labor surpass these productivity gains.
6 As noted in my testimony, non-bargaining and bargaining increases are expected
7 to be 1.0 percent to 3.3 percent greater than recent wage changes. The
8 Company's recruiting team is also working hard to close open positions, which will
9 also impact labor expense.

10 **B. Annual Incentive Compensation**

11 **Q. WHAT TOPICS DO YOU DISCUSS IN THIS SUBSECTION OF YOUR DIRECT**
12 **TESTIMONY?**

13 A. I discuss three topics related to the Company's Annual Incentive Program, which
14 is sometimes referred to by the acronym "AIP." First, I explain that the Company's
15 use of incentive compensation benefits customers, as compared to a
16 compensation system that would provide all of a non-bargaining employee's
17 compensation through base pay. Second, I describe the structure of Xcel Energy's
18 incentive compensation program. Finally, I quantify the amount of incentive
19 compensation that Public Service asks the Commission to approve and the
20 reasoning underlying it.

1 **1. Benefits of Annual Incentive Compensation Programs**

2 **Q. WHY DOES PUBLIC SERVICE INCLUDE ANNUAL INCENTIVE**
3 **COMPENSATION AS PART OF ITS OVERALL COMPENSATION PLAN?**

4 A. Like most employers, Public Service has the option of either offering cash
5 compensation to employees solely through base pay or offering cash
6 compensation through a combination of base pay and incentive compensation.
7 Public Service has chosen to offer its non-bargaining employees a combination of
8 base pay and incentive compensation because that compensation structure
9 produces a number of well-recognized benefits: (1) it promotes superior employee
10 performance; (2) it reduces fixed labor costs; and (3) it provides a comparable,
11 market-based compensation design similar to other employers with whom Public
12 Service competes for employees.

13 **Q. PLEASE EXPLAIN HOW INCENTIVE COMPENSATION PROMOTES**
14 **SUPERIOR EMPLOYEE PERFORMANCE.**

15 A. A well-designed incentive compensation plan motivates employees to focus on
16 activities that benefit customers, such as improving customer service response
17 times, enhancing reliability, and achieving environmental goals. In addition, a
18 compensation structure that includes incentive compensation strengthens the link
19 between pay and performance by putting a portion of the employee's
20 compensation at risk. Employees are motivated to meet the performance
21 standards in order to earn their full compensation amount. Using base pay alone
22 to meet the necessary total compensation levels would allow the employee to
23 receive the payment regardless of performance. Thus, the use of incentive

1 compensation helps Public Service motivate and reward its employees for
2 delivering superior performance.

3 **Q. HOW DOES INCENTIVE COMPENSATION REDUCE FIXED LABOR COSTS?**

4 A. The use of incentive compensation reduces labor costs by lowering the base pay
5 amount to which annual escalation rates are applied. For example, if a non-
6 bargaining employee's total cash compensation was \$50,000 in year one and all
7 of the compensation was in the form of base pay, a 4.0% base pay increase would
8 lead to a base pay increase of \$2,000 in year two and a new base pay of \$52,000.

9 In contrast, customers benefit if total cash compensation is structured with
10 base pay and an incentive compensation opportunity (variable pay) to reach total
11 compensation. For example, an employee with an overall target compensation of
12 \$50,000 and a 20 percent incentive compensation opportunity would have a base
13 pay of \$41,670. The difference between base pay and total cash compensation
14 would need to be re-earned annually through the AIP. Additionally, unlike the fixed
15 cost described above, when total cash compensation is delivered in base pay, the
16 4.0% base pay increase would lead to an increase of \$1,667 in year two ($\$41,670$
17 $\times 4.0\% = \$1,667$) and a new base pay of \$43,337. Thus, by moving a portion of
18 each employee's pay from base pay to incentive pay, Public Service reduces
19 overall fixed labor costs (base pay) by avoiding the compounding effect of annual
20 base pay increases on the higher base pay amount, as noted in Table MPD-D-3
21 below.

1
2

**TABLE MPD-D-3
 Fixed Cost and Variable Pay Example**

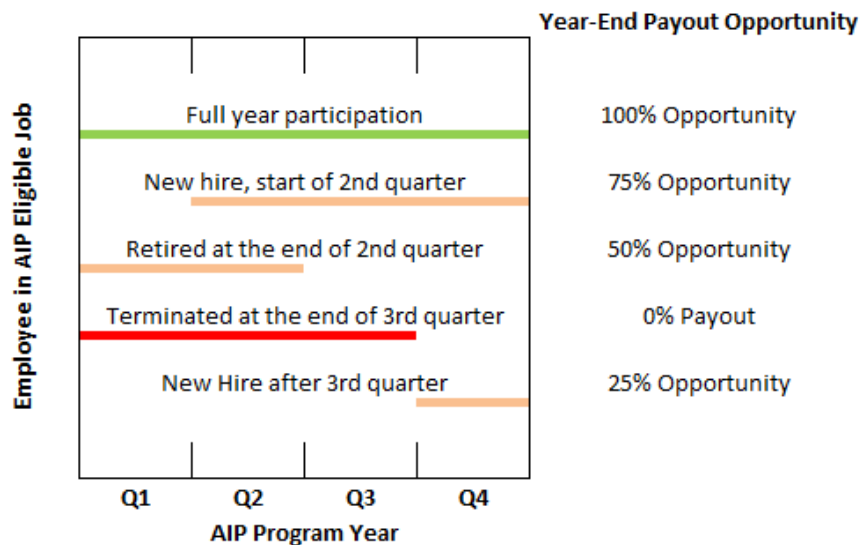
	Total Compensation Base Pay Only	Total Compensation Base Pay and AIP
Competitive Market Total Cash Compensation Median	\$50,000	
Fixed Cost - Base Pay	\$50,000	\$41,670
Incentive Target Opportunity	0%	20%
Variable Pay at Target	\$0	\$8,334
Total Cash Compensation	\$50,000	\$50,004
Base Pay Increase (4.0%)	\$2,000	\$1,667
Fixed Cost - Post Increase	\$52,000	\$43,337

3 Furthermore, fixed costs associated with base pay affect a variety of benefit-
 4 related expenses, such as 401(k) match, life insurance premiums, long-term
 5 disability premiums, and short-term disability expenses. If total cash compensation
 6 were provided through base pay at 100 percent, the additional fixed costs would
 7 correspondingly increase benefit-related expenses. In contrast, variable pay
 8 expenses associated with incentive compensation do not affect all benefit
 9 expenses, and variable pay may fluctuate from year to year. These factors, along
 10 with prorated awards and eligibility requirements for payout, also contribute to
 11 incentive design savings. In summary, by utilizing base pay and incentive
 12 components in the Total Rewards Program, Public Service reduces costs for
 13 customers, while offering employees market-based, target-level total cash
 14 compensation.

1 Finally, with limited exceptions, incentive compensation is paid only to those
2 employed by Public Service at the time of payout in most circumstances. The
3 incentive compensation calculation also prorates the payout of incentive
4 compensation to new or transferring participants based on the dates those
5 employees were in an eligible position during the program year. By avoiding
6 payouts to departing employees and prorating payouts of arriving employees,
7 Public Service pays less in incentive compensation than it would have paid those
8 employees if all of their compensation had been in the form of base pay.

9 Figure MPD-D-2 illustrates a few simple examples of how and when
10 employees in AIP eligible jobs may or may not have full or pro-rated AIP
11 opportunity in relation to the year-end AIP award.

12 **Figure MPD-D-2**



1 **Q. IS IT COMMON PRACTICE FOR LARGE COMPANIES SUCH AS UTILITIES TO**
2 **USE ANNUAL INCENTIVE COMPENSATION AS PART OF THEIR**
3 **COMPENSATION PACKAGES?**

4 A. Yes. The use of incentive compensation by employers is a prevalent practice
5 throughout the United States. According to the 2021 Willis Towers Watson
6 Compensation Study (Confidential Attachment MPD-1), 100 percent of utility
7 companies in the national sample maintain an annual incentive plan, and 100
8 percent of utility companies in the revenue-based sample maintain an annual
9 incentive plan.

10 **2. Structure of Xcel Energy Annual Incentive Program (AIP)**

11 **Q. PLEASE SUMMARIZE THE PUBLIC SERVICE AIP.**

12 A. The AIP is the mechanism through which Public Service ties part of an eligible
13 employee's compensation to the achievement of defined performance objectives
14 called Key Performance Indicators ("KPI"). Public Service uses the AIP to align
15 employees' goals with the Company's corporate and business goals, and to
16 recognize and reward employees for results that contribute to the achievement of
17 reliability, customer satisfaction, and safety goals. When combined with base pay,
18 the incentive compensation component is designed to produce a market-
19 competitive total cash compensation package.

20 **Q. WHICH EMPLOYEES ARE ELIGIBLE TO PARTICIPATE IN THE ANNUAL**
21 **INCENTIVE PROGRAM?**

22 A. The AIP applies to exempt, non-bargaining employees. An eligible employee hired
23 during the year may receive a prorated year-end AIP award for that program year.

