DOCKET NO. _____

APPLICATION OF SOUTHWESTERN	**§**	**PUBLIC UTILITY COMMISSION**
PUBLIC SERVICE COMPANY FOR	**§**	
AUTHORITY TO CHANGE RATES	**§**	**OF TEXAS**

DIRECT TESTIMONY
of
RICHARD R. SCHRUBBE

on behalf of

SOUTHWESTERN PUBLIC SERVICE COMPANY

(Filename: SchrubbeRRDirect.doc)

Table of Contents

GLOSSARY OF ACRONYMS AND DEFINED TERMS

Acronym/Defined Term	Meaning
ADIT	Accumulated Deferred Income Taxes
Commission	Public Utility Commission of Texas
ERISA	Employee Retirement Income Security Act
EROA	Expected Return on Assets
FAS	Statement of Financial Accounting Standard
FERC	Federal Energy Regulatory Commission
GAAP	Generally Accepted Accounting Principles
HSA	Health Savings Account
IBNR	Incurred But Not Reported
IRC	Internal Revenue Code
LTD	Long-Term Disability
NCE	New Century Energies
O&M	Operation and Maintenance
OPEB	Other Post-Employment Benefits
PBGC	Pension Benefit Guaranty Corporation
PBO	Pension Benefit Obligation
PURA	Public Utility Regulatory Act
RFP	Rate Filing Package
SPS	Southwestern Public Service Company, a New Mexico corporation
Test Year	October 1, 2019 through September 30, 2020
Total Company or total company	Total SPS (before jurisdictional allocation)

Acronym/Defined Term	**Meaning**
Updated Test Year	January 1, 2020 though December 31, 2020
WACC	Weighted Average Cost of Capital
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.

LIST OF ATTACHMENTS

Attachment	**Description**
RRS-RR-1	Calculation of Deferred Pension and OPEB Balances (*Filename*: RRS-RR-1.xls)
RRS-RR-2	2019 Actuarial Report Excerpts (*Non-native format*)
RRS-RR-3	2020 Actuarial Report Excerpts (*Non-native format*)
RRS-RR-4	Calculation of Actuarially Determined Pension and Benefit Amounts (*Filename*: RRS-RR-4.xls)
RRS-RR-5	Calculation of Active Health and Welfare Amounts (*Filename*: RRS-RR-5.xlsx)
RRS-RR-6	Average Balances of Qualified Pension Fund Amounts (*Filename*: RRS-RR-6.xls)
RRS-RR-7	Development of Qualified Pension Asset Balance (*Filename*: RRS-RR-7.xlsx)

DIRECT TESTIMONY
OF
RICHARD R. SCHRUBBE

I. <u>WITNESS IDENTIFICATION AND QUALIFICATIONS</u>

Q. Please state your name and business address.

A. My name is Richard R. Schrubbe. My business address is 401 Nicollet Mall, Minneapolis, Minnesota 55401.

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

A. I am filing testimony on behalf of Southwestern Public Service Company, a New Mexico corporation ("SPS"). SPS is a wholly-owned electric utility subsidiary of Xcel Energy Inc. ("Xcel Energy").

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

A. I am employed by Xcel Energy Services Inc. ("XES"), the service company subsidiary of Xcel Energy, as Area Vice-President of Financial Analysis and Planning.

Q. Please briefly outline your responsibilities as Area Vice-President of Financial Analysis and Planning.

A. My responsibilities include the oversight and management of the Business Area Finance group, which includes Energy Supply, Transmission, Distribution, Gas Engineering & Operations, Nuclear and Corporate Services. Within that group, I oversee budget planning, reporting, and analysis. I am also responsible for the accounting for all employee benefits programs, playing a liaison role with the Human Resources department, external actuaries, and senior management with benefit fiduciary roles for Xcel Energy and its subsidiaries. I am also responsible for coordinating the benefits operation and maintenance ("O&M") and capital budgeting and forecasting processes, as well as the monthly analysis of actual results against these budgets and forecasts.

Q. Please describe your educational background.

A. I received a Bachelor of Science degree, with a major in finance, from Marquette University in 1996.

Q. Please describe your professional experience.

A. From 2000 to 2005, I was employed by the DoALL Company, first as a Staff Accountant, later as Assistant Controller, and then as Corporate Controller. From 2005 to 2007, I was employed by Wilsons Leather as a Financial Analyst. In 2007, I joined XES as a Consultant. I became the Manager of Corporate Accounting in 2010 and the Director of Corporate and Benefits Accounting in 2013. Additionally, in 2014, I was assigned responsibilities associated with the oversight of the administration of XES, including accounting, billing, allocations, policies and procedures, service agreements, internal audits, external audits, and external reporting to state and federal regulatory agencies. In 2016, I was promoted to my current position.

Q. Have you testified or filed testimony previously before any regulatory authorities?

A. Yes. I submitted pre-filed direct testimony on SPS's behalf to the Public Utility Commission of Texas ("Commission") in Docket Nos. 43695,[1] 45524,[2] 47527,[3]

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[1] *Application of Southwestern Public Service Company for Authority to Change Rates*, Docket No. 43695, Direct Testimony of Richard R. Schrubbe (Dec. 8, 2014).

[2] *Application of Southwestern Public Service Company for Authority to Change Rates*, Docket No. 45524, Direct Testimony of Richard R. Schrubbe (Feb. 16, 2016).

[3] *Application of Southwestern Public Service Company for Authority to Change Rates*, Docket No. 47527, Direct Testimony of Richard R. Schrubbe (Aug. 21, 2017).

and 49831.[4] In all of those cases, I testified on pension and other post-employment benefit expenses, active health care expenses, and the proper treatment of a prepaid pension asset, among other issues. I have also testified before the New Mexico Public Regulation Commission, the Colorado Public Utilities Commission, and the Minnesota Public Utilities Commission on pension and benefit issues.

[4] *Application of Southwestern Public Service Company for Authority to Change Rates*, Docket No. 49831, Direct Testimony of Richard R. Schrubbe (Aug. 8, 2019).

II. ASSIGNMENT AND SUMMARY OF TESTIMONY

Q. What is your assignment in this proceeding?

A. My testimony addresses five topics related to SPS's employee pensions and other non-cash benefits:

1. I support SPS's request to recover its reasonable and necessary expenses for qualified pension calculated under Statement of Financial Accounting Standard ("FAS") 87,[5] retiree medical costs calculated under FAS 106, and self-insured long-term disability ("LTD") costs calculated under FAS 112;

2. I support SPS's request to recover its active health and welfare costs, which include costs incurred for active health care, miscellaneous benefits, life insurance, and third-party-insured LTD benefits;

3. I support SPS's request to recover the reasonable and necessary costs incurred for workers' compensation benefits;

4. I support SPS's request to recover other reasonable and necessary benefits, such as the 401(k) match, certain benefit-related consulting costs, and deferred compensation;

5. I support the amount of pension and other post-employment benefit ("OPEB") expense to be used as the baseline on a going-forward basis for purposes of the tracker established under section 36.065 of the Public Utility Regulatory Act ("PURA"), and I quantify the current deferred balance to be amortized;[6] and

6. I quantify SPS's prepaid pension asset and support the request to continue including that prepaid pension asset in rate base and to earn a return on it at SPS's Weighted Average Cost of Capital ("WACC").

In addition, I sponsor or co-sponsor the following schedules in SPS's Rate Filing Package ("RFP"): Schedules B-2, B-2.1, G-2.0, G-2.1, G-2.2 and G-2.3.

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[5] In 2009, FAS 87 was renamed Accounting Standards Codification 715-30, but for the sake of brevity I will refer to it in this testimony as "FAS 87." I will also refer to the other accounting standards by their former FAS designations.

[6] PURA is codified in Title II of the Texas Utilities Code. *See* Tex. Utils. Code Ann. §§ 11.001-66.016.

Schedule B-2 lists the monthly balance of each accumulated provision account (i.e., injuries and damages, property insurance, etc.), the amount accrued each month, and the amount charged off each month during the Test Year. In addition, Schedule B-2 provides the same information on an annual basis for the prior three years. Schedule B-2.1 provides the information requested on Schedule B-2 on a Texas retail basis only. I co-sponsor these schedules with SPS witness Stephanie N. Niemi.

The G-2 series of schedules provides general employee benefit information with specific information on pension expense provided in Schedule G-2.1, postretirement benefits other than pension expense provided in Schedule G-2.2, and administration fees provided in Schedule G-2.3. I co-sponsor Schedule G-2 with SPS witness Michael P. Deselich. The RFP requires that each of these schedules be updated 45 days after the initial filing.

Q. Please summarize your testimony and recommendations.

A. I support SPS's request for recovery of pension and other post-employment and retirement benefits expense. I recommend that SPS be authorized to recover $8,481,564 of pension and other post-employment benefits expense. That amount is composed of $8,447,257 of qualified pension expense, $(19,883) of FAS 106 retiree medical expense, and $54,190 of FAS 112 self-insured LTD expense. SPS is not requesting recovery of non-qualified pension expense.

I also support SPS's request to recover its reasonable and necessary active health and welfare costs, and I recommend that SPS be authorized to recover $14,696,722 for active health and welfare costs. That amount is composed of

$13,608,267 of active health care costs, $548,584 of third-party-insured LTD costs, $100,940 of life insurance costs, and $438,930 of miscellaneous benefit costs.

I further support SPS's request to recover third-party-insured workers' compensation costs, and I recommend that SPS be authorized to recover $788,790 of third-party-insured workers' compensation costs. I also recommend that SPS be authorized to recover $3,330,291 of other pension and benefit-related costs, which include 401(k) matching expense, consulting expense, and deferred compensation.

I next support SPS's request to establish a baseline for pension and OPEB expense on a going-forward basis under PURA § 36.065, and I recommend that the Commission set that baseline at $8,447,257 for qualified pension and $(19,883) for OPEB (both total company). For prior periods, the amount to be amortized as a result of the pension and OPEB baseline deferrals is $407,369.

Finally, I recommend that SPS continue to be allowed to include its prepaid pension asset in rate base in accordance with the standard ratemaking treatment of prepayments and Commission precedent. Customers earn a return on the prepaid pension asset in the form of reduced annual pension cost, and therefore it is appropriate for SPS to earn a return on the asset as well. SPS's estimated thirteen-month average prepaid pension asset balance as of December 31, 2020 was $155,741,368. SPS requests that it be allowed to include the prepaid pension asset in rate base and to earn a return on that asset at SPS's WACC, consistent with Commission precedent.

Q. Is any other SPS witness addressing compensation or benefit issues?

A. Yes. Mr. Deselich discusses the cash compensation paid by SPS and the overall reasonableness of Xcel Energy's Total Rewards Package, which consists of both the cash and non-cash components of the compensation and benefits offered to SPS and XES employees.

Q. Were Attachments RRS-RR-1 and RRS-RR-4 through RRS-RR-7 prepared by you or under your direct supervision and control?

A. Yes.

Q. Are Attachments RRS-RR-2 and RRS-RR-3 true and correct copies of the documents that you have represented them to be?

A. Yes.

III. PENSION AND BENEFITS OVERVIEW

Q. Please summarize the pension and other benefits that SPS offers to its eligible employees.

A. In addition to the cash compensation discussed by Mr. Deselich, SPS and XES offer the following non-cash benefits to their employees:

- Pension and other post-employment and retirement benefits, which include:
  - a defined-benefit qualified pension plan that provides eligible employees with a defined benefit amount upon retirement;
  - a non-qualified pension restoration benefit that allows SPS to attract and retain employees who would otherwise be disadvantaged by the restrictions imposed under the qualified pension plan;
  - a retiree medical plan available to certain retired employees; and
  - LTD benefits;
- Active health and welfare benefits, which include medical, dental, pharmaceutical, vision, life insurance, and other miscellaneous benefits;
- Workers' compensation benefits, including both self-insured and third-party-insured benefits; and
- Other types of benefits, including a 401(k) defined contribution plan and certain types of deferred compensation.

As I mentioned previously, SPS is not requesting recovery of its non-qualified pension expense in this case.

Q. What is the requested amount for each of the elements of non-cash compensation offered by SPS?

A. Table RRS-RR-1 sets forth the total company amounts of the pension and benefit costs that SPS seeks to recover in rates. Column B represents the per book amount for each element of expense during the Test Year, which is the twelve-month period from October 1, 2019 through September 30, 2020. Column C shows the known and measurable adjustments to the Updated Test Year amounts.

Column D contains the total company amounts for the Test Year for each element of expense that is included in the cost of service in this case.

Table RRS-RR-1

A	B	C	D
Benefit	**Test Year (12 months ended September 30, 2020)**	**Known and Measurable Adjustment**	**Updated Test Year (12 months ended December 31, 2020)**
Qualified Pension	$8,739,363	$(292,106)	$8,447,257
FAS 106 Retiree Medical	(28,131)	8,248	(19,883)
FAS 112 Long-Term Disability (Self-Insured)	30,832	23,358	54,190
Active Health Care[7]	13,103,614	504,653	13,608,267
Long-Term Disability (Third-Party-Insured)	489,846	58,738	548,584
Life Insurance	66,552	34,388	100,940
Miscellaneous Benefit Programs and Costs	558,839	(119,909)	438,930
401(k) Match	3,126,454	20,903	3,147,357
Miscellaneous Retirement-Related Costs	202,985	(20,051)	182,934
Workers Compensation (Third-Party-Insured)	860,189	(71,399)	788,790
Total	$27,150,543	$146,823	$27,297,366

[7] The per book amount for active health care in the cost of service is $13,103,614. That amount is an estimate, and it must be adjusted to reflect health care claims that were incurred near the end of the Test Year but not reported until after the Test Year. After netting the incurred-but-not-reported amount, of $(7,635) against the known and measurable adjustment of $512,288 that is discussed later in my testimony, the Test Year amount is $13,608,267.

Q. Is SPS seeking to recover any other amounts related to pension and benefits?

A. Yes. SPS also seeks Commission approval to continue including a prepaid pension asset in rate base and to earn a return on that asset at SPS's WACC, consistent with the Commission's treatment of SPS's prepaid pension asset in Docket No. 43695.

III. RECOVERY OF PENSION AND OTHER POST-EMPLOYMENT BENEFITS EXPENSE

Q. What topic do you discuss in this section of your testimony?

A. I discuss the amounts requested for pension and other post-employment benefit expenses, which include qualified pension expense, FAS 106 retiree medical expense, and FAS 112 LTD benefits.

Q. Are the pension and other post-employment and retirement benefit amounts that SPS seeks to include in the cost of service determined by actuarial studies or similar studies prepared in accordance with Generally Accepted Accounting Principles ("GAAP")?

A. Yes. SPS calculates its pension and other post-employment and retirement benefit expense amounts in accordance with actuarial standards, and the results are set forth in actuarial studies that are attached to my testimony as Attachment RRS-RR-2 and Attachment RRS-RR-3.

A. Qualified Pension Expense

Q. How are qualified pension costs determined?

A. SPS calculates pension costs in accordance with FAS 87, Employers' Accounting for Pensions.

Q. Please describe SPS's qualified pension plan and the nature of the costs of the plan.

A. The qualified pension plan is a traditional defined benefit pension plan, which promises bargaining employees monthly pension annuity payments based upon their level of pay and years of service. It promises non-bargaining employees a choice of either a lump sum payout or a monthly pension annuity based upon their level of pay and years of service. Under a defined benefit pension plan, the promised pensions are a commitment by SPS.

Q. Do accounting rules and laws determine the cost for SPS's pension plan?

A. Yes. As I noted earlier, SPS accounts for the cost of its pension plan under the rules set forth in FAS 87, which prescribes the rules that companies must follow in determining whether their pension costs comply with GAAP. However, FAS 87 does not dictate how a company must fund the plan. The funding of the plan is determined based upon prudent business practices, with constraints imposed by the requirements of the Pension Protection Act of 2006, the Employee Retirement Income Security Act ("ERISA"), and the Internal Revenue Code ("IRC"):

- There are minimum required contributions;
- There are maximum contributions that can be deducted for tax purposes; and
- SPS has a fiduciary responsibility to prudently protect the interests of the plan participants and beneficiaries.

The minimum and maximum funding rules set forth under the Pension Protection Act, ERISA, and the IRC differ from the methodology used under FAS 87 to determine pension cost. Over the long run, the cumulative employer contributions made to a plan should equal the cumulative recognized pension expense calculated under FAS 87, but in the short and intermediate runs there can be significant differences.

Q. How is pension cost determined under FAS 87?

A. Under FAS 87, pension cost is composed of the following:

1. the value of pension benefits that employees will earn during the current year (service cost);

2. increases in the present value of the pension benefits that plan participants have earned in previous years (interest cost);

3. investment earnings on the pension plan assets that are expected to be earned during the year (expected return on assets ("EROA"));

4. recognition of costs (or income) resulting from experience that differs from the assumptions (amortization of unrecognized gains and losses); and

5. recognition of the cost of benefit changes the plan sponsor provides for service the employees have already performed (amortization of unrecognized prior service cost).

Q. Taking each of these five components in order, how is the service cost component calculated?

A. The service cost component recognized in a period is the actuarial present value of benefits attributed by the pension benefit formula to current employees' service during that period. Actuarial assumptions are used to reflect the time value of money (the discount rate) and the probability of payment (assumptions as to mortality, turnover, early retirement, and so forth).

Q. Next, how is the interest cost component calculated?

A. The interest cost component recognized in a fiscal year is determined as the increase in the projected benefit obligation ("PBO") due to the passage of time. Measuring the PBO as a present value requires accrual of an interest cost at a rate equal to the assumed discount rate. Essentially, the interest cost identifies the time value of money by recognizing that anticipated pension benefit payments are one year closer to being paid from the pension plan.

Q. How is the third component, EROA, calculated?

A. The dollars in the pension trust are invested in a portfolio of stocks, bonds, commodities, and other types of income-producing assets. The EROA is determined based on the expected long-term rate of return on those plan assets and the market-related value of plan assets. The market-related value of plan assets for SPS is a calculated value that recognizes changes in the fair value in a systematic and rational manner over five years.

Q. With regard to the fourth component, what are the unrecognized gains and losses?

A. Unrecognized gains and losses are the asset gains and losses or the liability gains and losses from prior periods. In effect, those asset or liability gains and losses arise when the experience in a prior period differed from what was expected.

Q. Please explain the distinction between asset gains and losses and liability gains and losses.

A. Asset gains and losses arise when the actual returns on the pension trust assets in prior years are greater than or lesser than the EROA. Suppose, for example, that the plan has an expected return of 7% on its pension trust assets, which total $1 billion. The EROA for that year would be $70 million. If the actual return in that year is 9%, the asset gain will be $20 million. Of course, the opposite can also occur. If the EROA is 7% and the actual return on the assets is 5%, the plan suffers a $20 million asset loss.[8]

Liability gains and losses arise when the other components of pension cost affecting the PBO differ from expectations. Those components include such things as the discount rate, the expected number of retirements, mortality rates,

[8] The $20 million loss in this example is not an actual loss in the value of the trust assets. In the example, the pension has earned a return of $50 million, meaning that the trust's value has increased by $50 million, all else being equal. But because the expected return was $70 million, the pension trust records a $20 million actuarial loss.

and wage increases. For example, if SPS assumes a 4% discount rate at the beginning of the year but the actual discount rate measured at year end for the next year turns out to be 5%, SPS will have a liability gain because the higher discount rate reduces the amount SPS must set aside to satisfy future pension liabilities.

Q. Is the distinction between asset gains and losses and liability gains and losses important?

A. Yes. The distinction is important because, as I will discuss in more detail below, the asset gains and losses are phased in over time, whereas the liability gains and losses are not. Asset gains and losses are phased into an amortization "pool," for lack of a better term, over a five-year period. Liability gains and losses are not phased in, but instead are placed into the amortization pool in a single year. Because gains and losses may reflect refinements in estimates as well as real changes in economic values, and because some gains in one period may be offset by losses in another or vice versa, FAS 87 does not require recognition of gains and losses as a component of net pension cost in the period in which they arise.

Q. Please describe what you mean by the term "phase-in" of gains or losses.

A. The term "phase-in" is used to describe the process of moving asset gains or losses into an amortization pool. Under FAS 87, the asset gains or losses are incorporated into the calculation of pension cost over a period of five years. Thus, 20% of a gain or loss is phased into the amortization pool during the first year after the gain or loss occurs, another 20% is phased into the amortization pool during the second year after the gain or loss occurs, and so forth until the fifth year, when the full amount of the gain or loss is phased-in. Unlike asset gains or losses, liability gains and losses are not phased in, as I mentioned earlier. The portion of gains and losses that enter the amortization pool are then amortized over a specific period of years if they satisfy the criteria I discuss below.

Q. Why does SPS phase-in asset gains and losses and then amortize them over the average years to retirement of active employees?

A. When SPS moved to FAS 87 accounting in 1987, it elected to phase-in asset gains and losses and to amortize these gains and losses over a period not to exceed the average remaining service life (average years to retirement) of employees. The purpose of the election was to reduce financial statement volatility in individual accounting periods by ensuring that gains and losses are spread out over time, and that they are not recognized in just the period that they occur. This phase-in and amortization approach reduces volatility in recognized cost by smoothing gains and losses over the longest allowed duration.

Q. Why are asset gains and losses phased-in but not liability gains and losses?

A. The assumptions used to establish pension liability (e.g., mortality rates, discount rates, etc.) typically do not vary greatly from year to year, and therefore the drafters of FAS 87 did not consider it necessary to require the phase-in of liability gains and losses. In contrast, the market returns on pension fund assets can vary greatly from year to year, as evidenced by the dramatic difference between the EROA and the actual returns that SPS experienced on its pension fund assets in

2019.[9] Because of the effects that such volatility would have on businesses' income statements, the drafters of FAS 87 decided that it was appropriate to phase-in market gains and losses.

Q. How are unrecognized gains and losses amortized?

A. SPS aggregates its current year's gains or losses with the prior years' gains or losses to calculate a net unamortized gain or loss. That net unamortized gain or loss is then compared to the present value of the PBO and to the market-related value of the assets in the pension trust. If the net unamortized gain or loss is outside a 10% corridor – that is, if it is more than 10% of the greater of the PBO or the market-related value of the trust assets – SPS must amortize that net gain or loss. If amortization of the unrecognized gains or losses is required, the amortization amount is equal to the amount of the unrecognized gain or loss in excess of the corridor divided by the average remaining future service of the active participants in the plan. For SPS's bargaining employees this is approximately 15 years, and for SPS's non-bargaining employees it is approximately 10 years.

Q. Returning to the five elements of FAS 87 pension cost, what is the fifth element – unrecognized prior service cost?

A. Unrecognized prior service cost results from pension plan amendments that change benefits based on services rendered in prior periods. FAS 87 does not generally require the cost of providing such retroactive benefits (prior service

[9] In 2019, the EROA was approximately 7.0%, but the actual return exceeded 20.0%. In other years, the actual return has been less than the EROA.

cost) to be included in net periodic pension cost entirely in the year of the amendment but instead provides for recognition over the future years.

Q. How is unrecognized prior service cost amortized?

A. Unrecognized prior service cost is amortized in the same manner as unrecognized gains and losses, with the exception of the 10% corridor.

Q. Please summarize the calculation that is required to be used under FAS 87 to quantify annual pension cost

A. Annual pension cost is quantified using the following calculation:

	Current service cost
+	Interest cost
-	EROA
+/-	Loss (gain) due to difference between expected and actual experience of plan assets or liabilities from prior periods
+/-	Amortization of unfunded prior service cost
=	Annual pension cost

Q. Is the annual pension cost produced by this formula always a positive number?

A. No. In some years, the negative amounts in the calculation (i.e., the EROA and the gains resulting from the difference between expected and actual experience from prior periods) can be larger than the positive amounts. When that happens, the annual pension cost is actually negative. And if that occurs in a rate case test year, the annual pension cost included in the cost of service may be a negative number, which reduces the overall cost of service. But even when the annual pension cost is negative, shareholders are still providing the capital to fund the prepaid pension asset.

Q. What amount of expense did SPS incur during the Test Year for qualified pension expense?

A. SPS incurred $8,739,363 for qualified pension expense.

Q. Is SPS proposing to make any known and measurable changes to the qualified pension expense for events occurring after the end of the Test Year?

A. Yes. SPS is requesting a known and measurable adjustment of $(292,106). The adjustment is based on calendar year 2020 expense.

Q. What amount of qualified pension expense is SPS requesting in the cost of service?

A. SPS is requesting approval of $8,447,257 of qualified pension expense. That is the 2020 calendar year qualified pension expense included in the Attachment RRS-RR-3 actuarial report. Ms. Niemi has included the qualified pension expense in her cost of service.

Q. Have you provided the numbers and assumptions that SPS used to determine its qualified pension expense amount in the cost of service?

A. Yes. Attachment RRS-RR-4 contains the calculation of the total company qualified pension expense amounts included in the cost of service. Attachment RRS-RR-3 contains the source documents for those calculations.

B. Retiree Medical Expense

Q. How are retiree medical costs determined?

A. Retiree medical costs are determined under FAS 106, Employers' Accounting for Post-Retirement Benefits Other Than Pensions. The components and calculation are identical to FAS 87, with one exception: the pension asset gains and losses are phased into the loss amortization calculation by 20% each year, whereas retiree medical asset gains and losses are not.

Q. Please describe SPS's retiree medical plan and the plan expenses.

A. SPS's plan consists primarily of retiree medical benefits, but it also includes retiree life and dental insurance. SPS eliminated those benefits for all active non-bargaining employees more than ten years ago, and SPS bargaining employees hired on or after January 1, 2012 are no longer eligible to receive retiree medical benefits. Thus, the current expense for retiree medical benefits is a legacy of the prior programs.

Q. What amount of expense did SPS incur during the Test Year for retiree medical expense?

A. SPS incurred $(28,131) for retiree medical expense.

Q. Is SPS proposing to make any known and measurable changes to the retiree medical expense for events occurring after the end of the Test Year?