1 With limited exceptions, a person must also be actively employed by the Company
2 on the date that the year-end award payments are made in order to receive an
3 incentive award.⁷

4 **Q. IN CONNECTION WITH THE YEAR-END AIP AWARDS, YOU REFERRED TO**
5 **CORPORATE KPIS AND INDIVIDUAL PERFORMANCE RESULTS. PLEASE**
6 **DESCRIBE THE CORPORATE KPIS.**

7 A. During the first quarter of each year, Xcel Energy develops a Corporate scorecard
8 that identifies certain priorities for the year. In 2022, for example, the Corporate
9 KPIS are focused on four priorities: (1) leading the clean energy transition; (2)
10 enhancing the customer experience; (3) keeping bills low; and (4) promoting safety
11 and reliability. As shown in Table MPD-D-4, those four priorities resulted in six
12 Corporate KPIS for the year:

⁷ The exceptions are involuntary termination with severance, retirement, death, disability, or qualified leave of absence.

1

TABLE MPD-D-4

Priorities	Key Performance Indicator	2022 Goal			
		Threshold	Target	Maximum	Weight
Lead the Clean Energy Transition	Customer Satisfaction <i>(JD Power residential survey)</i>	737	752	767	20%
	Public Safety <i>(gas emergency response)</i>	91%	96%	99%	20%
Enhance the Customer Experience	Electric System Reliability <i>(SAIDI)</i>	101	92	83	20%
Keep Bills Low	Employee Safety¹ <i>(safety culture)</i>	Declining	Steady/ Improving	Significant Improvement	20%
	Diversity, Equity & Inclusion <i>(index)</i>	100	200	300	10%
Safety and Reliability	Wind Availability <i>(equivalent availability factor)</i>	94.0%	96.0%	97.0%	10%

2 **Q. TABLE MPD-D-4 USES THE TERMS “THRESHOLD,” “TARGET,” AND**
 3 **“MAXIMUM” FOR THE CORPORATE SCORECARD. CAN YOU EXPLAIN**
 4 **WHAT THOSE TERMS MEAN?**

5 **A.** Yes. As shown in Table MPD-D-4, Xcel Energy establishes quantitative measures
 6 to evaluate whether the Corporate scorecard KPIs have been met. The “target”
 7 amount reflects the level of achievement that Xcel Energy considers to be
 8 reasonable for the particular Corporate KPI. The “threshold” amount represents
 9 the lower bound that must be achieved before that Corporate KPI may be used in
 10 the incentive payout calculation, whereas the “maximum” represents the upper
 11 bound of results for purposes of establishing the maximum amount of incentive
 12 compensation for that Corporate KPI. As shown in Table MPD-D-5, the amount of
 13 incentive compensation an employee is eligible to receive under the Corporate

1 scorecard depends on the degree of success that the corporation as a whole
2 achieves for the Corporate KPIs:

3 **TABLE MPD-D-5**

Corporate Goal Achievement	Payout
Below Threshold	0%
Threshold to Target	50% - 99.99% (based on a linear interpolation)
Target	100%
Target to Maximum	100.1% - 149.99% (based on a linear interpolation)
Maximum	150%

4 The 2022 AIP program document, which is Confidential Attachment MPD-2,
5 provides additional details and specifics about the program.

6 **Q. PLEASE TURN NOW TO THE INDIVIDUAL COMPONENT AND EXPLAIN HOW**
7 **THAT IS EVALUATED.**

8 A. The purpose of the individual component is to focus an employee on individual
9 goals and to reward that employee for his or her achievement of those goals.
10 Including an individual component allows managers to recognize and reward
11 employees based on their levels of contribution and performance, consistent with
12 Xcel Energy's pay-for-performance philosophy.

13 **Q. WHO ESTABLISHES THE INDIVIDUAL GOALS?**

14 A. The individual component is based on the individual performance results of specific
15 goals identified by the employee and his or her manager. Goals are tied
16 specifically to the employee's job functions and are developed in alignment with
17 business area and corporate objectives. Each manager has discretion to

1 determine the year-end individual component award within a range of 0 to 150
2 percent based on the employee's contributions and performance during the year.⁸

3 **Q. ARE THE CORPORATE AND INDIVIDUAL KPIS WEIGHTED EQUALLY WHEN**
4 **ASSESSING THE PERFORMANCE OF AN EMPLOYEE?**

5 A. No. The importance of the Corporate KPIs for year-end AIP payout varies based
6 upon the employee's position and level of responsibility. The weightings of
7 Corporate versus Individual KPIs are designed such that an employee's goals are
8 more strongly linked to objectives that he or she has the greatest potential to affect.
9 For example, the weighting for non-supervisory employees focuses on the job of
10 the individual to have day-to-day interactions tied to customer satisfaction, safety,
11 and reliability. In contrast, the weighting for more senior level positions focuses on
12 broader corporate goals. Table MPD-D-6 shows the weightings of these different
13 categories for the 2022 AIP:

⁸ The individual component also includes the "I Deliver Award" and "Innovator Award." These awards, however, are not part of the year-end evaluation of whether an employee achieved his or her individual KPIs during that year.

1

TABLE MPD-D-6

2022 AIP Weights (Exempt, Non-Bargaining Employees)		
Salary Tiers/Grades	Corporate	Individual
Exempt N, O; Engineer A, B	10%	90%
Exempt P, Q; Engineer C; Trader 1	20%	80%
Management R-T; Engineer D, E; Trader 2-6	30%	70%
Management U, V	40%	60%
Senior Leader Group	50%	50%

2 **Q. DO THE CATEGORY WEIGHTINGS CHANGE THE TOTAL AMOUNT OF**
3 **TARGET INCENTIVE COMPENSATION THAT CAN BE EARNED?**

4 A. No. The weightings modify the mix of accomplishments needed for employees to
5 achieve the target levels of AIP opportunity for the respective employee groupings,
6 but they do not change the target opportunity levels for employees. In other words,
7 a market-based target opportunity of 10 percent would remain 10 percent, even if
8 the mix of Corporate versus Individual weighting changes.

9 **Q. DO ALL ELIGIBLE NON-BARGAINING EMPLOYEES RECEIVE THE SAME**
10 **PERCENTAGE OF THEIR OVERALL COMPENSATION AS INCENTIVE**
11 **COMPENSATION?**

12 A. No. As I explained earlier, the percentage of total compensation paid as incentive
13 compensation is determined by the non-bargaining employee's position or level
14 within the organization. Thus, for example, an employee at a 10 percent target

1 opportunity level with a base salary of \$50,000 will receive \$5,000 in incentive
2 compensation, assuming achievement of 100 percent of the Corporate and
3 Individual KPIs. Target opportunities will vary based on market competitive
4 incentive and design levels. As such, the more senior the non-bargaining
5 employee, the more of his or her total cash compensation is at risk to be earned
6 through incentive compensation.

7 **Q. IS THE AMOUNT OF AN EMPLOYEE'S INCENTIVE COMPENSATION**
8 **EARNED ALWAYS AT THE INCENTIVE TARGET AMOUNT?**

9 A. No. An employee receives his or her incentive target opportunity payout only if
10 that employee achieves 100 percent of his or her individual component and the
11 Corporate KPI results are at 100 percent. The actual incentive payment earned
12 by an employee may exceed or fall below the incentive target amount, depending
13 upon the actual performance of the weighted AIP components. The maximum
14 year-end payout is 150 percent of the incentive target amount based on
15 exceptional performance for established Corporate or Individual goals. The year-
16 end threshold for a minimum payout is 50 percent of the incentive target, which
17 reflects meeting the minimum expected level of performance for Corporate goals.
18 Performance below the 50 percent level for a Corporate goal results in no incentive
19 compensation for the associated goal. Overall, an employee's final year-end
20 payout may range from 0 to 150 percent of the employee's incentive target
21 opportunity.

1 **3. AIP Request**

2 **Q. WHAT AMOUNT OF INCENTIVE COMPENSATION EXPENSE IS PUBLIC**
3 **SERVICE ASKING THE COMMISSION TO APPROVE IN THIS CASE?**

4 A. Public Services is requesting the 2024 AIP target-level expense of \$13,077,427.

5 **Q. WHAT LEVEL OF PAYOUT DOES PUBLIC SERVICE’S REQUESTED AMOUNT**
6 **OF INCENTIVE COMPENSATION EXPENSE ASSUME?**

7 A. The requested amount assumes the target incentive amount (100 percent of target
8 opportunity at the individual level). Thus, customers are not being asked to pay
9 any amounts above the market-competitive AIP target opportunity.