A. Yes. SPS is requesting a known and measurable adjustment of $8,248. The adjustment is based on calendar year 2020 expense.

Q. What amount of retiree medical expense is SPS requesting in the cost of service?

A. SPS is requesting approval of $(19,883) in retiree medical expense. That is the 2020 calendar year retiree medical expense included in the Attachment RRS-RR-3 actuarial report. Ms. Niemi has included that amount of retiree medical credit in her cost of service.

Q. Have you provided the numbers and assumptions that SPS used to determine its retiree medical expense amounts?

A. Yes. Attachment RRS-RR-4 contains the calculations of the retiree medical expense amounts. Attachment RRS-RR-3 contains the source documents for those amounts.

C. Self-Insured Long-Term Disability

Q. Please describe LTD in more detail and explain how it is accounted for.

A. The LTD costs are attributable to benefits provided by SPS to former or inactive employees after employment but before retirement. The LTD plan provides employees with income protection by paying a portion of an employee's income while he or she is disabled by a covered physical or mental impairment.

SPS has two types of LTD – a self-insured benefit and a third-party-insured benefit. In a third-party-insured plan, which I will discuss in more detail later in this testimony, SPS purchases an insurance plan from an outside insurance provider that assumes the risk. In a self-insured plan, SPS provides the benefits to the covered individuals and therefore effectively acts as the insurer. For the self-insured piece, SPS is required to accrue for LTD costs under FAS 112, Employers' Accounting for Post-Employment Benefits. The FAS 112 accrual represents the expected disability benefit payments for employees that are not expected to return to work.

Q. Which groups of employees are covered under the self-insured plan and which groups are covered under the third-party-insured plan?

A. Within the LTD benefit, all employees disabled before January 1, 2008 are covered under the self-insured plan, and all employees disabled on and after January 1, 2008 are covered under a third-party-insured plan.

Q. What amount of expense did SPS incur during the Test Year for self-insured LTD expense?

A. SPS incurred $30,832 for self-insured LTD expense.

Q. Is SPS proposing to make any known and measurable changes to the self-insured LTD expense for events occurring after the end of the Test Year?

A. Yes. SPS is requesting a known and measurable adjustment of $23,358. The adjustment is based on calendar year 2020 expense.

Q. What amount of self-insured LTD expense is SPS requesting in the cost of service?

A. SPS is requesting approval of $54,190 of self-insured LTD expense. That is the 2020 calendar year qualified pension expense included in the Attachment RRS-RR3 actuarial report. Ms. Niemi has included that amount of self-insured LTD expense in the cost of service.

Q. Have you provided the numbers and assumptions that SPS used to determine its self-insured LTD benefits expense amounts in the Test Year?

A. Yes. Attachment RRS-RR-4 contains the calculations of the self-insured LTD benefits expense amounts. Attachments RRS-RR-2 and RRS-RR-3 contain the source documents for those calculations.

D. Reasonableness of SPS's Pension and Other Post-Employment and Retirement Benefits Expense

Q. Are the amounts of SPS's pension and other post-employment and retirement benefits expense reasonable?

A. Yes. SPS follows a well-established, objective, and verifiable process to determine the assumptions used within the actuarial calculations that yield the pension and other post-employment and retirement benefits expense amounts. The assumptions and the actuarially calculated total cost amounts are reflected in my Attachment RRS-RR-4. In addition, the reasonableness of Xcel Energy's Total Rewards Program design, which includes pension and other post-employment and retirement benefits, is discussed in the direct testimony of Mr. Deselich.

IV. HEALTH AND WELFARE COSTS

Q. What topics do you discuss in this section of your testimony?

A. I discuss four types of active health and welfare costs: (1) active health care costs; (2) third-party-insured LTD costs; (3) life insurance costs; and (4) miscellaneous benefit costs.

A. Active Health Care

Q. What types of costs are included in active health care?

A. Active health care costs are all costs associated with providing health care coverage to employees. Those costs include medical, pharmacy, dental and vision claims, administrative fees, employee withholdings, pharmacy rebates, Health Savings Account ("HSA") contributions, transitional reinsurance fees, trustee fees, and interest income.

Q. What amount of active health care expense is SPS seeking to include in the cost of service?

A. SPS is requesting approval of $13,608,267 for active health care expense. Ms. Niemi has included that amount of active health care expense in the cost of service.

Q. Does the Updated Test Year amount match the per book amount of active health care costs?

A. No. The per book numbers for active health care amounts include estimates because there is generally an average lag of approximately 30 days between when health care is provided and when SPS receives a bill for that care.[10] Therefore,

[10] The difference between the estimated amount and the actual amount is generally not material enough to restate SPS's GAAP books when the actual amount becomes known.

the actual amount of active health care expense was not available at the time SPS recorded its per book amount at the end of December 31, 2019. Because SPS needs to close its books before it receives all of those health care claims, it takes the actual amounts recorded through a certain point in the year and estimates the additional amount that will be incurred but not reported by the end of the year, which is the Incurred But Not Reported ("IBNR") reserve. During the following year, SPS receives the actual amounts attributable to care provided in the last part of the prior year, and at that time it trues up the IBNR estimate to the actual incurred expense.

Q. Is SPS proposing to make any known and measurable changes to the active health care expense for events occurring after the end of the Test Year?

A. Yes. SPS is requesting an increase of $504,653 for active health care expense.

Q. Please discuss the process that SPS undertook to determine the Active Health Care amounts for the Updated Test Year.

A. SPS first took the Test Year per book amounts after making the IBNR reserve adjustments described above and then applied a known and measurable adjustment based on 11 months of actuals from 2020 and an estimate for the costs that were anticipated in December 2020. During the Update Filing SPS will update the cost of service to include 12 months of actuals.

Q. What amount of active health care expense is SPS requesting in the cost of service?

A. SPS is requesting approval of $13,608,267 of active health care expense. Ms. Niemi has included that amount of active health care expense in the cost of service.

B. Third-Party-Insured Long-Term Disability

Q. Please describe the third-party-insured LTD costs that SPS incurs.

A. As explained earlier, SPS offers long-term disability coverage that provides benefits to former or inactive employees after employment but before retirement. The LTD plan provides employees with income protection by paying a portion of an employee's income while he or she is disabled by a covered physical or mental impairment. In a third-party-insured plan, SPS purchases an insurance plan from an outside insurance provider that assumes the risk, and the cost of the third-party-insured piece is simply the cost of the insurance premium incurred each year along with any other miscellaneous costs.

Q. What groups of employees are covered under the third-party-insured benefit?

A. As noted earlier, all employees disabled on and after January 1, 2008 are covered under the third-party-insured plan.

Q. What amount of expense did SPS incur during the Test Year for retiree medical expense?

A. SPS incurred $489,846 for third-party-insured LTD expense.

Q. Is SPS proposing to make any known and measurable changes to the third-party-insured LTD expense for events occurring after the end of the Test Year?

A. Yes. SPS is requesting a known and measurable adjustment of $58,738. The adjustment is based on the estimated calendar year 2020 expense.

Q. What amount of third-party-insured LTD benefit expense is SPS seeking to recover?

A. SPS is requesting approval of $548,584 of third-party-insured LTD expense for the Updated Test Year. Ms. Niemi has included that amount of third-party-insured LTD benefits expense in the cost of service.

C. Life Insurance

Q. Please describe the life insurance cost that SPS incurs.

A. The life insurance category consists of life insurance premiums and offsetting employee life insurance withholdings. Life insurance is provided to non-bargaining employees at 100% of base pay and to SPS bargaining employees at 50% of base pay. Employees also have the option to purchase additional life insurance.

Q. What amount of expense did SPS incur during the Test Year for retiree medical expense?

A. SPS incurred $66,552 of life insurance expense during the Test Year.

Q. Is SPS proposing to make any known and measurable changes to the life insurance expense for events occurring after the end of the Test Year?

A. Yes. SPS is requesting a known and measurable adjustment of $34,388. The adjustment is based on the estimated calendar year 2020 expense.

Q. What amount of expense is SPS requesting for life insurance benefits?

A. SPS is requesting approval of $100,940 of life insurance expense for the Test Year. Ms. Niemi has included that amount of life insurance expense in the cost of service.

D. Miscellaneous Benefits

Q. What types of miscellaneous benefit programs does SPS offer to its employees?

A. The types of costs included in the miscellaneous benefit programs and costs category are:

- Tuition reimbursement;
- Employee Assistance Program costs;
- Wellness program costs;
- Costs incurred by the Human Resources Service Center to answer employee retirement or benefit questions;
- Health and welfare plan actuarial and audit fees;
- Administrative fees for short-term and long-term disability plans; and
- Administrative fees for employee flexible spending and HSAs.

Q. What amount of expense did SPS incur during the Test Year for miscellaneous benefit expense?

A. SPS incurred $558,839 for miscellaneous benefit expense.

Q. Is SPS proposing to make any known and measurable changes to the miscellaneous benefit expense for events occurring after the end of the Test Year?

A. Yes. SPS is requesting a known and measurable adjustment of $(119,909). The adjustment is based on the estimated calendar year 2020 expense.

Q. What amount of expense is SPS requesting for miscellaneous benefits?

A. SPS is requesting recovery of $438,930 of miscellaneous benefit expense. Ms. Niemi has included that amount of miscellaneous benefits expense in the cost of service.

E. Reasonableness of Health and Welfare Costs

Q. Are the amounts of SPS's health and welfare expense reasonable?

A. Yes. It is appropriate for the cost of service to include these benefits because they reflect a reasonable and necessary level of expense. As Mr. Deselich explains in more detail, Xcel Energy's compensation plans and benefits are required for Xcel Energy and its subsidiaries to attract, retain, and motivate employees needed to perform the work necessary to provide quality service for SPS customers. Without these benefits, SPS and XES would have to pay significantly higher current compensation to attract employees.

V. <u>WORKERS' COMPENSATION COSTS</u>

Q. Is SPS seeking recovery of the costs associated with workers' compensation benefits?

A. Yes. SPS is seeking recovery of third-party-insured workers' compensation benefits.

Q. Please briefly describe SPS's third-party-insured workers' compensation program.

A. For employees who are injured on or after August 1, 2001, all workers compensation benefits are covered under an insured program. The only cost to Xcel Energy for this benefit cost is the insurance premium. In a third-party-insured plan, SPS purchases an insurance plan from an outside insurance provider that assumes the risk, and the cost of the third-party-insured piece is simply the cost of the insurance premium incurred each year along with any other miscellaneous costs.

Q. How are third-party-insured workers' compensation amounts determined?

A. The costs are calculated by actuaries of the vendor from whom SPS purchases the insurance. The actuaries presumably base the costs on company-specific historical loss data and payroll to determine exposure related to the policy period.

Q. What amount of expense did SPS incur during the Test Year for workers compensation expense?

A. SPS incurred $860,189 for workers compensation expense.

Q. Is SPS proposing to make any known and measurable changes to workers compensation expense for events occurring after the end of the Test Year?

A. Yes. SPS is requesting a known and measurable adjustment of $(71,399). The adjustment is based on the estimated calendar year 2020 expense.

Q. What amount of expense is SPS seeking to recover for third-party-insured workers' compensation benefits?

A. SPS is requesting approval of $788,790 of third-party-insured workers' compensation expense. Ms. Niemi has included that amount of third-party-insured workers' compensation expense in the cost of service.

Q. Is it reasonable for the cost of service to include third-party-insured workers' compensation costs incurred by SPS?

A. Yes. It is appropriate for the cost of service to include these benefits because they reflect a reasonable and necessary level of expense. Xcel Energy's workers' compensation plans and benefits are required for Xcel Energy and its subsidiaries to attract, retain, and motivate employees needed to perform the work necessary to provide quality services for SPS customers. Without these benefits, SPS and XES would have to pay significantly higher current compensation to attract employees.

VI. OTHER BENEFIT COSTS

Q. Is SPS seeking recovery of any retirement benefits in addition to the ones discussed earlier?

A. Yes. SPS is seeking recovery of 401(k) match costs and miscellaneous retirement-related costs.

A. 401(k) Match

Q. Please briefly describe SPS's 401(k) match plan.

A. SPS's retirement income plan is based on a combination of a defined benefit pension plan and a 401(k) plan, which is a defined contribution plan. Unlike some defined benefit pension plans, SPS's defined benefit pension plan is not intended to provide an employee's total retirement income. Rather, the defined benefit pension plan and 401(k) plan are designed so that the two plans in combination provide retirement income to SPS and XES employees.

Q. How are the 401(k) match costs determined?

A. The 401(k) plan is a defined contribution plan to which employees must contribute in order to obtain employer matching. It is based on the amount that employees contribute as a percentage of their salary with a maximum match of 4%. For the majority of SPS's workforce, the employee must contribute 8% of eligible income for SPS to contribute the maximum company match of 4% of eligible income. The remaining employees, who are in the Traditional Plan, receive a maximum match of $1,400.

Q. What amount of expense did SPS incur during the Test Year for 401(k) match benefits?

A. SPS incurred $3,126,454 for 401(k) benefits.

Q. Is SPS proposing to make any known and measurable changes to the 401(k) expense for events occurring after the end of the Test Year?