10 **Q. IN PRIOR CASES, INCLUDING THE COMPANY’S LAST GAS RATE CASE,**
11 **THE COMMISSION LIMITED RECOVERY OF AIP TO 15 PERCENT OF BASE**
12 **PAY CALCULATED ON AN EMPLOYEE-BY-EMPLOYEE BASIS, RATHER**
13 **THAN ALLOWING RECOVERY OF THE AIP TARGET AMOUNT. SHOULD THE**
14 **COMMISSION TAKE THAT APPROACH IN THIS CASE AS WELL?**

15 A. No. For many Company employees, and especially those in executive and
16 management positions, the market-based target opportunity amount of AIP
17 comprises more than 15 percent of base pay. However, the overall compensation
18 of those employees – which includes base pay, the target amount of AIP, and LTI
19 (if applicable) – is set at a market-based level. Thus, if the Commission were to
20 limit the recovery of AIP to 15 percent of base pay, it would be preventing the
21 Company from recovering part of those employees’ market-based compensation.

1 **Q. IS IT REASONABLE FOR THE COMMISSION TO EXCLUDE PART OF THE**
2 **COMPANY'S MARKET-BASED COMPENSATION?**

3 A. No. The Company has to provide market-competitive compensation to attract and
4 retain employees. Therefore, the Company's market-based compensation is a
5 reasonable and necessary cost of service. If the Commission intends to disallow
6 part of the Company's reasonable and necessary cost of service, it should be
7 based on a valid reason for disallowance, not on an arbitrary percentage. And if
8 the Commission's reason for disallowance is simply that it believes the Company
9 should structure its compensation so that more of it is offered in the form of base
10 pay and less in incentive pay, I would submit that reason is misguided for the
11 reasons I identified earlier: Incentive compensation promotes superior employee
12 performance; it reduces fixed labor costs; and it provides a comparable, market-
13 based compensation design similar to other employers with whom Public Service
14 competes for employees. By limiting the amount of AIP to 15 percent of base pay,
15 the Commission would be signaling that it does not believe those are worthwhile
16 goals. The Commission would also be signaling that the practice of offering
17 compensation through a sound and widely practiced market-based program is
18 inherently flawed.

1 **Q. IN PROCEEDING NO. 21AL-0317E, THE COMPANY AGREED AS PART OF A**
2 **SETTLEMENT TO CONSIDER EMISSIONS REDUCTION AS AN AIP METRIC**
3 **AND PROVIDE TESTIMONY ON THIS REVIEW. HOW DO YOU RESPOND TO**
4 **THIS REQUEST?**

5 A. The Company's 2023 Corporate Scorecard KPIs are currently under development,
6 as of the date of this filing. However, in 2021 and 2022, the scorecard included
7 the "Wind Availability" KPI. This goal measures the use of the Company's
8 available wind generation (emission reduction) resources to provide electricity to
9 customers at a comparable level to replace carbon-based generation resources.

10 **C. Supplemental Incentive Program (SIP)**

11 **Q. PLEASE SUMMARIZE XCEL ENERGY'S SUPPLEMENTAL INCENTIVE**
12 **PROGRAM.**

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

19 **Q. WHAT AMOUNT DOES PUBLIC SERVICE ASK THE COMMISSION TO**
20 **APPROVE FOR SUPPLEMENTAL INCENTIVE COMPENSATION?**

21 A. Public Service requests recovery of \$427,465 for the 2023 projected SIP expense.

1 **Q. IS IT REASONABLE FOR PUBLIC SERVICE TO RECOVER THE COST OF THE**
2 **SUPPLEMENTAL INCENTIVE PROGRAM FROM CUSTOMERS?**

3 A. Yes. The incentive is designed to motivate trading employees to seek out trades
4 and to achieve the maximum possible margins, a large percentage of which are
5 shared with customers through the fuel clause. Thus, the benefits for customers
6 are immediate and directly flow from the employee activities that are awarded
7 under the SIP.

8 **Q. HAS THE COMMISSION APPROVED RATE RECOVERY FOR SIP EXPENSES**
9 **IN THE PAST?**

10 A. Yes. The Commission approved recovery of SIP expenses in Public Service's last
11 electric rate case, Proceeding No. 21AL-0317E.

12 **D. Long-Term Incentive Compensation**

13 **Q. PLEASE DESCRIBE XCEL ENERGY'S LONG-TERM INCENTIVE PROGRAM.**

14 A. Like the other Xcel Energy compensation programs, the LTI program is intended
15 to attract, retain, and motivate employees. LTI differs from AIP and other types of
16 compensation in that is offered only to executives and non-executive management
17 employees, as determined by market-competitive compensation designs. Like the
18 AIP, the compensation tied to LTI is at-risk compensation. This means that the
19 performance goals must be met and/or the employee must remain employed for a
20 certain period of time in order to earn his or her full compensation. The LTI is
21 necessary, however, to ensure that those employees' compensation levels and
22 mix of compensation are competitive.

1 **Q. ARE LTI PROGRAMS COMMONLY USED IN THE UTILITY INDUSTRY?**

2 A. Yes. LTI programs are widely used compensation vehicles for executives and
3 certain non-executive employees, as shown in the 2021 Willis Towers Watson
4 Study, which is Attachment MPD-1C. These types of programs create an incentive
5 for eligible employees to engage in high-level planning that will lead to benefits
6 over the long-term. It also encourages those employees to remain with the
7 Company and to follow through on longer-term decisions and projects.

8 **Q. IS LTI CONSIDERED BONUS COMPENSATION?**

9 A. No. LTI is simply one component of market-based compensation for certain
10 employee groups. Without LTI, these employees would earn less than their peers
11 at other companies have an opportunity to earn. Thus, LTI is an important
12 competitive tool that the Company uses to attract and retain employees.

13 **Q. IS PUBLIC SERVICE SEEKING RECOVERY OF ALL OF THE LONG-TERM
14 INCENTIVE COMPENSATION PAID TO ELIGIBLE EMPLOYEES?**

15 A. No. Public Service is not seeking recovery for the LTI portion related to total
16 shareholder return, reflected in the cost of service.⁹ Public Service is, however,
17 requesting recovery of the performance-based LTI related to Xcel Energy's
18 environmental activities for XES and Public Service executives, which I refer to as
19 the "environmental" LTI. Public Service also seeks recovery of the time-based LTI
20 related to executives and non-executive management participants.

⁹ Company witness Mr. Freitas has removed approximately \$3.56 million from the Test Year cost of service related to LTI costs for Relative Total Shareholder Return. Please refer to his cost of service study, and particularly to Attachment APF-1.

1 **Q. PLEASE GENERALLY DESCRIBE THE ENVIRONMENTAL LTI.**

2 A. Some of the performance-based shares granted to executives relate to the
3 environmental LTI. The measurement for the environmental LTI is based on the
4 percentage reduction in carbon emissions. The types of activities that affect the
5 results are such things as implementing renewable energy resources, promoting
6 energy efficiency programs, improving plant operations to reduce carbon output,
7 and accelerating retirements of fossil plants. Because the majority of Xcel
8 Energy's LTI for executives is performance-based, payout of compensation occurs
9 only when pre-defined performance goals are achieved. The performance period
10 is three years. The performance shares are granted in the first year, and
11 performance is measured throughout the three-year period.

12 **Q. IS IT REASONABLE TO GRANT RATE RECOVERY OF COSTS RELATED TO**
13 **ENVIRONMENTAL LTI?**

14 A. Yes. The achievement of the environmental LTI goals directly benefits customers
15 and the public by prudently reducing carbon emissions and limiting their impact on
16 the environment. The inclusion of this carbon reduction goal as a component of
17 the Company's LTI compensation has become a model for other utilities, as well
18 as non-utilities, for setting the bar and driving environmental stewardship.

1 **Q. IN THE COMPANY’S MOST RECENT ELECTRIC RATE CASE SETTLEMENT,**
2 **WHICH WAS PROCEEDING NO. 21AL-0317E, THE COMMISSION DENIED**
3 **RECOVERY OF ENVIRONMENTAL LTI. WHY SHOULD THE COMMISSION**
4 **RECONSIDER THIS FORM OF COMPENSATION, ESPECIALLY IN RELATION**
5 **TO THE COMPANY’S ENVIRONMENTAL GOAL?**

6 A. As described above, LTI is a necessary and reasonable component of total
7 compensation in the market. Employees who are eligible for this component of
8 compensation are responsible for long-term planning, executing on those plans
9 and sustaining operational excellence to serve customers. LTI requires these
10 eligible employees to remain committed with the Company to receive their full
11 market-based level of compensation. Eligible employees must be offered this form
12 of compensation to ensure the Company can attract, retain and motivate them and
13 remain competitive in the market.

14 While the Company could identify other long-term goals to achieve, it has
15 chosen an environmental goal that requires a significant commitment by the
16 Company to reach and therefore requires commitment by its senior leadership
17 team. Tying employee compensation over the long-term to a goal that requires
18 long-term commitment, direction and execution is a fundamental attribute of an LTI
19 program. Putting an employee’s pay “at-risk” is key to keeping that employee’s
20 attention on those goals the Company is committed to achieving. Employees who
21 are eligible for environmental LTI help achieve the Company’s and the State’s
22 environmental goals, and therefore those employees should receive their market-
23 based level of compensation.

1 **Q. THE COMMISSION DENIED RECOVERY OF ENVIRONMENTAL LTI IN THE**
2 **COMPANY'S MOST RECENT GAS RATE CASE BASED ON THE RATIONALE**
3 **THAT THE COMPANY'S ENVIRONMENTAL GOALS WERE NOT LINKED TO**
4 **THOSE IN THE STATE OF COLORADO. HOW DO YOU RESPOND TO THAT**
5 **ASSESSMENT?**

6 A. That is true only in the sense that the Company's environmental goals are more
7 ambitious than the goals established by the State of Colorado. Xcel Energy has
8 annual emission reduction goals, whereas Colorado's emission reduction goal is a
9 certain percentage to be achieved by 2030. Stated otherwise, Public Service and
10 the other Xcel Energy operating companies are planning for and achieving
11 emission reduction goals every year, rather than just planning to meet an emission
12 reduction requirement nearly a decade from now. Those efforts result in reduced
13 emissions now and in every year leading up to 2030. Without the incentives
14 provided by the environmental LTI program, Xcel Energy employees would have
15 no incentive to reduce emissions faster than the goals established by the State of
16 Colorado and the other jurisdictions in which Xcel Energy operating companies
17 provide service. The Commission should not punish Public Service for undertaking
18 emission reduction actions that exceed the goals established by the State of
19 Colorado.

20 There have been several recent projects that the Company has undertaken
21 to work toward this goal, all of which have been reviewed and approved through
22 many State agencies and advocacy groups. Below are some articles and quotes

1 related to those projects that have led and will lead to reductions in carbon
2 emissions within the state:

3 - 'Xcel Energy & Solar Power in Colorado: The Future of Clean Energy' – “In fact,
4 Xcel Energy is the largest provider of solar power in Colorado.”¹⁰

5 - 'Xcel Energy has the state's blessing for a \$2 billion power line on the Eastern
6 Plains. Can it convince rural residents?' – “Xcel Energy...has big plans to build
7 transmission lines and wind turbines in Colorado's Eastern Plains.”¹¹

8 - 'Utility plans to add to its 4,000 megawatts of wind energy in Colorado' – “Xcel
9 Energy, Colorado's largest electric utility, ...As new projects start operating, Xcel
10 Energy expects more than 31% of its energy capacity to come from wind by the
11 end of this year.”¹²

12 - 'Xcel Energy brings online 500-MW wind farm in Colorado' – “Cheyenne Ridge
13 Wind farm several months earlier than planned; ...ahead of schedule and under
14 budget.”¹³

15 - 'Another large Colorado wind farm to be built for Xcel Energy' – “Recent filings
16 with the Colorado Public Utility Commission indicate Xcel has finalized its power
17 purchase agreement with the unidentified wind farm developer.”¹⁴

¹⁰ [Xcel Energy & Solar Power in Colorado: The Future of Clean Energy | Energy Genius Solar Denver](#)
(4/15/2022)

¹¹ [Xcel Energy has the state's blessing for a \\$2 billion power line on the Eastern Plains. Can it convince rural residents? | Colorado Public Radio \(cpr.org\)](#) (6/9/2022)

¹² [Xcel Energy reaches milestone of 10,000 megawatts of wind-power capacity \(denverpost.com\)](#)
(2/11/2021)

¹³ [Xcel Energy brings online 500-MW wind farm in Colorado | S&P Global Market Intelligence \(spglobal.com\)](#) (9/24/2020)

¹⁴ [Another large Colorado wind farm to be built for Xcel Energy - Denver Business Journal \(bizjournals.com\)](#) (6/13/2019)

1 - 'Xcel to begin Colorado Power Pathways permitting' – “The Colorado Public Utility
2 Commission this month co-signed Xcel’s contention that the project will contribute
3 to the state’s green-energy goals.”¹⁵

4 **Q. DO YOU BELIEVE THERE IS A CORRELATION BETWEEN THE GOAL**
5 **ASSOCIATED WITH THE COMPANY’S ENVIRONMENTAL LTI AND THE**
6 **OVERALL OUTCOME THE STATE OF COLORADO IS STRIVING TO REACH?**

7 A. Yes. As noted in the articles above, each of these long-term projects is designed
8 to reduce carbon emissions across the State of Colorado while supplying safe and
9 reliable electric service to Company customers. The actions the Company takes
10 along this long-term journey will not result in linear carbon reduction outcomes
11 every year, as various generation resources are added and removed from the grid
12 over the course of the next two decades.

13 **Q. HOW HAS THE COMPANY DOCUMENTED ITS PROGRESS TO DECREASE ITS**
14 **CARBON EMISSIONS?**

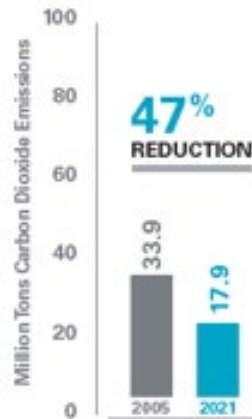
15 A. The Company provides its progress since 2005 as noted in Figure MPD-D-3 below
16 from its Sustainability Report 2021¹⁶ regarding carbon reduction. This figure
17 shows the Company has reduced its carbon emissions by 47 percent in Colorado,
18 enroute to reaching the State’s goal of 80 percent by 2030. Coincidentally, the
19 Xcel Energy target for environmental LTI was 47 percent in 2021, though the final
20 result was 49.9 percent across all Xcel Energy jurisdictions.

¹⁵ [Xcel to begin Colorado Power Pathways permitting – Greeley Tribune](#) (6/10/2022)

¹⁶ [2021-Sustainability-Report-Full.pdf \(q4cdn.com\)](#)

1

Figure MPD-D-3 (Colorado)



2 **Q. DO YOU HAVE ANY OTHER COMMENTS REGARDING THE COMPANY'S**
3 **REQUEST TO RECOVER ENVIRONMENTAL LTI?**

4 A. Yes. I have two comments. First, the starting point for the Commission's
5 compensation analysis should be whether the Company is seeking to recover
6 more than its market-based compensation expense. If not, the expense should be
7 presumed reasonable. The environmental LTI expense is a component of an
8 eligible employee's market-based compensation, not an addition to the market-
9 based compensation. For example, if the market-based compensation for a
10 particular position was \$100,000, the environmental LTI compensation would be
11 included in the \$100,000, and Public Service would seek to recover only that
12 \$100,000, not some greater amount. Because Public Service is asking to recover
13 only market-based compensation, there is no reason for the Commission to
14 disallow environmental LTI.

1 Second, disallowing Public Service’s environmental LTI costs would send
2 the message that the Commission does not approve of the Company’s effort to
3 motivate employees to achieve carbon-reduction goals. I believe the overall intent
4 of House Bill 19-1261 is to reduce carbon emissions in Colorado. Denying
5 recovery of LTI expense on the ground that its purpose is to incentivize employees
6 to achieve carbon reduction would be at odds with the State’s policy goals. The
7 State would also have a disincentive – penalty – for not reaching the goal. This
8 approach coincidentally can be compared to the Company’s variable pay
9 programs, where incentive awards are paid when goals are met, but the incentive
10 is not earned when the goals are not met. I believe having a like-minded goal
11 should be seen as an added benefit and providing greater focus, rather than a
12 negative for customers.

13 **Q. PLEASE GENERALLY DESCRIBE TIME-BASED LTI FOR EXECUTIVES AND**
14 **NON-EXECUTIVE MANAGEMENT EMPLOYEES.**

15 A. The time-based LTI is used to attract, retain, and motivate eligible employees for
16 the reasons I discussed earlier. Again, this is not a bonus, but rather a means of
17 providing market-based compensation. Time-based LTI ensures that those
18 employees engage in long-term planning for the benefit of the Company and that
19 they remain with Xcel Energy long enough to implement those long-term plans.
20 Xcel Energy accomplishes that goal by requiring a three-year vesting period for
21 the LTI payment.

1 **Q. IS IT REASONABLE TO GRANT RATE RECOVERY OF TIME-BASED LTI**
2 **EXPENSES?**

3 A. Yes. Like the environmental LTI, the time-based LTI is the form of LTI
4 compensation the Company has used to ensure employees reach the median level
5 of market-based compensation for their position and is not in addition to the
6 market-based compensation. Because the Company is seeking to recover no
7 more than each eligible employee's market-based compensation, there is no
8 reason to disallow that portion of the time-based LTI compensation unless the
9 Commission finds that the time-based LTI incentivizes behavior that harms
10 customers or that contravenes public policy. But in fact, the LTI does just the
11 opposite – it incentivizes eligible employees to remain at the Company long
12 enough to develop and implement long-term policies that benefit customers and
13 the State as a whole, such as the elimination of carbon emissions and the buildout
14 of Public Service's transmission grid. Because payment of time-based LTI
15 compensation is contingent on the employee remaining with the Company for an
16 extended period of time, the time-based LTI produces the stability necessary to
17 achieve those goals. Therefore, the time-based LTI should be recoverable in
18 rates, just like other forms of market-based compensation.