A. Yes. SPS is requesting a known and measurable adjustment of $20,903 for 401(k) benefit expense. The known and measurable adjustment is based on the estimated 2020 calendar year expense.

Q. What is the amount of 401(k) Match expense included in the cost of service?

A. After including the known and measurable adjustment mentioned above, the 401(k) Match expense requested by SPS is $3,147,357. Ms. Niemi has included the 401(k) Match expense in the cost of service.

B. Miscellaneous Retirement-Related Costs

Q. What costs are included in miscellaneous retirement-related costs?

A. This category includes costs such as 401(k) plan administration fees, compensation consulting and survey costs, retirement plan actuarial and audit fees, and a small amount for the deferred compensation plan.

Q. What amount of expense did SPS incur during the Test Year for miscellaneous retirement-related costs?

A. SPS incurred $202,985 for miscellaneous retirement-related expense.

Q. Is SPS proposing to make any known and measurable changes to the miscellaneous retirement-related expense for events occurring after the end of the Test Year?

A. Yes. SPS is requesting a known and measurable adjustment of $(20,051). The adjustment is based on the estimated calendar year 2020 expense.

Q. What amount of expense is SPS requesting to recover for miscellaneous retirement-related costs?

A. SPS seeks to recover $182,934 for miscellaneous retirement-related costs. Ms. Niemi has included the miscellaneous retirement-related expense in the cost of service.

C. Reasonableness of Other Benefit Costs

Q. Is it reasonable for the cost of service to include the 401(k) match and miscellaneous retirement-related costs incurred by SPS?

A. Yes. It is appropriate for the cost of service to include these benefits because they reflect a reasonable and necessary level of expense. Xcel Energy's compensation plans and benefits are required for Xcel Energy and its subsidiaries to attract, retain, and motivate employees needed to perform the work necessary to provide quality services for SPS customers. Without these benefits, SPS and XES would have to pay significantly higher current compensation to attract employees.

VII. PENSION AND OPEB RESERVE ACCOUNT

Q. Does SPS defer pension and OPEB expense amounts that differ from the levels of pension and OPEB amounts included in base rates?

A. Yes. PURA § 36.065(b) allows a utility to establish a reserve account to record the difference between the annual amount of pension and OPEB expense approved in the utility's last general rate case and the annual amount of pension and OPEB expense that the utility actually incurs. If the amount of pension and OPEB expense in the utility's approved rates is greater than the actual expense, the utility will have a surplus in its reserve account. If the amount of pension and OPEB expense in the utility's approved rates is less than the actual expense, the utility will have a shortage in its reserve account.

Q How is the reserve account treated for ratemaking purposes?

A. PURA § 36.065 states that if a reserve account for pension and OPEB expense is established, the Commission:

> at a subsequent general rate proceeding shall:
>
> (1) review the amounts recorded to the reserve account to determine whether the amounts are reasonable expenses;
>
> (2) determine whether the reserve account has a surplus or shortage under Subsection (c); and
>
> (3) subtract any surplus from or add any shortage to the electric utility's rate base with the surplus or shortage amortized over a reasonable time.

Q. Did the Commission establish baselines for the pension and OPEB tracker in SPS's last rate case?

A. Yes. In Docket No. 49831, the parties agreed to a baseline amount of $9,815,224 (total company) for qualified pension expense, with a Texas retail amount of

$5,872,449. The parties agreed to a OPEB expense baseline of $(31,271) (total company), with the Texas retail amount being $(19,248).[11]

Q. What is the total amount of pension and OPEB costs related to the tracker that SPS is requesting to recover in this case?

A. As noted earlier in my testimony, SPS is proposing to amortize the pension and OPEB regulatory liability balance of $407,369 for the Texas retail jurisdiction. That amount represents the deferrals for April 1, 2019 through September 30, 2020, which total $407,369. Ms. Niemi has reflected the $407,369 of net deferred pension and OPEB expense in the cost of service study she presents. The deferred amounts appear under FERC Account 92603. See Attachment RRS-RR-1 for a summary of how this amount was calculated.

Q. How did SPS calculate the deferral amount to be amortized?

A. For the period from April 1, 2019 through September 30, 2020, SPS compared the actual amounts of pension and OPEB expense to the baseline expense amounts set in Docket Nos. 49831 and 47527.

Q. How does SPS propose to treat the amount in the reserve account?

A. SPS proposes to amortize the accrued amount over a one-year period and to reimburse the full amount to customers over that period. I have supplied the accrued balance excess amount to Ms. Niemi, and she has reflected it in the cost of service calculation.

[11] Docket No. 45524, *Application of Southwestern Public Service Company for Authority to Change Rates,* Unopposed Stipulation at 6 and Attachment D.

Q. Are the amounts of pension and OPEB expense recorded in the reserve account reasonable?

A. Yes. The pension and OPEB expense amounts are reasonable for the reasons discussed earlier in connection with the forward-looking pension and OPEB expense. SPS's pension plans are administered prudently and in accordance with GAAP, and the amounts contributed are consistent with the actuarial projections that are based on third-party projections and assumptions.

VIII. SPS'S PREPAID PENSION ASSET

Q. What topic do you discuss in this section of your testimony?

A. I describe SPS's prepaid pension asset, and I explain that the net prepaid pension asset should be included in rate base and should earn a return at SPS's WACC.

Q. What is a prepaid pension asset?

A. A prepaid pension asset represents the difference between: (1) the cumulative actuarially determined net periodic pension cost calculated in accordance with FAS 87; and (2) the cumulative cash contributions to the pension trust fund.

Q. Please provide an example of how the difference arises.

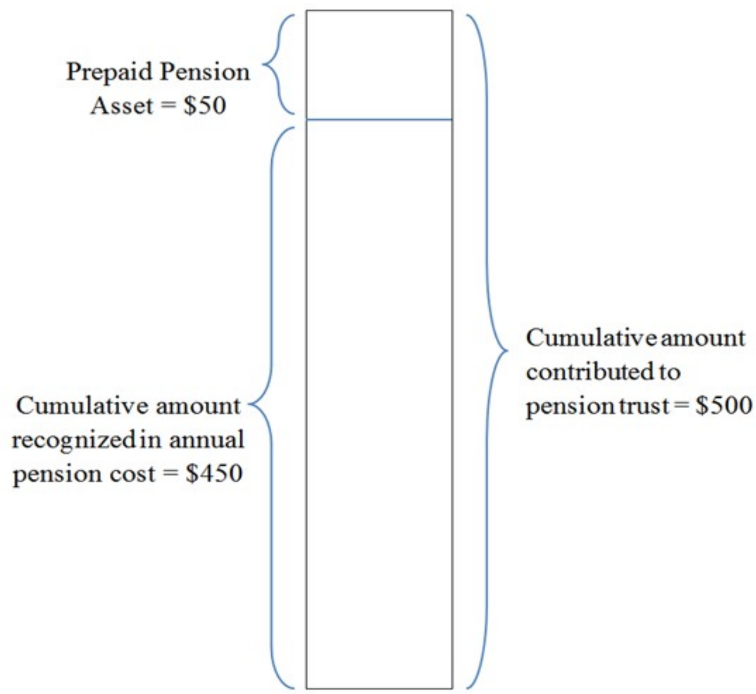
A. Suppose that the pension plan has been in existence for five years, and that the cash contribution to the pension trust for each of five years has been $100 million. Further suppose that the pension cost calculated in accordance with FAS 87 has been $90 million in each of those five years. Table RRS-RR-2 shows how the excess of cash contributions each year creates a cumulative prepaid pension asset:

Table RRS-RR-2 (amounts in millions)

Year	Pension Contribution	Pension Cost	Cumulative Prepaid Pension Asset
1	$100	$90	$10
2	$100	$90	$20
3	$100	$90	$30
4	$100	$90	$40
5	$100	$90	$50
Total	**$500**	**$450**	**$50**

At the end of the five-year period, the utility has cumulative cash contributions of $500 million and cumulative pension cost of $450 million, which produces a prepaid pension asset of $50 million, as shown in Figure RRS-RR-1 (next page):

Figure RRS-RR-1 (amounts in millions)



Q. Why are the contributions and cost different in any given year?

A. As I explained earlier in my discussion of qualified pension expense, the annual pension expense calculation is governed by FAS 87, but the contributions are driven by federal law requirements under ERISA, the IRC, and the Pension Protection Act. Although the cost and contribution calculations both use accrual methodologies, the assumptions, attribution methods, and periods of time over which the costs are required to be recognized are different and thus can often result in different annual amounts.

Q. Can a utility withdraw the prepaid pension asset and use it to fund capital requirements or to pay for O&M expense?

A. No. Federal law prohibits the withdrawal of any amounts from the pension trust fund except for the payment of benefits and plan expenses. After the utility makes the contributions, they are essentially locked away. Moreover, all of the earnings on the assets in the trust are locked away.

Q. Does SPS currently have a prepaid pension asset?

A. Yes. The thirteen-month average of SPS's prepaid pension asset balance as of December 31, 2020 was $155,741,368 (total company).

Q. Is SPS seeking to include that prepaid pension asset in rate base?

A. Yes. SPS is requesting Commission approval to include the prepaid pension asset in rate base and to earn a return on the asset at the WACC that SPS has proposed in this case, which is 7.56%.

Q. Do you recommend that the Commission include the prepaid pension asset in rate base?

A. Yes. The standard ratemaking practice is for prepayments to earn a return at the utility's WACC. For example, Accumulated Deferred Income Tax ("ADIT") balances, which reflect customer prepayments of taxes before they must be paid to the Internal Revenue Service, are subtracted from rate base, effectively earning a WACC return for customers.

Moreover, the prepaid pension asset is a used and useful utility asset because the pension plan earns a return on the prepaid pension asset, and that return reduces the pension expense included in rates on a dollar-for-dollar basis. There is no reason to treat the used and useful prepaid pension asset any differently than other used and useful assets, such as transmission and distribution lines.

Q. Please explain what you mean when you state that the return on the prepaid pension asset reduces the pension expense included in rates on a dollar-for-dollar basis.

A. As I explained in a prior section of my testimony, the assets in the pension trust are invested in stocks, bonds, and other asset classes. Under FAS 87, the total amount of the assets in the trust is multiplied by the expected return on those assets (i.e., the EROA), and the resulting amount *reduces* the annual pension expense on a dollar-for-dollar basis.[12] Suppose, for example, that a pension trust has assets of $500 million and is expected to earn a return of 7% in the current year, for an annual return of $35 million. Under those assumptions, $35 million would be included in the annual pension cost calculation as a reduction to pension expense.

Q. Does the pension trust asset balance that is multiplied by the EROA include the prepaid pension asset?

A. Yes. As shown in Figure RRS-RR-2 (next page), customers receive the benefit of the expected return on the entire amount of assets in the pension trust, not just the amount that has been recognized in annual pension cost.

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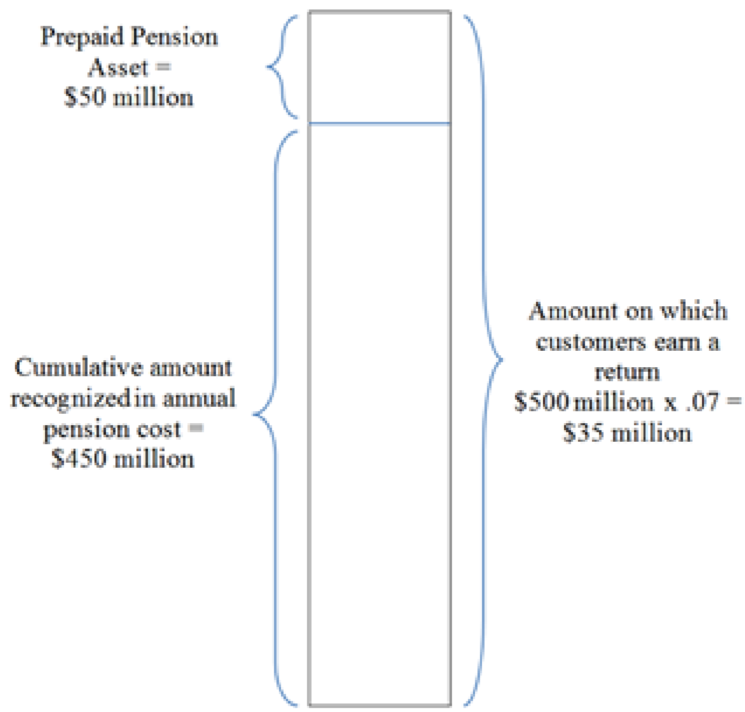
[12] I explained earlier in my testimony that annual pension expense is calculated in accordance with the following formula:

	Current service cost
+	Interest cost
-	EROA
+/-	Loss (gain) due to difference between expected and actual experience of plan assets or liabilities from prior periods
+/-	Amortization of unfunded prior service cost
=	Annual pension cost

Figure RRS-RR-2[13]



That means all of the assets in the pension trust, including the assets that comprise the prepaid pension asset, are used and useful to SPS's customers.

Q. Please turn now from the hypothetical examples you have been discussing to SPS's actual prepaid pension asset. How much are SPS's customers saving in annual pension cost as a result of the prepaid pension asset?

A. As Table RRS-RR-3 (next page) shows, SPS's customers are saving $10.5 million in annual pension costs because of the return on the prepaid pension asset.

[13] The amounts in this figure are just examples that have been simplified for ease of understanding.

Table RRS-RR-3

Pension Plan	Total Company Qualified Prepaid Pension Asset 13-Month Average	EROA	Total Company Cost Reduction from Prepaid Pension Asset
NCE Non-Bargaining[14]	$22,575,385	6.90%	$1,557,702
SPS Bargaining	$133,165,982	6.75%	$8,988,704
Total	**$155,741,368**		**$10,546,406**

Q. Please explain SPS's request regarding its prepaid pension asset.

A. SPS is requesting that the prepaid pension asset, which is $155,741,368, be included in rate base to provide a corresponding return to shareholders. The calculation to support the prepaid pension asset thirteen-month average can be found in my Attachment RRS-RR-6, and the cumulative qualified prepaid pension asset balance since the adoption of FAS 87 can be found in my Attachment RRS-RR-7.

Q. If SPS had an unfunded accrued cost instead of a prepaid pension asset, would you be recommending that amount be subtracted from rate base?

A. Yes. In fact, that is the situation with SPS's FAS 106 retiree medical balance and FAS 112 LTD balance. For those elements of cost, the cumulative amount of expense recognized for GAAP purposes is larger than the cumulative contributions by SPS to the trusts. Thus, SPS has reduced its rate base to reflect those accrued liabilities.

[14] NCE refers to New Century Energies, Inc., which merged with Northern States Power Company in 2000 to create Xcel Energy.

Q. Is SPS's requested WACC return on the prepaid pension asset higher than the EROA return that customers earn on the prepaid pension asset?

A. Yes. In this case, SPS's requested WACC is 7.56% and the weighted average of the 2020 EROA for the SPS Bargaining Plan and the NCE Non-Bargaining Plan is 6.77%.[15]

Q. Given that the WACC is higher than the EROA, is it fair to customers to use the WACC as the return on the prepaid pension asset?

A. Yes. It is fair and reasonable for customers to pay the WACC return for three separate reasons:

1. The SPS pension plan balance on which customers earn an EROA return is much larger than the balance on which they pay a WACC return.
2. Customers earn a return on the XES prepaid pension asset, but they do not pay any return on that asset because it is not included in rate base for ratemaking purposes.
3. The prepaid pension asset allows the Company to avoid paying incremental Pension Benefit Guaranty Corporation ("PBGC") premiums that would otherwise be added to the pension expense paid by customers.

Q. Please explain the first reason, which is that the balance of the SPS prepaid pension asset on which customers earn an EROA return is much larger than the balance on which they pay a WACC return.

A. The 6.77% EROA is applied to the full amount of the SPS prepaid pension asset, which totals approximately $155.7 million on a total company basis. As shown in Table RRS-RR-3, that reduces the pension expense included in rates by nearly

[15] The EROA for the SPS Bargaining Plan is 6.75%, and the EROA for the NCE Non-Bargaining Plan is 6.90%. The weighted average of those amounts is 6.77%.

$10.5 million per year. In contrast, SPS's customers are being asked to pay a return on approximately $103.4 million because the net prepaid pension asset included in rate base is reduced by offsets for ADIT and for the unfunded liabilities for FAS 106 and FAS 112. Because the balance on which customers earn a return is far larger than the balance on which they pay a return, customers realize a net benefit even when the WACC exceeds the EROA.

Q. The second reason you listed earlier is that customer earn a return on the XES prepaid pension asset but do not pay a return on it. What is the balance of the XES plan prepaid pension asset?

A. The thirteen-month average balance of the XES Plan net prepaid pension asset is approximately $17.6 million. With an EROA of 7.10% for the XES Plan, SPS's customers receive the benefit of $1.2 million of return, and that amount reduces the pension expense included in rates on a dollar-for-dollar basis. SPS's customers, however, do not pay any return on the XES Plan prepaid pension asset.

Q. The third reason you listed for why it is reasonable for customers to pay a WACC return on the prepaid pension asset is that the asset allows SPS to avoid incurring PBGC premiums that would otherwise be included within the annual pension cost charged to customers. Please describe the PBGC.

A. The PBGC is a federal agency established by Congress as part of ERISA to insure pension benefits under private sector defined benefit pension plans. If a pension plan is terminated without sufficient money to pay all benefits, PBGC's insurance program will pay employees the benefits promised under the pension plan, up to the limits set by law. The funding for the PBGC comes partly from premiums charged to pension sponsors and partly from returns on assets held by the PBGC.

Q. What types of premiums does the PBGC charge?

A. The PBGC charges two types of premiums: (1) a per capita premium that is charged to all single-employer defined benefit plans; and (2) a variable premium charged to underfunded plans. The amounts of the premiums are set by Congress and must be paid by sponsors of the defined benefit plans, such as SPS.

Q. Are the variable premiums applicable to underfunded plans increasing?

A. Yes. For 2020, the variable-rate premium for a single-employer plan such as that of SPS is $45 per $1,000 of unfunded vested benefits.

Q. Are SPS's pension plans currently underfunded?

A. Yes. And absent the prepaid pension asset, the plan would be further underfunded.[16]

Q. By how much would the pension plans be underfunded in the absence of the prepaid pension asset?

A. In the absence of the prepaid pension asset, the SPS pension plans would be further underfunded by $155.7 million.

Q. By how much would the PBGC premiums increase in 2020 in the absence of the prepaid pension asset?

A. The PBGC premiums would be approximately $1.8 million higher in 2020 without the prepaid pension asset.

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[16] As I explained earlier, a plan can be underfunded at the same time it has a prepaid pension asset because they measure different things. The prepaid pension asset is the amount by which cumulative contributions exceed cumulative recognized pension expense. A pension plan is underfunded when its pension benefit obligations exceed the value of its assets.

Q. Are PBGC premiums included in the annual pension cost?

A. Yes. PBGC premiums are included in the annual pension cost calculation. Therefore, the existence of the prepaid pension asset avoids the need for SPS's customers to pay an additional $1.8 million of annual pension expense in 2020.

Q. Can you demonstrate mathematically that, because of the three factors you have discussed, SPS's customers are better off paying a WACC return on the prepaid pension asset than they would be if the prepaid pension asset were disregarded altogether for ratemaking purposes.

A. Yes. Table RRS-RR-4 (next page) shows that SPS's customers receive approximately $10.5 million of benefit as a result of EROA that is applied to the SPS prepaid pension asset. In addition, they receive $1.2 million of return on the XES prepaid pension asset, even though they pay no return on that asset. Because of the prepaid pension asset, customers also avoid $1.8 million PBGC premiums that would otherwise be included in rates. Together, those amounts save customers more than $13.6 million in annual pension expense that would otherwise be included in base rates.

In contrast, after offsetting the pension-related ADIT and unfunded pension-related liabilities, the net prepaid pension asset included in rate base is $103.4 million. Multiplying that amount by the 7.56% WACC requested by SPS results in a return of approximately $7.9 million. Even when that amount is grossed up for taxes, the total amount paid by customers is $10.2 million, which is approximately $3.5 million less than the savings customers realize from the prepaid pension asset.[17]

Table RRS-RR-4
All amounts are total company

Prepaid pension asset balance (excluding the XES prepaid pension asset)	$155,741,368	a
Weighted average EROA for SPS Bargaining and NCE Non-Bargaining Plans	6.77%	b
Initial return benefit to customers	$10,546,406	a * b = c
Balance of XES prepaid pension asset	$17,573,749	d
EROA for XES prepaid pension asset	7.10%	e
Return on XES prepaid pension asset	$1,247,736	d * e = f
Avoided PBGC premiums	$1,781,741	g
Total annual reduction in rates attributable to prepaid pension assets	$13,575,883	c + f + g = h
Prepaid pension asset net of ADIT and after unfunded liability offsets	$103,433,780	i
Requested WACC	7.56%	j
Requested return on prepaid pension asset	$7,819,594	i * j = k
Tax gross-up factor	1.292656	l
Total return paid by customers	$10,198,045	k * l = m
Net benefit to customers from prepaid pension asset	$3,467,838	h – m = n

[17] If the Commission were to approve a WACC lower than 7.56%, the disparity between the benefit to customers and the return to SPS would be even larger.

Q. Would including SPS's prepaid pension asset in rate base be consistent with Commission precedent?

A. Yes. Because of the benefits that prepaid pension assets confer on customers, the Commission routinely approves utilities' request to include their prepaid pension assets in rate base and to earn a return on those assets. For example, in SPS's most recent fully litigated rate case, the Commission found that "[i]nvestment income on the prepaid pension asset reduces qualified pension costs calculated under FAS 87, which benefits customers by reducing the amount of pension costs included in base rates."[18] The Commission further found that the "prepaid pension asset is appropriately included in rate base because it represents a prepayment by SPS."[19]

Q. Is there any material difference between the prepaid pension assets at issue in those earlier cases and the prepaid pension asset that SPS seeks to include in rate base in this case?

A. No.

Q. Please summarize SPS's request with respect to the prepaid pension asset.

A. SPS requests that the prepaid pension asset be included in rate base and that the prepaid pension asset be allowed to earn a WACC. That is how other prepayments are treated, including prepayments by customers, and there is no reason to treat the prepaid pension asset differently. Moreover, customers realize a significantly greater rate reduction from the prepaid pension asset than the return they are asked to pay, so it is reasonable and equitable for the prepaid

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[18] *Application of Southwestern Public Service Company for Authority to Change Rates*, Docket No. 43695, Order on Rehearing at 23, Finding of Fact No. 51 (Feb. 23, 2016).

[19] *Id.*, Finding of Fact No. 53.

pension asset to be included in rate base and to earn a WACC return. Finally, including the prepaid pension asset in rate base is consistent with Commission precedent.

Q. Does this conclude your pre-filed direct testimony?

A. Yes.

AFFIDAVIT

STATE OF MINNESOTA)
)
COUNTY OF ANOKA)

RICHARD R. SCHRUBBE, first being sworn on his oath, states:

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

RICHARD R. SCHRUBBE

Subscribed and sworn to before me this 1st day of February, 2021 by RICHARD R. SCHRUBBE.

ANDREW D BENIK
NOTARY PUBLIC - MINNESOTA
My Commission Expires Jan. 31, 2025

Notary Public, State of Minnesota

My Commission Expires: 01/31/2025

Southwestern Public Service Company

Calculation of Deferred Pension and OPEB Balances
FERC Account 926.03

	Deferrals from 4/1/2019 - 9/30/2020		
	Current Year Deferrals	**Prior Year Deferral True-ups**	**Total**
Apr 2019	$ 152,757	$ -	$ 152,757
May 2019	152,757	-	152,757
Jun 2019	152,757	-	152,757
Jul 2019	152,757	-	152,757
Aug 2019	152,757	-	152,757
Sept 2019	163,750	-	163,750
Oct 2019	251,695	-	251,695
Nov 2019	163,750	-	163,750
Dec 2019	(645,721)	-	(645,721)
Jan 2020	184,246	-	184,246
Feb 2020	184,246	-	184,246
Mar 2020	184,246	-	184,246
Apr 2020	184,246	-	184,246
May 2020	184,246	-	184,246
Jun 2020	184,246	(26,481)	157,766
Jul 2020	184,246	84,148	268,394
Aug 2020	184,246	-	184,246
Sept 2020	59,786	(1,881,313)	(1,821,527)
	$ 2,231,015	**$ (1,823,646)**	**$ 407,369** A

Southwestern Public Service Company

Calculation of Deferred Pension and OPEB Balances FERC Account 926.03

		Amortization
Amount to be amortized	**$**	**1,574,975**
Apr 2019	$	27,680
May 2019		27,680
Jun 2019		27,680
Jul 2019		27,680
Aug 2019		27,680
Sept 2019		27,680
Oct 2019		27,680
Nov 2019		27,680
Dec 2019		27,680
Jan 2020		27,680
Feb 2020		-
Mar 2020		-
Apr 2020		-
May 2020		-
Jun 2020		-
Jul 2020		-
Aug 2020		-
Sept 2020		(1,851,773)
Unamortized Amount as of 9/30/20	**$**	**0** B
Total Net Pension and OPEB Deferrals Balance as of September 30, 2020	**$**	**407,369** = A + B

Notes:

* Per Docket No. 49831 the pension and OPEB tracker balance was set at $1,574,975 as of March 31, 2019. This is the balance that will be amortized over a 12-month period starting April 1, 2019. If the entire amount has not been amortized at the time the rates set in SPS's next base rate go into effect, the Docket No. 47527 Stipulation [Section 2(E)(i)] provides that the remaining unamortized amount can be included in a subsequent base rate case and is deemed reasonable and necessary.