19 **Q. HAS THE COMPANY PREVIOUSLY RECEIVED RECOVERY OF TIME-BASED**
20 **LTI EXPENSES?**

21 A. Yes. The Company has received recovery of time-based LTI expenses in its last
22 two electric rate case filings; Proceeding No. 21AL-0317E and Proceeding No.
23 19AL-0268E.

1 **Q. CAN YOU PROVIDE AN EXAMPLE OF HOW LTI EXPENSE WOULD BE**
 2 **ACCRUED AND PAID FOR A NEW LTI-ELIGIBLE EMPLOYEE?**

3 A. Yes. Table MPD-D-7 provides the total compensation for a new hypothetical
 4 employee, including base pay, AIP and LTI. The green highlighted amounts
 5 identify the calendar years in which the employee would receive the respective
 6 forms of compensation.

7 **TABLE MPD-D-7**

Total Compensation	\$168,000			
	Calendar 2021	Calendar 2022	Calendar 2023	Calendar 2024
Base Pay	\$120,000			
AIP - Target - 20% - \$24,000	at risk	\$24,000		
LTI Grant - 20% - \$24,000	at risk (3-yr vesting)			
LTI - yr 1	2021 (\$8,000 accrued)			
LTI - yr 2		2022 (\$8,000 accrued)		
LTI - yr 3			2023 (\$8,000 accrued)	
LTI Settlement				2024 (2021 LTI Compensation Realized by EE - \$24,000)

8 In this example, the employee's total market-based compensation in 2021 is
 9 \$168,000, but the employee receives only \$120,000 of that amount in 2021. The
 10 employee must wait until 2022 to receive the \$24,000 of AIP deferred from 2021,
 11 based on target-level Company and employee performance, and the employee
 12 must remain employed at Xcel Energy until the spring of 2024 to receive the
 13 remaining \$24,000 that was deferred from 2021. If the employee leaves before
 14 the 2024 LTI settlement, he or she forfeits the entire \$24,000 that was deferred
 15 from 2021. By deferring payment of part of the compensation earned in 2021 until
 16 2024, the Company may be able to retain employees that would otherwise pursue
 17 new opportunities.

1 **Q. HOW DOES THE THREE-YEAR PERFORMANCE PERIOD AFFECT THE**
2 **ACCRUAL OF LTI EXPENSE FOR THE TEST YEAR COST OF SERVICE?**

3 A. Accrual of LTI expense occurs ratably over a three-year period and, therefore,
4 reflects LTI plans in effect during each of the three years.

5 **Q. WHAT AMOUNT IS PUBLIC SERVICE REQUESTING IN THE TEST YEAR FOR**
6 **LTI?**

7 A. The respective accrual amounts are set forth in Table MPD-D-8:

8 **TABLE MPD-D-8**

LTI Type	Year-Ending June 2022 Amount	Test Year Requested Amount*
Environmental	\$1,476,478	\$1,476,478
Time-based	\$2,554,301	\$2,554,301
Total	\$4,030,779	\$4,030,779

*No adjustments have been made to test year LTI.

9 **E. Recognition Programs**

10 **Q. PLEASE SUMMARIZE XCEL ENERGY'S RECOGNITION PROGRAMS.**

11 A. The recognition programs include a years-of-contribution program, a corporate
12 recognition program, and the Spot-On Award program. The year s-of-
13 contribution program recognizes employee loyalty and cumulative career effort
14 every five years. The corporate recognition program provides thank-you cards,
15 nominal gift cards, small gifts, or items with the Xcel Energy logo to recognize
16 individuals and groups of employees for extraordinary performance. The Spot-On
17 Award program was created as a tool for managers to reward outstanding

1 performance for non-exempt, non-bargaining employees, who are generally not
2 eligible to receive AIP.

3 **Q. WHAT IS THE BENEFIT OF RECOGNITION PROGRAMS TO CUSTOMERS?**

4 A. Typical outcomes of recognition programs includes increased employee
5 engagement, improved productivity and lower production costs to name a few.
6 Utility customers would directly and indirectly benefit from each of these outcomes.

7 **Q. HAS THE COMMISSION PREVIOUSLY APPROVED THE COMPANY'S**
8 **RECOGNITION PROGRAM EXPENSES?**

9 A. Yes. The Company has received full recovery of these expenses in both gas and
10 electric jurisdictional filings since 2015.

11 **Q. WHAT AMOUNT IS PUBLIC SERVICE REQUESTING FOR RECOGNITION**
12 **PROGRAMS?**

13 A. The Company is requesting the amounts set forth in Table MPD-D-9.

14 **TABLE MPD-D-9**

Recognition Program	Year-Ending June 2022 Amount	Requested Amounts*
Performance Recognition and Years of Contribution	\$871,306	\$871,306
Spot On Award	\$142,882	\$142,882
Total	\$1,014,188	\$1,014,188

*No adjustments have been made to test year Recognition.

1 **V. BOARD EQUITY COMPENSATION**

2 **Q. IS PUBLIC SERVICE REQUESTING RECOVERY OF BOARD OF DIRECTOR**
3 **COMPENSATION IN THIS PROCEEDING?**

4 A. Yes. Public Service is requesting recovery of \$443,161 for Board of Director equity
5 compensation, which is half (50 percent) of the amount that the Company expects
6 to incur during the Test Year.

7 **Q. IS XCEL ENERGY REQUIRED TO HAVE A BOARD OF DIRECTORS?**

8 A. Yes. As a Minnesota corporation, Xcel Energy is required to have a board of
9 directors pursuant to Section 302A.201, Subdivision 1, Minnesota Statutes.
10 Paying compensation to the Board of Directors in exchange for the work they
11 perform is reasonable and consistent with how boards of directors of other
12 corporations are treated.

13 **Q. WHAT PROCESS IS USED TO DEVELOP THE COMPENSATION THAT THE**
14 **BOARD OF DIRECTORS EARNS?**

15 A. Similar to the process I describe in Section IV of my Direct Testimony for
16 establishing cash compensation levels for non-bargaining employees, Xcel Energy
17 establishes Board of Directors' compensation by utilizing market data for the board
18 of directors from other utilities. The market assessment is completed by an
19 external independent consulting firm.

20 **Q. HOW IS THE COMPENSATION PROVIDED TO XCEL ENERGY'S BOARD OF**
21 **DIRECTORS?**

22 A. The compensation is provided to the Board of Directors in two components: (1) a
23 retainer, which the director can choose to have paid either as cash or the director

1 can elect to defer all or a portion of their cash retainer into stock equivalent units;
2 and (2) deferred stock equivalent units or taken as common stock. Public Service
3 incurs an allocable portion of these expense for these compensation costs on an
4 annual basis.

5 **Q. HAS THE COMMISSION ALLOWED THE COMPANY TO RECOVER HALF OF**
6 **ITS BOARD EQUITY COMPENSATION IN THE PAST?**

7 A. Yes. In several recent cases, the Commission has allowed the Company to
8 recover half of its Board equity compensation, including in the Company's most
9 recent gas rate case, Proceeding No. 22AL-0046G.

1 **VI. REASONABLENESS OF TOTAL CASH COMPENSATION AND TOTAL**
2 **DIRECT COMPENSATION**

3 **Q. HAS XCEL ENERGY COMPARED ITS TOTAL CASH COMPENSATION AND**
4 **TOTAL DIRECT COMPENSATION LEVELS TO THE COMPETITIVE MARKET,**
5 **INCLUDING OTHER UTILITIES?**

6 A. Yes. Public Service uses the median of market survey data to ensure that its total
7 cash compensation and total direct compensation levels are consistent with the
8 market. Public Service also engaged Willis Towers Watson to perform an analysis
9 of how Xcel Energy's 2021 target total cash compensation and total direct
10 compensation compare with the compensation of other utility companies. A copy
11 of the 2021 Willis Towers Watson Compensation Study is provided as Attachment
12 MPD-1C. That study includes compensation information related to exempt and
13 executive employees.