Unamortized Balance - March 31,	$	1,574,975.00
12 Months of Amortization		(1,574,975)
Unamortized Balance - September	$	-

Notes:

* Per Docket No. 45524 the pension and OPEB tracker balance was set at

** This entry is an out of period adjustment in order to properly reflect

Unamortized Balance - May 31, 20	$	-
12 Months of Amortization (July-J		-
Unamortized Balance - June 30, 20	$	-

WillisTowersWatson

May 17, 2019

Mr. Richard R. Schrubbe
AVP, Financial Analysis & Planning
Xcel Energy Inc.
401 Nicollet Mall
3rd Floor
Minneapolis, Minnesota 55401

2019 VALUATION RESULTS AND 2020-2024 COST ESTIMATES

Dear Rick:

This letter summarizes the results of the 2019 plan year IRS funding valuations for Xcel Energy's qualified pension plans. Also included are final 2019 costs and updated 2020-2024 cost estimates for the Long-Term Disability (LTD) and Workers' Compensation plans. The results for these plans have been updated from the March 29, 2019, results to reflect 2019 census data for both plans. Costs for all other plans are unchanged from March 29, 2019.

Attached to this letter are benefit cost exhibits and an exhibit that provides plan specific details of the cost reconciliations for the qualified pension plans.

PENSION PLAN FUNDING

Summary of Key Results

The key results for each plan are provided in the following table:

($ in Millions)	Xcel Energy Pension Plan	NCE Nonbargaining Plan	SPS Bargaining Plan	PSCo Bargaining Plan
Effective Interest Rate	5.36%	5.25%	5.53%	5.50%
Contribution Requirements for the 2019 Plan Year (as of January 1, 2019)				
Minimum Required Contribution Before Funding Balance	$98.8	$12.5	$12.8	$40.9
Minimum Required Contribution After Funding Balance	$0.0	$8.0	$0.0	$0.0
2019 PBGC Premiums				
PBGC Variable Rate Premiums	$5.5	$0.9	$0.9	$3.5

For all plans except the NCE Nonbargaining Plan, there is sufficient funding balance to satisfy the entire 2019 plan year minimum funding requirements. For the NCE Nonbargaining Plan, there is not enough funding balance remaining to satisfy the entire 2019 plan year requirement. As a result, the following contributions, reflecting interest from the January 1, 2019 valuation date to the payment due date, are required:

- $1.1 million by July 15, 2019
- $2.9 million by October 15, 2019
- $2.9 million by January 15, 2020
- $1.8 million by September 15, 2020.

Under the current contribution forecast, Xcel Energy has a planned contribution of $15 million to the NCE Nonbargaining Plan for the 2019 plan year, expected to be contributed in January 2020. Our recommendation is to split the contribution into two payments. For example, an initial payment of $4 million before July 15, 2019 to cover the 2019 plan year requirements due in 2019 and a second payment of $11 million before January 15, 2020.

Funded Status

A plan's funded status is measured by comparing the present value of plan benefits to the value of plan assets. The following table summarizes the 2019 plan year funded percentages:

Minimum Funding and Benefit Restrictions – 2019 ($ in Millions)	Xcel Energy Pension Plan	NCE Nonbargaining Plan	SPS Bargaining Plan	PSCo Bargaining Plan
1. Effective Interest Rate	5.36%	5.25%	5.53%	5.50%
2. Target Liability as of January 1	$1,500.4	$241.3	$325.1	$920.2
3. Actuarial Value of Assets as of January 1	$1,530.4	$230.6	$358.6	$907.6
4. Funding Balance as of January 1	$202.2	$4.5	$61.2	$117.9
5. Funded Percentage before funding balance reduction from plan assets [(3) / (2)]	102.0%	95.6%	110.3%	98.6%
6. Funded Percentage with funding balance reduction from plan assets (FTAP) [((3) – (4)) / (2)]	88.5%	93.7%	91.5%	85.8%
7. Preliminary Adjusted Funding Target Attainment Percentage (AFTAP)[1]	102.0%	93.7%	110.3%	85.8%

[1] If Actuarial Value of Assets/Target Liability >= 100%, the AFTAP matches line 5; otherwise it matches line 6

Benefit Restrictions

Based on the 2019 funding results, benefit restrictions are not expected to apply for the 2019 plan year since the preliminary AFTAP for each plan exceeds 80.0%. We will provide our certification of the funded status for the plans prior to the September 30, 2019 deadline.

Funding Balances

The following summarizes the funding balance activity for the Xcel Energy pension plans.

($ in Millions)	Xcel Energy Pension Plan	NCE Nonbargaining Plan	SPS Bargaining Plan	PSCo Bargaining Plan
Funding Balances at January 1, 2018	**$191.7**	**$11.4**	**$60.2**	**$102.0**
Funding Balances used for the 2018 plan year	(44.3)	(7.5)	(6.9)	(12.2)
Excess contributions elected to be added to funding balance	61.1	0.8	10.2	32.0
Investment experience adjustments	(6.3)	(0.2)	(2.3)	(3.9)
Amount of funding balance forfeited for AFTAP purposes	0.0	0.0	0.0	0.0
Funding Balances at January 1, 2019	**$202.2**	**$4.5**	**$61.2**	**$117.9**

PBGC Premiums

The PBGC variable rate premium amounts in the table on page one are based on the Standard Premium Funding Target for the PSCo Bargaining Plan and the NCE Nonbargaining Plan. The Alternative Premium Funding Target is used for the Xcel Energy Pension Plan and the SPS Bargaining Plan, but both plans are eligible to switch to the Standard Premium Funding Target method. If the method is changed, the 2019 premiums shown above and the contributions required to eliminate variable rate premiums shown below would be lower. Similar to prior years, we will analyze and discuss the option to switch methods with you in early September before a final decision is required in early October. The PSCo Bargaining Plan and the NCE Nonbargaining Plan are above the per-participant cap and the variable rate premium is limited to $541 per participant.

The plans can eliminate variable rate premiums with the September 15, 2019 contribution amounts below:

Contribution to Avoid PBGC Variable Rate Premium ($ in Millions)	Xcel Energy Pension Plan	NCE Nonbargaining Plan	SPS Bargaining Plan	PSCo Bargaining Plan
Contribution (as of September 15, 2019)	$134.0	$38.4	$22.7	$147.2

ERISA 4010 Funded Status

An ERISA 4010 filing is required if any 4010 Funding Target Attainment Percentage (4010 FTAP) for a plan within the controlled group of the plan sponsor is less than 80%. For this purpose, the target liability is calculated using interest rates that do not reflect interest rate stabilization and plan assets are reduced by the amount of the prefunding balance and funding standard carryover balance. This determination is done as of the valuation date for the plan year ending within the information year ending December 31, 2019 (i.e., the 2019 plan year). The valuation date for the 2019 plan year is January 1, 2019. The January 1, 2019 4010 FTAPs for all Xcel Energy pension plans are as follows:

4010 FTAP – 2019 ($ in Millions)	**Xcel Energy Pension Plan**	**NCE Nonbargaining Plan**	**SPS Bargaining Plan**	**PSCo Bargaining Plan**
1. Effective Interest Rate	3.87%	3.76%	4.01%	3.99%
2. Target Liability as of January 1	$1,700.4	$269.3	$385.8	$1,081.6
3. Actuarial Value of Assets as of January 1	$1,530.4	$230.6	$358.6	$907.6
4. Funding Balance as of January 1	$202.2	$4.5	$61.2	$117.9
5. Funded Percentage with funding balance reduction from plan assets (4010 FTAP) [((3) – (4)) / (2)]	78.1%	84.0%	77.1%	73.0%

Based on the results above, a filing will be required for the 2019 information (fiscal) year unless additional contributions for the 2018 plan year are made on or before September 15, 2019. Alternatively, funding balances may be forfeited such that the 4010 FTAP for each plan is above 80%. More specifically, Xcel Energy can avoid an ERISA 4010 filing with contributions and/or funding balance forfeitures by September 15, 2019 of $32.1 million, $11.2 million, and $75.6 million to the Xcel Energy Pension Plan, SPS Bargaining Plan, and PSCo Bargaining Plan respectively (amounts as of January 1, 2019). If no action is taken and a 4010 filing is required for the 2019 information year, the submission deadline will be April 15, 2020.

LONG-TERM DISABILITY AND WORKERS' COMPENSATION RESULTS

The combined 2019 cost/(income) for the Workers' Compensation plan and the Long-Term Disability plan is ($1.9) million, a $1.4 million increase in income (decrease in cost) from our March estimate of ($0.5) million. The final discount rate used for these plans is 4.25%, which is a 2 basis point increase from our March results.

The actual 2019 cost/(income) for the Long-Term Disability plan is $(0.1) million, which is the same as the 2019 estimated cost/(income) for the plan provided in March. The actual 2019 cost/(income) for the Workers' Compensation plan is ($1.8) million, which is a $1.4 million increase in income from the estimated 2019 cost/(income) of ($0.4) million for the plan provided in March. The decrease is primarily due to favorable indemnity claims experience in Minnesota and South Dakota.

RESULTS EXHIBITS

Final 2019 benefit costs (prior to potential settlement charges) and 2020-2024 benefit cost forecasts are attached to the end of this letter. Benefit cost results for all plans except the LTD and Workers' Compensation plans have not been updated from the results provided on March 29, 2019. 2019 benefit costs and estimates of 2020-2024 benefit costs summarized by legal entity are presented in the attached exhibits as follows:

- Exhibit I: Benefit Cost Estimates – Qualified Pension Plans
- Exhibit II: Benefit Cost Estimates – Nonqualified Pension Plans
- Exhibit III: Benefit Cost Estimates – Retiree Medical and Life Insurance Plan
- Exhibit IV: Liabilities – LTD and Workers' Compensation
- Exhibit V: Claims and Expenses – LTD and Workers' Compensation
- Exhibit VI: Benefit Cost Estimates – LTD and Workers' Compensation
- Exhibit VII: Benefit Cost Reconciliation Details – Qualified Pension Plans

Plans Valued

The attached exhibits include estimates for the following employee benefit plans maintained by Xcel Energy Inc. (Xcel Energy):

- Xcel Energy Pension Plan
- Xcel Energy Inc. Nonbargaining Pension Plan (South) [NCE Nonbargaining Plan]
- New Century Energies Inc. Retirement Plan for SPS Bargaining Unit Employees and Former Nonbargaining Unit Employees [SPS Bargaining Plan]
- New Century Energies Inc. Retirement Plan for PSCo Bargaining Unit Employees and Former Nonbargaining Unit Employees [PSCo Bargaining Plan]
- Xcel Energy Nonqualified Defined Benefit Plan
- Xcel Energy SERP
- SPS SERP
- Employment Agreements
- Fort St. Vrain Nuclear Operations Personnel Plan
- NMC SERP Part A
- Xcel Energy Retiree Medical and Life Insurance Plan (including Executive Life Insurance)
- Xcel Energy Workers' Compensation
- Xcel Energy Long-Term Disability (LTD) Income

FORECAST RESULTS

Forecast results are based on the information summarized below.

The following provides a reconciliation of actual 2019 costs to 2020 estimated costs, prior to regulatory effects and potential settlement charges:

Reconciliation of Benefit Costs (prior to regulatory effects and potential settlement charges)

($ in Millions)	Qualified Pension[1]	Nonqualified Pension	Retiree Medical	Workers' Compen-sation	Long Term Disability	Total
Final 2019	**$107.0**	**$3.6**	**($2.0)**	**($1.8)**	**($0.1)**	**$106.7**
Historical asset performance	11.5	0.0	0.0	0.0	0.0	11.5
Expected liability, asset, and loss amortization changes	(14.2)	0.0	1.3	2.1	0.5	(10.3)
Initial 2020 Estimate	**$104.3**	**$3.6**	**($0.7)**	**$0.3**	**$0.4**	**$107.9**

[1]Qualified Pension Plan costs reflect the assumption that NSP-MN and Xcel Energy Nuclear costs are determined under the Aggregate Cost Compensation Method. No additional regulatory deferrals have been reflected. See Exhibit VII for additional details.

DATA, ASSUMPTIONS, METHODS AND PLAN PROVISIONS FOR BENEFIT COSTS

The 2019 benefit costs, and estimated 2020-2024 costs reflect the following data, assumptions, methods and plan provisions:

Data

For the qualified and nonqualified pension plans and the retiree medical plan, the 2019 benefit cost results and estimates for 2020-2024 are based on participant data as of January 1, 2018, projected to the end of the year based on status, compensation and benefit changes through November 30, 2018, and known retirements for December 2018. Actual new entrants through November 30, 2018, and expected new entrants through December 31, 2018, are included. See our March 29, 2019, letter for more details. For the Workers' Compensation and Long-Term Disability plans, the 2019 benefit cost results and estimated costs for 2020-2024 are based on participant data as of January 1, 2019.

Economic Assumptions

The key assumptions used to determine the actual 2019 and estimated 2020-2024 benefit cost results are provided below. The assumptions used to calculate the cost under the aggregate cost method are the same as used to prepare the ASC 715 results, except as noted. Actual asset returns net of administrative expenses are assumed to equal the expected return on assets assumptions throughout the forecast period.

	May 17, 2019 Results
Benefit Cost	
Discount Rate – ASC 715:	
Xcel Energy Pension Plan	4.31%
NCE Nonbargaining Pension Plan	4.25%
SPS Bargaining Pension Plan	4.37%
PSCo Bargaining Pension Plan	4.36%
Nonqualified Pension Plan	4.26%
Retiree Medical and Life Insurance Plan	4.32%
Workers' Compensation and LTD	4.25%
Expected Return on Assets Assumption – Pension:	
Xcel Energy Pension Plan	7.10%
NCE Nonbargaining Pension Plan	6.90%
SPS Bargaining Pension Plan	6.75%
PSCo Bargaining Pension Plan	6.50%
Weighted Average Expected Return	6.87%
Expected Return on Assets Assumption – VEBA (Bargaining/Nonbargaining)	5.30%
Discount Rate – Aggregate Cost	7.10%
Salary Scale[1]	3.75%
Initial Medical Trend:	
Pre-Medicare	6.50%
Post-Medicare	5.30%
Ultimate Medical Trend	4.50%
Year Ultimate Trend is Reached	2023

[1] Career average of age-graded table (nonbargaining) and service-graded table (bargaining)

- The interest rate for converting lump sums to annuities and annuities to lump sums was updated from 3.50% to 4.10% in all years. The pre-PPA lump sum conversion interest rate was updated from 2.75% to 3.10%.
- The interest crediting rate for the 5% cash balance formula was updated from 2.75% to 3.10%. The interest crediting rate for the Retirement Spending Account was updated from 2.50% to 3.60%.
- The HRA trend assumption remains at 2.0%.

Demographic Assumptions

- Active participant counts are assumed to remain level throughout the forecast period.
- The mortality assumption is the RP-2014 tables (blue collar for bargaining participants and white collar for nonbargaining participants, as adjusted for 2014 Xcel Energy mortality study) projected with generational mortality improvements using an adjusted SOA MP-2016 methodology.
- The mortality assumption for converting lump sums to annuities or annuities to lump sums is the 2018 IRS mortality tables projected to the commencement date using the SOA MP-2017 methodology.
- Retirement rates were updated to reflect later retirement ages as indicated in our January 4, 2019 letter. The decrement timing model was also updated from beginning of year to middle of year decrements.

Pension Contributions

The benefit cost forecasts reflect 2019 contributions of $150 million made on January 2, 2019, and planned contributions provided by Xcel Energy for 2020 through 2024. The table below summarizes the amounts assigned to each plan over the forecast period:

	Year					
Plan	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Xcel Energy Pension Plan	$ 90.0	$ 85.0	$ 68.0	$ 48.0	$ 45.0	$ 60.0
NCE Nonbargaining Plan	5.0	15.0	12.0	12.0	10.0	5.0
SPS Bargaining Plan	15.0	10.0	10.0	5.0	10.0	0.0
PSCo Bargaining Plan	40.0	40.0	35.0	35.0	35.0	35.0
Total Contribution	**$ 150.0**	**$ 150.0**	**$ 125.0**	**$ 100.0**	**$ 100.0**	**$ 100.0**

- Contributions in 2020 and beyond are assumed to be paid on January 15 and assigned to the prior plan year.
- The above planned contributions may not be sufficient to meet minimum requirements under all economic scenarios. As noted above, an additional contribution of $4 million is required during calendar year 2019 to satisfy minimum funding requirements. The planned contributions will be reviewed later this year and updated as needed to reflect current economic conditions and Xcel Energy's capital plans.

Plan Provision Updates

- Effective February 22, 2018, employees hired or rehired into the PSCo Bargaining Plan receive a 5% Cash Balance benefit. Due to the one year participation requirement, new hires will not be included in the valuation until year-end 2019. Rehired employees and transfers participate immediately.

DATA, ASSUMPTIONS, METHODS AND PLAN PROVISIONS FOR PENSION PLAN FUNDING

Data

The 2019 pension funding results are based on data as of January 1, 2019. The January 1, 2019 census data will be summarized in our upcoming data memos which are expected to be provided within the next month.

Economic Assumptions

All economic assumptions for the funding results are the same as noted above under the Benefit Cost section, except the discount rates. The discount rates equal to the effective interest rates which are noted in the results sections above. The effective interest rates were determined using the following 3-segment rates:

- 3-segment rates reflecting stabilization (3.74% / 5.35% / 6.11%)
- 3-segment rates not reflecting stabilization (2.28% / 3.87% / 4.46%)
- Applicable month: September

Demographic Assumptions

All demographic assumptions for the funding results are the same as noted above under the Benefit Cost section, except the mortality assumption. The mortality assumption reflects the IRS prescribed static mortality assumption for 2019 valuations.

Plan Provision Updates

All plan provisions valued for the funding results are the same as noted above under the Benefit Cost section.

ACTUARIAL CERTIFICATION

As requested by Xcel Energy Inc., this report provides results of the actuarial valuations of the Xcel Energy Inc. employee benefit plans indicated above. This report should not be used for other purposes, distributed to others outside Xcel Energy Inc. or relied upon by any other person without prior written consent from Willis Towers Watson. Except where we expressly agree in writing, this report should not be disclosed or provided to any third party, other than as provided below. In the absence of such consent and an express assumption of responsibility, no responsibility whatsoever is accepted by us for any consequences arising from any third party relying on this report or any advice relating to its contents.

Xcel Energy Inc. may make a copy of this report available to auditors or appropriate governmental agencies of the plan or the plan sponsor, but we make no representation as to the suitability of this report for any purpose other than that for which it was originally provided and accept no responsibility or liability to the auditors in this regard. Xcel Energy Inc. should draw the provisions of this paragraph to the attention of the auditors or appropriate governmental agencies when providing this report to them.

In preparing this valuation, we have relied upon information and data provided to us by Xcel Energy Inc. and other persons or organizations designated by Xcel Energy Inc. We have relied on all the data and information provided as complete and accurate. We have reviewed this information for overall reasonableness and consistency, but have neither audited nor independently verified this information. Based on discussions with and concurrence by the plan sponsor, assumptions or estimates may have been made if data were not available. We are not aware of any errors or omissions in the data that would have a significant effect on the results of our calculations. The results presented in this report are directly dependent upon the accuracy and completeness of the underlying data and information. Any material inaccuracy in the data, assets, plan provisions or other information provided to us may have produced results that are not suitable for the purposes of this report and such inaccuracies, as corrected by Xcel Energy Inc., may produce materially different results that could require that a revised report be issued.

This valuation reflects our understanding of the relevant provisions of the Pension Protection Act of 2006. The IRS has yet to issue final guidance with respect to certain aspects of this law. It is possible that such guidance may conflict with our understanding of the law and could therefore affect results shown in this report.

The results summarized in this report involve actuarial calculations that require assumptions about future events. We believe the assumptions and methods used in this report are reasonable and appropriate for the purposes for which they have been used. In our opinion, all methods, assumptions and calculations are in accordance with requirements of the Internal Revenue Code and ERISA, and the applicable financial accounting standards, including ASC 712 and 715 and the procedures followed and presentation of results are in conformity with generally accepted actuarial principles and practices.

As required by U.S. GAAP, the actuarial assumptions and methods employed in the development of the pension and other postretirement benefit cost and other financial reporting have been selected by Xcel Energy Inc. Willis Towers Watson has concurred with these assumptions and methods. U.S. GAAP requires that each significant assumption "individually represent the best estimate of a particular future event. Xcel Energy Inc. uses the standards set out in ASC 715 to calculate pension cost for each plan in total; pension cost for the subsidiaries is calculated based on plan assets allocated to each subsidiary in proportion to the PBO for each subsidiary. Beginning in fiscal 2010, Discontinued Operations is allocated assets in proportion to its PBO, similar to nondiscontinued operations. The gain/(loss) amortization is allocated to each subsidiary in proportion to the gain/(loss) balance for each subsidiary (excluding deferred asset gains and losses). This methodology is consistent with former NSP's methodology since 1998 and has been applied to the former NCE pension plans since January 1, 2001. A similar methodology is used for the ASC 715 costs for the Retiree Medical and Life Plan, except separate asset accounts are used for each subsidiary.

Except as otherwise provided herein, the results presented are based on the data, assumptions, methods, plan provisions and other information, outlined in the actuarial valuation reports to determine accounting requirements for the plan for the plan year beginning January 1, 2019 dated March 29, 2019. Therefore, such information, and the reliances and limitations of the valuation report and its use, should be considered part of this letter.

The funding results prepared in this letter are subject to Actuarial Standard of Practice (ASOP) 51 regarding disclosure of significant risks related to the calculation of actuarially determined contributions. We will follow up with our ASOP 51 statement within 30 days and this statement should be considered part of this report.

The undersigned consulting actuaries are members of the Society of Actuaries and meet the "Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States" relating to pension and postretirement welfare plans. Our objectivity is not impaired by any relationship between the plan sponsor and our employer, Willis Towers Watson US LLC ("Willis Towers Watson").

NEXT STEPS

If you have any questions or would like to discuss, please contact Mark at 952-842-6445, Kristoff at 952-842-6359 or Ali at 952-842-6225.

Sincerely,

Mark A. Afdahl, FSA, EA
Director, Retirement

Kristoff M. Hendrickson, FSA, EA
Director, Retirement

Ali Rehan Rattansi, ASA, EA
Associate Director, Retirement

cc: Todd Degrugillier — Xcel Energy Inc.
Darla Figoli — Xcel Energy Inc.
Levi Glines — Xcel Energy Inc.
Kris Lindemann — Xcel Energy Inc.
Ruth Lowenthal — Xcel Energy Inc.
Garrett Mikrut — Xcel Energy Inc.
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Sarah Soong — Xcel Energy Inc.
Brian Van Abel — Xcel Energy Inc.
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Mark Bilderback — Willis Towers Watson
Beth Fernandez — Willis Towers Watson
Scott Lund — Willis Towers Watson
Jim Shaddy — Willis Towers Watson
Tyler Tanck — Willis Towers Watson
Ariah Tough — Willis Towers Watson

XCEL ENERGY INC. - Qualified Pension Plans
Cost by Legal Entity
($ in Thousands)

2019	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	Settlement Charge[1]	Aggregate Cost Compensation Method	Aggregate Cost 20-year Amortization Method	January 1 Prepaid (Accrued)	Contribution	PBO
Xcel Energy Pension Plan (XEPP)												
Discontinued Operations[2]	-	3,051	(4,468)	-	3,050	1,633	-	N/A	N/A	33,632	3,785	73,890
Xcel Energy Nuclear	5,834	4,153	(6,079)	(214)	630	4,324	-	3,834	3,392	(8,658)	5,052	100,213
NSP - MN	19,598	32,928	(48,176)	100	29,580	34,030	-	30,873	27,312	313,067	41,669	806,830
NSP - WI	4,433	5,709	(8,356)	(30)	4,447	6,203	-	N/A	N/A	43,681	7,239	139,764
Xcel Services[3]	21,737	26,095	(38,200)	(985)	13,112	21,759	-	N/A	N/A	84,737	32,227	632,568
XEPC (former EMI)	-	23	(33)	-	2	(8)	-	N/A	N/A	(58)	28	546
Total XEPP	51,602	71,959	(105,312)	(1,129)	50,821	67,941	-	34,707	30,704	466,401	90,000	1,753,811
NCE Non-Bargaining Pension Plan												
Discontinued Operations - Cheyenne	-	146	(203)	-	146	89	-	N/A	N/A	1,545	65	3,601
PSCo	3,915	7,642	(10,625)	(165)	3,321	4,088	-	N/A	N/A	17,104	3,434	187,999
SPS	2,431	3,347	(4,645)	(137)	2,608	3,604	-	N/A	N/A	23,427	1,501	83,030
Total NCE	6,346	11,135	(15,473)	(302)	6,075	7,781	-	N/A	N/A	42,076	5,000	274,630
SPS Bargaining Plan												
SPS	6,377	16,788	(23,998)	-	8,741	7,908	-	N/A	N/A	120,664	15,000	394,752
Total SPS	6,377	16,788	(23,998)	-	8,741	7,908	-	N/A	N/A	120,664	15,000	394,752
PSCo Bargaining Plan												
Discontinued Operations - Cheyenne	-	416	(547)	-	421	290	-	N/A	N/A	6,218	386	9,963
PSCo	21,667	43,985	(57,881)	(3,212)	22,122	26,681	-	N/A	N/A	242,695	39,614	1,041,247
Total PSCo	21,667	44,401	(58,428)	(3,212)	22,543	26,971	-	N/A	N/A	248,913	40,000	1,051,210
Total Xcel Energy	85,992	144,283	(203,211)	(4,643)	88,180	110,601	-	34,707	30,704	878,054	150,000	3,474,403

[1] Settlement accounting may be required if lump sum benefit payments exceed the sum of service cost and interest on a plan by plan basis. No settlements have been estimated at this time.
[2] Includes NRG, BMG, Viking, Natro Gas, Utility Engineering, Seren, Quixx, Crockett and QPS
[3] Includes Eloigne

Assumptions

Discount Rate - U.S. GAAP	
XEPP	4.31%
NCE	4.25%
SPS	4.37%
PSCo	4.36%
Discount Rate - Aggregate Normal Cost	7.10%
Salary Scale	3.75%
Expected Return on Assets	
XEPP	7.10%
NCE	6.90%
SPS	6.75%
PSCo	6.50%
Assumed Mortality Table	
Bargaining Participants	RP-2014 Blue Collar projected with generational mortality improvements using an adjusted SOA MP-2016 methodology
Non-bargaining Participants	RP-2014 White Collar, as adjusted for 2014 Xcel Energy mortality study, projected with generational mortality improvements using an adjusted SOA MP-2016 methodology

See May 17, 2019 letter for additional information on data, assumptions, methods, and plan provisions.
Contributions already made are allocated in accordance with the January 2, 2019 contribution directives.