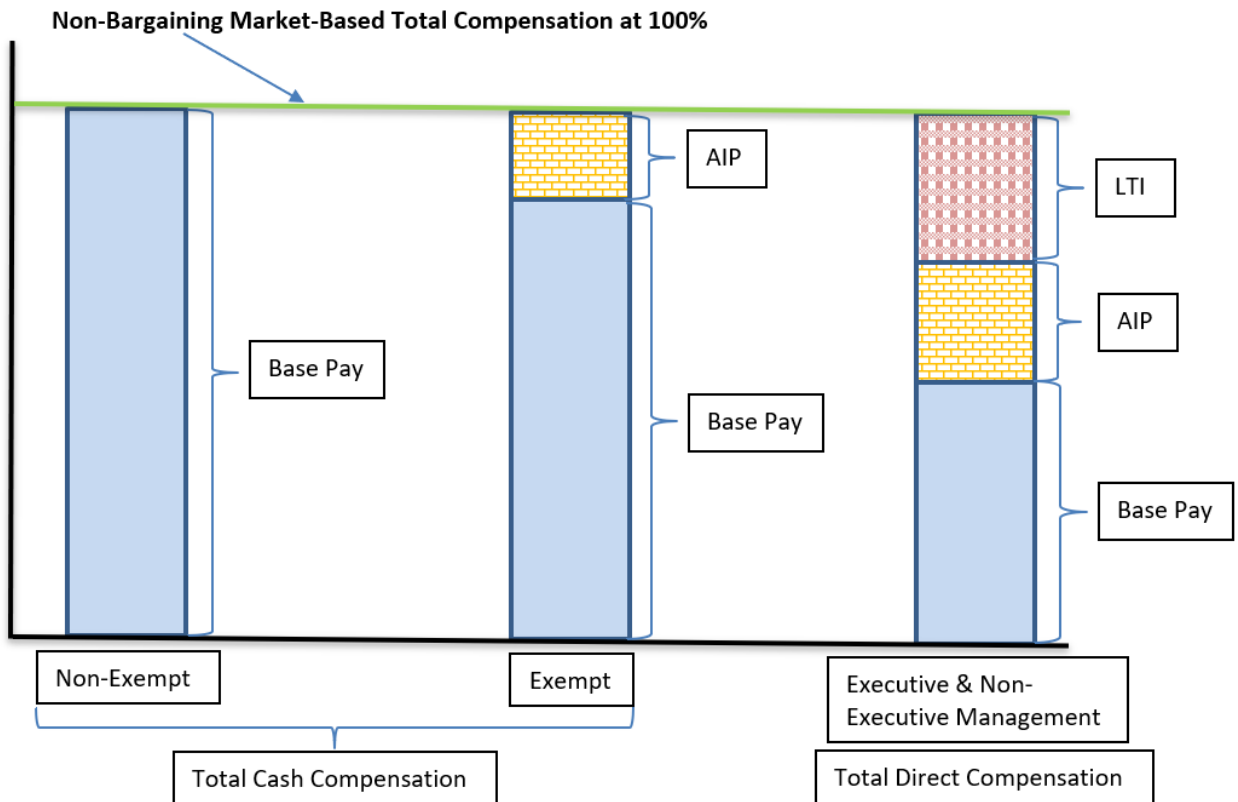
14 **Q. IN THE PREVIOUS RESPONSE, YOU USED THE PHRASES "TOTAL CASH**
15 **COMPENSATION" AND "TOTAL DIRECT COMPENSATION." WHAT IS THE**
16 **DIFFERENCE BETWEEN THOSE CONCEPTS?**

17 A. Total cash compensation is the combination of base pay plus short-term incentive
18 compensation (AIP) elements. These two compensation elements apply to all non-
19 bargaining, exempt employees, and are the main components of the compensation
20 package offered to a majority of these non-bargaining, exempt employees to make
21 up 100 percent of market-based compensation.

22 Total direct compensation is used to describe the compensation package
23 offered to executive and non-executive management employees. Total direct

1 compensation includes base pay plus short-term incentive compensation (AIP)
2 plus long-term incentive (LTI), as shown below in Figure MPD-D-4. This third
3 element of compensation, LTI, provides Public Service with a market-based
4 attraction and retention compensation vehicle, as the long-term incentive offered
5 requires a three-year vesting period before payment in most circumstances.
6 These three elements make up 100 percent of the compensation for this group of
7 eligible employees.

8 **FIGURE MPD-D-4**



1 **Q. PLEASE DESCRIBE THE SPECIFIC ELEMENTS OF THE 2021 WILLIS**
2 **TOWERS WATSON COMPENSATION STUDY.**

3 A. The 2021 Willis Towers Watson Compensation Study compared:

- 4 • Xcel Energy's total cash compensation levels to competitive market
5 target total cash compensation levels;
- 6 • Xcel Energy's total direct compensation levels to competitive market
7 target total direct compensation levels;
- 8 • Xcel Energy's base salary levels to competitive market total cash
9 compensation levels;
- 10 • Xcel Energy's annual incentive targets to market annual incentive
11 targets; and
- 12 • Xcel Energy's long-term incentive targets to the market long-term
13 incentive targets.

14 The 2021 Willis Towers Watson Compensation Study compared Xcel Energy's
15 level of compensation to the median and average levels of compensation paid by
16 the comparison groups.

17 **Q. WHAT COMPARISON GROUPS DID THE 2021 WILLIS TOWERS WATSON**
18 **COMPENSATION STUDY USE?**

19 A. The study compared compensation levels with two sets of data. The first set of
20 data compared Xcel Energy's compensation programs to the programs of a large
21 number of investor-owned utilities across the nation, including those both smaller
22 and larger than Xcel Energy. The second set of data compared Xcel Energy's
23 compensation programs to those of investor-owned utilities similar in size to Xcel
24 Energy.

1 **Q. WHAT WERE THE RESULTS OF THE 2021 WILLIS TOWERS WATSON**
2 **COMPENSATION STUDY?**

3 A. As shown on Table MPD-D-10, the 2021 Willis Towers Watson Compensation
4 Study found that with the inclusion of AIP, Public Service's median total cash
5 compensation levels are generally in line with other utilities. Without the target-
6 level AIP, however, the median total cash compensation provided would be well
7 below the overall utility market and would put Public Service at a material
8 disadvantage in the competition for employees.

9 Similarly, Public Service's compensation would be at an unacceptable level
10 with regard to total direct compensation for certain employee groups if it did not
11 provide a competitive LTI package for its executive and non-executive
12 management employees. Long-term incentive can be a significant portion of
13 compensation package offered to attract, retain and motivate this group of
14 employees to design, organize, lead and manage one of the most forward-looking
15 utilities in the country.

1

TABLE MPD-D-10

Components of Xcel Energy Compensation	Compared to Base Salaries and Incentives of Utilities with Similar Revenues (Revenue Sample) *	Compared to Base Salaries and Incentives of Utilities Across the Nation (National Sample)
Base Salary Only (excludes Target AIP)	Below Market by 14.0%	Below Market by 11.3%
Target Total Cash Compensation (Base Salary + Target AIP)	Below Market by 0.1%	Above Market by 3.4%
Base Salary Only (excludes Target AIP and Target LTI**)	Below Market by 20.9%	Below Market by 16.8%
Base Salary + Target AIP (excludes Target LTI**)	Below Market by 8.1%	Below Market by 3.0%
Target Total Direct Compensation (Base + Target AIP + Target LTI**)	Above Market by 1.2%	Above Market by 8.3%

* Primary comparison group using median pay components

** Includes those eligible for LTI

2 **Q. WHAT DO YOU CONCLUDE FROM THE 2021 WILLIS TOWERS WATSON**
 3 **COMPENSATION STUDY?**

4 A. The 2021 Willis Towers Watson Compensation Study illustrates that Xcel Energy's
 5 compensation structure (i.e., both base salary and the AIP) provides a market level
 6 of compensation, which confirms that Public Service's requested compensation

1 expense is appropriate and reasonable. The study also confirms that the target
2 level annual incentives provided to employees through the AIP are aligned with
3 those for similar positions in the competitive market. Without the AIP, however,
4 Public Service's total cash compensation would lag the market by 14.0 percent
5 (compared to utilities with similar revenues), which would put Public Service at a
6 material disadvantage when competing for skilled employees.

7 Additionally, the study confirms that the level of LTI offered to eligible
8 employees is both in-line with the market and a necessary component of pay for
9 executives and non-executive management to reach their market-based level of
10 compensation at 100 percent. Without the LTI, however, Public Service's total
11 direct compensation would lag the market by 8.1 percent compared to utilities with
12 similar revenues.

13 In total, excluding these two forms of compensation (AIP and LTI) would
14 significantly hamper Public Service's ability to attract, retain and motivate eligible
15 employees, because the levels of compensation would be 20.9 percent below
16 market competitive levels compared to utilities with similar revenues.

17 **Q. ARE XCEL ENERGY'S COMPENSATION PROGRAMS NECESSARY AND**
18 **REASONABLE?**

19 A. Yes. Public Service and Xcel Energy must provide a market-competitive level of
20 total cash compensation to attract and retain the employees who in turn provide
21 safe and reliable electric service to Public Service's customers. Furthermore, base
22 pay coupled with the AIP is an appropriate method of providing market competitive
23 total cash compensation.

1 In addition, it is necessary to attract and retain employees at higher levels
2 within Public Service and Xcel Energy. This can only be done with the inclusion
3 of LTI. The design of the LTI program and the levels of LTI offered to select groups
4 of employees are market-based and require a greater level of commitment from
5 these employees before this form of compensation is realized. Without this
6 element of compensation, these eligible positions would not have a competitive
7 compensation package, and Public Service would be at risk of not being able to
8 attract or retain employees in these positions. Without LTI, Public Service would
9 be misaligned with market best practices regarding compensation design.
10 However, Public Service would still be required to provide competitive
11 compensation in another manner to attract, retain, and motivate these groups of
12 critical employees.

1 **VII. REASONABLENESS OF EMPLOYEE HEALTH & WELFARE BENEFITS**

2 **Q. PLEASE BRIEFLY SUMMARIZE THE FEATURES OF XCEL ENERGY'S**
3 **HEALTH AND WELFARE BENEFITS PROGRAMS.**

4 A. Xcel Energy's employee health and welfare programs consist primarily of providing
5 medical, pharmaceutical, dental, vision, disability, and life insurance coverage to
6 our bargaining and non-bargaining employees and their families.

7 **Q. ARE YOU THE WITNESS SUPPORTING THE HEALTH AND WELFARE**
8 **BENEFIT AMOUNTS THAT PUBLIC SERVICE IS ASKING THE COMMISSION**
9 **TO APPROVE?**

10 A. No. As I explained earlier in my Direct Testimony, Mr. Schrubbe quantifies the
11 health and welfare benefits and explains that they are reasonable costs of service.
12 My Direct Testimony regarding health and welfare benefits is limited to explaining
13 the changes that Xcel Energy has made in recent years to control the cost of
14 providing those benefits.

15 **A. Active Health Care**

16 **Q. PLEASE DESCRIBE THE COMPANY'S MEDICAL AND PHARMACY PLAN**
17 **FOR EMPLOYEES AND THEIR FAMILIES.**

18 A. The Company offers employees one medical plan option, the High Deductible
19 Health Plan ("HDHP" or "Plan") with a Health Savings Account ("HSA"), along with
20 pharmacy coverage. All Plan participants are subject to an annual deductible for
21 either single or family coverage. After a Plan participant satisfies that deductible,
22 the Plan begins to share any additional costs.

1 **Q. WHAT IS THE SHARING RATIO AFTER THE DEDUCTIBLE IS MET?**

2 A. After the participant meets the deductible, the Plan covers 90 percent of costs for
3 the bargaining population, and 80 percent of costs for non-bargaining employees,
4 with bargaining employees or their dependents contributing 10 percent of medical
5 costs and non-bargaining employees or their dependents contributing 20 percent
6 of medical costs. Both bargaining and non-bargaining employees or their
7 dependents contribute 20 to 50 percent of prescription drug costs. Bargaining
8 employees have a minimum and maximum cap on what they need to pay for each
9 individual prescription after their deductible is met. Coinsurance continues until
10 participants reach an annual out-of-pocket maximum, which is \$3,500 per
11 individual or \$7,000 per family. After participants meet the out-of-pocket
12 maximum, the Plan covers the remaining eligible medical and pharmacy expenses
13 for the calendar year. Employees pay a monthly premium for this HDHP, and a
14 combination of their out-of-pocket expenses and premiums covers 25 percent of
15 the total cost for bargaining employees and their dependents. Non-bargaining
16 employees have a combination of 25 percent of the total cost per employee, and
17 30 percent of the total cost for non-bargaining dependents.

18 **Q. ARE THERE ADVANTAGES TO THE MEMBERS OF AN HDHP?**

19 A. Yes. The HSA is a tax-advantaged medical savings account that the Company
20 offers to employees to provide a vehicle for them to save for their out-of-pocket
21 costs under the Plan.

1 **Q. WHAT INITIATIVES HAS XCEL ENERGY UNDERTAKEN TO SLOW THE RATE**
2 **OF GROWTH IN HEALTH AND WELFARE-RELATED BENEFIT COSTS?**

3 A. These initiatives include:

- 4 • Xcel Energy offers a HDHP medical plan to encourage participating
5 employees to make (1) healthier lifestyle choices; and (2) informed
6 consumer choices when utilizing healthcare providers;
- 7 • To help mitigate pharmacy costs, Xcel Energy's pharmacy coverage
8 mandates that employees fill prescriptions with generic drugs when
9 available, unless there is medical need to use a brand name;
- 10 • Effective January 2018, Xcel Energy introduced a monthly surcharge for
11 non-bargaining employees and spouses and domestic partners who are
12 enrolled in the medical plan and are tobacco users;
- 13 • Contracts with benefit vendors are monitored and renegotiated on an
14 ongoing basis. These negotiations focus on administrative fee
15 reductions, better performance guarantees and rebates, and improved
16 discounts on provider networks. All of these efforts contribute to Xcel
17 Energy's ability to minimize rising healthcare costs and benefit
18 administration costs charged by third parties;
- 19 • We examined emerging benefit designs that would continue to drive our
20 employees and their covered family members to high quality, cost-
21 efficient healthcare providers. We also continuously assess programs
22 that will provide more cost-effective opportunities for employees and
23 help drive healthy behaviors. For example, we offer a telemedicine or
24 virtual visit option for routine medical visits, a personalized diabetes
25 management program for non-bargaining employees, and an online
26 program to help employees manage stress. These non-traditional visits
27 with a trained physician or other provider are convenient and provide a
28 less expensive option for employees and the Company. In addition, the
29 Plan provides lower levels of benefits coverage for using out-of-network
30 medical providers in order to encourage members to use in-network
31 providers when possible; and

32 **Q. DO THESE CHANGES BENEFIT PUBLIC SERVICE'S CUSTOMERS?**

33 A. Yes. These changes are designed to promote a culture of personal accountability
34 for employees' physical and financial well-being, which saves money for customers
35 while ensuring the long-term financial health of our programs.

1 **B. Retiree Medical Expense**

2 **Q. PLEASE DESCRIBE THE COMPANY'S RETIREE MEDICAL BENEFIT.**

3 A. For bargaining employees who joined the union prior to July 2003 and non-
4 bargaining employees who retired prior to July 2003, the Company provides
5 subsidized medical and pharmacy coverage at varying levels based on the year in
6 which the employee retired. Employees who joined the union or retired after those
7 dates receive access to medical coverage but are responsible for 100 percent of
8 the cost. Mr. Schrubbe has outlined the retiree medical expenses in his Direct
9 Testimony.

10 **Q. WHY IS IT REASONABLE FOR RETIREE MEDICAL EXPENSE TO BE**
11 **INCLUDED IN RATES?**

12 A. Our retirees contributed greatly to the success and reliability of our Company and
13 to the products, services, and infrastructure that our customers use today. The
14 current expense for retiree medical benefits is a legacy from prior programs. But
15 even though there are no new entrants into the plan, current employees who were
16 hired prior to the termination date are still eligible for this benefit. The Company
17 continues to pursue aggressive benefit designs that manage or reduce our retiree
18 expenses while fulfilling our obligations to them for their past service with the
19 Company and to our customers.

1 **VIII. XCEL ENERGY'S EMPLOYEE RETIREMENT PROGRAM**

2 **Q. PLEASE BRIEFLY SUMMARIZE THE FEATURES OF XCEL ENERGY'S**
3 **RETIREMENT PROGRAMS.**

4 A. Xcel Energy offers eligible employees both a defined-benefit plan in the form of a
5 pension and a defined-contribution plan in the form of 401(k) savings plan. The
6 pension plan is designed to provide pay replacement to eligible employees after
7 separation of service. The 401(k) savings plan encourages employees to save
8 regularly and cost effectively for their retirement through pre-tax and after-tax
9 employee deferrals.

10 **A. Defined Benefit Plan**

11 **Q. DOES THE COMPANY OFFER A DEFINED BENEFIT PLAN?**

12 A. Yes. The Company offers a qualified pension benefit and a non-qualified pension
13 benefit. Mr. Schrubbe discusses both benefits in detail in his testimony.

14 **1. Qualified Pension Plan**

15 **Q. WHAT AMOUNT OF QUALIFIED PENSION EXPENSE IS PUBLIC SERVICE**
16 **SEEKING TO RECOVER?**

17 A. Public Service is seeking to recover \$5,146,317 of qualified pension expense.
18 Public Service witness Mr. Schrubbe also provides details related to non-qualified
19 pension expense in his Direct Testimony.

20 **Q. HAS THE COMPANY UNDERTAKEN ANY INITIATIVES TO REDUCE THE**
21 **COSTS OF ITS QUALIFIED PENSION PLAN?**

22 A. Yes. Effective January 1, 2018, the Company eliminated the annual Retirement
23 Spending Account credits on a going-forward basis for all non-bargaining

1 employees, and it eliminated the Social Security Supplement for all non-bargaining
2 employees who did not meet retirement eligibility by December 31, 2023.

3 Effective February 21, 2018, all new and rehired bargaining unit employees
4 are eligible to participate in a five percent Cash Balance Plan formula without
5 pension supplements (i.e. Retirement Spending Account or Social Security
6 Supplement).

7 **Q. PLEASE DESCRIBE THE CASH BALANCE PLAN FORMULA.**

8 A. The five percent Cash Balance Plan provides for an annual five percent Company
9 contribution of the employee's eligible compensation into a notional account. This
10 account has interest credited to it annually based on the 30-year Treasury rates.
11 Because the value of the plan is expressed in dollars, the five percent Cash
12 Balance Plan looks similar to a savings account or a 401(k) plan, so employees
13 easily understand the plan value. Non-bargaining employees hired prior to
14 January 1, 2012 are eligible for the 10 percent Pension Equity Plan, which results
15 in employees receiving 10 percent of their highest 48 months of consecutive
16 eligible compensation for each year of eligible service.

17 **2. Non-Qualified Pension**

18 **Q. WHAT AMOUNT OF NON-QUALIFIED PENSION EXPENSE IS PUBLIC**
19 **SERVICE SEEKING TO RECOVER?**

20 A. Public Service is seeking to recover \$238,966 of non-qualified pension expense.
21 Public Service witness Mr. Schrubbe also provides details related to non-qualified
22 pension expense in his Direct Testimony.

1 **Q. WHAT IS THE PURPOSE OF THE NON-QUALIFIED PENSION?**

2 A. The primary purpose is to provide an opportunity for all employees to receive
3 comparable benefits through the Company's pension plans. The tax rules limit the
4 compensation that can be used in the determination of the qualified pension
5 benefit. The non-qualified pension offering enables Xcel Energy to attract and
6 retain experienced and knowledgeable employees to fill more senior positions,
7 which necessarily include higher compensation levels as part of a market
8 competitive total rewards package.

9 **Q. DOES THE INTERNAL REVENUE SERVICE ("IRS") INDICATE ANY AMOUNT**
10 **OF COMPENSATION RECEIVED ABOVE THE IRS LIMIT FOR TAX**
11 **PURPOSES SHOULD BE DEEMED UNREASONABLE?**

12 A. No. The IRS limit does not indicate that a specific compensation level is
13 unreasonable, nor does it indicate any analysis is performed to determine what
14 amount of compensation should be paid to any employee for their respective job.

15 **Q. IS PROVIDING A NON-QUALIFIED PENSION BENEFIT TO THE MOST SENIOR**
16 **EMPLOYEES UNFAIR TO THE OTHER EMPLOYEES?**

17 A. No. In fact, through the non-qualified pension benefit, Public Service is simply
18 providing the same level of retirement benefits to all employees, including those
19 with compensation in excess of Internal Revenue Code qualified plan limits. The
20 non-qualified pension benefit does not provide "extra" benefits for recipients
21 compared to the pension benefits provided to other non-bargaining employees.

1 **B. Defined Contribution Plan**

2 **Q. PLEASE DESCRIBE THE COMPANY'S DEFINED CONTRIBUTION PLAN.**

3 A. The Company's defined contribution plan, which is a 401(k) savings plan, provides
4 an employer contribution equal to a maximum of four percent of an employee's
5 eligible compensation (i.e., base pay). The Company matches 50 cents on the
6 dollar up to eight percent of a non-bargaining employee's eligible compensation.
7 For bargaining unit employees, Public Service matches 100 percent of the first
8 three percent plus 50 percent of the next four percent (up to a maximum of five
9 percent) of an employee's eligible compensation.

10 **Q. IS IT REASONABLE FOR 401(K) MATCH EXPENSE TO BE INCLUDED IN**
11 **RATES?**

12 A. Yes. Providing a 401(k) match for employees is a common practice and is a benefit
13 to employees. The employer contribution encourages employees to plan for their
14 retirement and reach higher personal contribution levels. The more the employee
15 saves, the higher the Company contribution, up to the Company maximum
16 amount.

1 **C. Reasonableness of Public Service’s Retirement Benefits**

2 **Q. IS IT NECESSARY TO CONSIDER BOTH THE DEFINED BENEFIT PLAN**
3 **(PENSION), THE NON-QUALIFIED PENSION PLAN, AND THE DEFINED**
4 **CONTRIBUTION PLAN (401(K) SAVINGS PLAN) WHEN THE COMMISSION**
5 **CONSIDERS THE REASONABLENESS OF THE COMPANY’S RETIREMENT**
6 **PROGRAM AS A WHOLE?**

7 **A.** Yes. It is important to compare programs holistically because the competitive
8 market offers varying combinations of retirement programs, including a
9 combination of pension and 401(k) plans. Public Service offers a cost-effective
10 program by maintaining a pension benefit, which provides employees the stability
11 of maintaining a portion of their income after retirement, while also offering a
12 401(k), which allows employees to increase their overall retirement savings.

1 **IX. CONCLUSION**

2 **Q. IS THE TOTAL REWARDS PROGRAM YOU DESCRIBE REASONABLE AND**
3 **NECESSARY FOR PUBLIC SERVICE TO PROVIDE SAFE AND RELIABLE**
4 **ELECTRIC SERVICE TO ITS CUSTOMERS?**

5 A. Yes. The components included in the Company's Total Rewards Program is
6 necessary to attract, retain and motivate the employees needed to provide safe
7 and reliable electric service to our customers. The compensation (base pay,
8 annual incentive and long-term incentive), benefits and recognition programs are
9 competitively aligned with the dollar value and design found in the utility industry
10 and follow best practices. Therefore, the costs associated with the Total Rewards
11 Program are comparable to companies across the utility industry and represent
12 reasonable costs of providing service to Public Service customers.

13 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

14 A. Yes.

Statement of Qualifications

MICHAEL P. DESELICH

I am employed by Xcel Energy Services Inc., as a Senior Compensation Consultant. I have held this position with varying titles since joining the XES in January 2013. In this role, my responsibilities include participating in the design, implementation and administration of Xcel Energy's broad-based compensation programs. Participate in wage and salary surveys and recommend compensation program changes to ensure the Company's competitive position in the marketplace. The goals of these programs are to attract, retain, and motivate talented employees at all levels throughout the organization.

In my broader role as a member of the human resources team, I am also responsible for supporting our regulatory process related to human resource matters supporting the Total Rewards regulatory efforts to include research, draft testimonies and discovery responses. I have previously filed rebuttal testimony in the Public Service Gas jurisdiction and direct and rebuttal testimonies in our Southwestern Public Service jurisdiction.

Prior to joining XES, I worked for Gallagher Benefit Services, Katun Corporation and Park Nicollet Health Services serving in various consulting, generalist and analytical roles focusing on compensation analysis and administration, benefits, and recruiting. I also served in the United States Air Force with 25 years of active and reserve duty serving in several training, operational and leadership roles.

I received my Bachelor of Science in Airway Science Management degree from Kent State University, Kent, Ohio and my Master of Science Administration in Human Resource Management degree from Central Michigan University, Mount Pleasant,

Michigan. Throughout the last 25 years of my corporate career, I have stayed educated on current market trends, human resource best-practices and workforce challenges facing employers, as well as presented materials regarding trending compensation topics. I have also attended various seminars related to human resources topics, maintained insights by reading industry publications and have completed Certified Compensation Professional certification courses from World at Work Total Rewards Association.

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

* * * *

IN THE MATTER OF ADVICE LETTER)
NO. 1906-ELECTRIC OF PUBLIC)
SERVICE COMPANY OF COLORADO)
TO REVISE ITS COLORADO PUC NO.)
8-ELECTRIC TARIFF TO REVISE)
JURISDICTIONAL BASE RATE) PROCEEDING NO. 22AL-XXXXE
REVENUES, IMPLEMENT NEW BASE)
RATES FOR ALL ELECTRIC RATE)
SCHEDULES, AND MAKE OTHER)
TARIFF PROPOSALS EFFECTIVE)
DECEMBER 31, 2022.)

AFFIDAVIT OF MICHAEL P. DESELICH
ON BEHALF OF
PUBLIC SERVICE COMPANY OF COLORADO

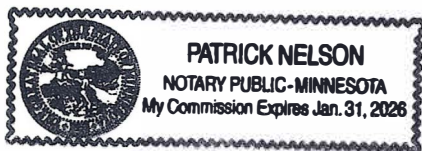
I, Michael P. Deselich, being duly sworn, state that the Direct Testimony and attachments were prepared by me or under my supervision, control, and direction; that the Direct Testimony and attachments are true and correct to the best of my information, knowledge and belief; and that I would give the same testimony orally and would present the same attachments if asked under oath.


Dated at Minneapolis, Minnesota, this 19 day of November, 2022.



Michael P. Deselich
Senior Consultant, Compensation

Subscribed and sworn to before me this 19 day of Nov., 2022.





Notary Public
My Commission expires 1/31/2026