XCEL ENERGY INC. - Nonqualified Pension Plans
Cost by Legal Entity
($ in Thousands)

2019	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Settlement Charge[1]	Net Cost	January 1 Prepaid (Accrued)	Expected Benefit Payments
Discontinued Operations[2]	-	30	-	-	(53)	-	(23)	(1,291)	91
Xcel Energy Nuclear	80	22	-	-	(13)	-	89	(663)	42
NSP - MN	33	142	-	-	318	-	493	(272)	472
NSP - WI	17	19	-	-	2	-	38	(458)	49
PSCo[3]	41	126	-	-	300	-	467	(58)	416
SPS	11	67	-	-	120	-	198	(462)	251
Xcel Services[4]	721	898	-	133	578	-	2,330	(16,717)	4,048
XEPC (former EMI)	-	-	-	-	(3)	-	(3)	(27)	-
Total Xcel Energy	903	1,304	-	133	1,249	-	3,589	(19,948)	5,369

[1] Settlement accounting may be required if lump sum benefit payments exceed the sum of service cost and interest cost. No settlements have been estimated at this time.
[2] Includes NRG, BMG, Viking, Natrogas, Quixx, Seren and UE
[3] Includes Fort St. Vrain
[4] Includes Eloigne

Assumptions

Discount Rate	4.26%
Salary Scale (career average)	3.75%
Assumed Mortality Table	RP-2014 White Collar, as adjusted for 2014 Xcel Energy mortality study, projected with generational mortality improvements using an adjusted SOA MP-2016 methodology

See May 17, 2019 letter for additional information on data, assumptions, methods and plan provisions.

XCEL ENERGY INC. - Postretirement Benefits
U.S. GAAP Cost Estimates by Legal Entity
($ in Thousands)

2019	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	January 1 Prepaid (Accrued)	Contribution
Discontinued Operations[1]	-	309	(71)	(110)	79	207	(4,760)	658
Xcel Energy Nuclear	14	36	-	57	(15)	92	(822)	17
NSP - MN[2]	112	3,091	(129)	(3,075)	1,523	1,522	(50,755)	7,187
NSP - WI	27	528	(23)	(351)	299	480	(6,998)	1,168
PSCo	478	15,626	(18,936)	(5,399)	2,936	(5,295)	47,175	-
SPS[3]	879	1,741	(2,039)	(466)	(420)	(305)	(13,234)	-
Xcel Services[3]	43	1,132	(33)	(565)	676	1,253	(12,591)	1,587
XEPC (former EMI)	-	1	-	-	(4)	(3)	(117)	5
Total Xcel Energy	1,553	22,464	(21,231)	(9,909)	5,074	(2,049)	(42,102)	10,622

[1]Includes NRG, BMG, Viking, Natrogas, Cheyenne, Quixx and UE.
[2]Includes Eloigne and Seren.
[3]Includes Executive Life Insurance benefits.

Assumptions

Discount Rate	4.32%	
Expected Return on Assets	5.30%	
Medical Trend	Pre-65	Post-65
Initial (2019)	6.50%	5.30%
Ultimate	4.50%	4.50%
Year Ultimate Reached	2023	2023

Assumed Mortality Table
Bargaining: RPH-2014 Blue Collar headcount-weighted table adjusted for Xcel Energy mortality study, projected with generational mortality improvements using an adjusted SOA MP-2016 methodology.
Non-bargaining: RPH-2014 White Collar headcount-weighted table adjusted for Xcel Energy mortality study, projected with generational mortality improvements using an adjusted SOA MP-2016 methodology.

Contributions for PSCo and SPS are assumed equal to the net cost, but not less than zero. Contributions for other legal entities are assumed equal to the expected benefit payments.
See May 17, 2019 letter for additional information on data, assumptions, and plan provisions.

Xcel Energy Inc. - LTD and Workers' Compensation
Benefit Cost Estimates by Legal Entity
($ in Thousands)

Fiscal Year Ending	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
U.S. GAAP	Actual	Actual	Budget	Budget	Budget	Budget	Budget
Discount Rate- Workers' Compensation	3.51%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%
Former NSP - Workers' Compensation [1]							
MN/SD	339	(1,517)	270	253	235	220	205
MI/WI	(53)	(22)	3	3	3	4	3
Subtotal	286	(1,539)	273	256	238	224	208
Former NCE - Workers' Compensation [1]							
Colorado - PSCo	555	-250	52	51	48	48	46
Deductible States - Workers' Compensation							
Deductible States - SPS (KS, OK, NM, and TX)	-3	0	0	0	0	0	0
Total Xcel Energy Workers' Compensation	**838**	**(1,789)**	**325**	**307**	**286**	**272**	**254**
Discount Rate - LTD Income	3.51%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%
LTD Income							
Discontinued Operations - Cheyenne	(21)	11	4	3	3	2	1
Discontinued Operations [2]	89	89	22	20	19	18	17
NSP-MN	(22)	(153)	226	212	200	187	176
NSP-WI	(258)	(16)	48	45	43	41	38
PSCo	(117)	70	37	29	25	19	15
SPS	(7)	(76)	16	10	8	4	2
Utility Engineering	(3)	(3)	1	1	2	1	1
Xcel Services	91	3	8	6	6	6	5
XEPC	3	-	-	-	-	-	-
Total Xcel Energy LTD Income	**(245)**	**(75)**	**362**	**326**	**306**	**278**	**255**
Total Xcel Energy U.S. GAAP	**593**	**(1,864)**	**687**	**633**	**592**	**550**	**509**

[1] *Results for former NSP states include income replacement and medical benefits as well as reserve for bankrupt insurers. Colorado results include reserve for bankrupt insurers.*
[2] *Includes NRG, BMG, Viking and Natrogas.*
[3] *See May 17, 2019 letter for additional information on data, assumptions, methods, and plan provisions.*

WillisTowersWatson

May 15, 2020

Mr. Richard R. Schrubbe
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2020 VALUATION RESULTS AND 2021-2025 COST ESTIMATES

Dear Rick:

This letter summarizes the results of the 2020 plan year IRS funding valuations for Xcel Energy's qualified pension plans. Also included are final 2020 costs and updated 2021-2025 cost estimates for the Long-Term Disability (LTD) and Workers' Compensation plans, the Xcel Energy Pension Plan and the Nonqualified Pension Plan. The results for these plans have been updated from the February 7, 2020 results to reflect the following:

- 2020 census data and final discount rate for the LTD and Workers' Compensation plans.
- Final Mankato Energy Center (MEC) census data for 2020 Xcel Energy Pension Plan cost. The 2021-2025 Xcel Energy Pension Plan cost estimates also assume the MEC sale closes and all benefits are paid by the end of 2020.
- A $2.0 million 2020 settlement charge estimate for the Nonqualifed Pension Plan.

2020 costs and 2021-2025 cost estimates for all other plans are unchanged from February 7, 2020.

Attached to this letter are benefit cost exhibits and an exhibit that provides plan specific details of the cost reconciliations for the qualified pension plans.

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PENSION PLAN FUNDING

Summary of Key Results

The key results for each plan are provided in the following table:

($ in Millions)	Xcel Energy Pension Plan	NCE Nonbargaining Plan	SPS Bargaining Plan	PSCo Bargaining Plan
Effective Interest Rate	5.22%	5.14%	5.38%	5.35%
Contribution Requirements for the 2020 Plan Year (as of January 1, 2020)				
Minimum Required Contribution Before Funding Balance	$81.9	$9.8	$12.4	$38.6
Minimum Required Contribution After Funding Balance	$0.0	$0.0	$0.0	$0.0
2020 PBGC Premiums				
PBGC Variable Rate Premiums	$0.0	$0.0	$0.0	$1.5

For all plans, there is sufficient funding balance to satisfy the entire 2020 plan year minimum funding requirements.

Funded Status

A plan's funded status is measured by comparing the present value of plan benefits to the value of plan assets. The following table summarizes the 2020 plan year funded percentages:

Minimum Funding and Benefit Restrictions – 2020 ($ in Millions)	Xcel Energy Pension Plan	NCE Nonbargaining Plan	SPS Bargaining Plan	PSCo Bargaining Plan
1. Effective Interest Rate	5.22%	5.14%	5.38%	5.35%
2. Target Liability as of January 1	$1,489.1	$225.3	$333.2	$931.3
3. Actuarial Value of Assets as of January 1[1]	$1,591.4	$234.3	$378.7	$960.2
4. Funding Balance as of January 1	$223.2	$11.4	$70.1	$139.3
5. Funded Percentage before funding balance reduction from plan assets [(3) / (2)]	106.9%	104.0%	113.7%	103.1%
6. Funded Percentage with funding balance reduction from plan assets (FTAP) [((3) – (4)) / (2)]	91.9%	99.0%	92.6%	88.1%
7. Preliminary Adjusted Funding Target Attainment Percentage (AFTAP)[2]	106.9%	104.0%	113.7%	103.1%

[1] Includes present value of receivable contributions
[2] If Actuarial Value of Assets/Target Liability >= 100%, the AFTAP matches line 5; otherwise it matches line 6

Benefit Restrictions

Based on the 2020 funding results, benefit restrictions are not expected to apply for the 2020 plan year since the preliminary AFTAP for each plan exceeds 80.0%. The PSCo Bargaining Plan was certified on March 31, 2020 and no benefit restrictions apply for the 2020 plan year. We will provide our certification of the funded status for the other plans prior to the September 30, 2020 deadline.

Funding Balances

The following summarizes the funding balance activity for the Xcel Energy pension plans.

($ in Millions)	Xcel Energy Pension Plan	NCE Nonbargaining Plan	SPS Bargaining Plan	PSCo Bargaining Plan
Funding Balances at January 1, 2019	**$202.2**	**$4.5**	**$61.2**	**$117.9**
Funding Balances used for the 2019 plan year	(49.3)	(4.5)	(7.8)	(13.5)
Excess contributions elected to be added to funding balance	37.8	11.4	5.4	12.7
Investment experience adjustments	32.5	0.0	11.3	22.2
Amount of funding balance forfeited for AFTAP purposes	0.0	0.0	0.0	0.0
Funding Balances at January 1, 2020	**$223.2**	**$11.4**	**$70.1**	**$139.3**

PBGC Premiums

The PBGC variable rate premium amounts in the table on page two are based on the Alternative Premium Funding Target for all four plans. This assumes that the NCE Nobargaining Plan and the PSCo Bargaining Plan switch to the Alternative Premium method this year to reduce premiums. Once an election is made to change methods, that election can not be changed again for five years. Similar to prior years, we will analyze and discuss the method alternatives with you in early September before a final decision is required in early October.

The plans can eliminate variable rate premiums with the September 15, 2020 contribution amounts below:

Contribution to Avoid PBGC Variable Rate Premium ($ in Millions)	Xcel Energy Pension Plan	NCE Nonbargaining Plan	SPS Bargaining Plan	PSCo Bargaining Plan
Contribution (as of September 15, 2020)	$0.0	$0.0	$0.0	$35.3

ERISA 4010 Funded Status

An ERISA 4010 filing is required if any 4010 Funding Target Attainment Percentage (4010 FTAP) for a plan within the controlled group of the plan sponsor is less than 80%. For this purpose, the target liability is calculated using interest rates that do not reflect interest rate stabilization and plan assets are reduced by the amount of the prefunding balance and funding standard carryover balance. This determination is done as of the valuation date for the plan year ending within the information year ending December 31, 2020 (i.e., the 2020 plan year). The valuation date for the 2020 plan year is January 1, 2020. The January 1, 2020 4010 FTAPs for all Xcel Energy pension plans are as follows:

4010 FTAP – 2020 ($ in Millions)	Xcel Energy Pension Plan	NCE Nonbargaining Plan	SPS Bargaining Plan	PSCo Bargaining Plan
1. Effective Interest Rate	3.95%	3.89%	4.06%	4.04%
2. Target Liability as of January 1	$1,655.8	$247.3	$386.3	$1,070.6
3. Actuarial Value of Assets as of January 1	$1,591.4	$234.3	$378.7	$960.2
4. Funding Balance as of January 1	$223.2	$11.4	$70.1	$139.3
5. Funded Percentage with funding balance reduction from plan assets (4010 FTAP) [((3) – (4)) / (2)]	82.6%	90.1%	79.9%	76.7%

Based on the results above, a filing will be required for the 2020 information (fiscal) year unless additional contributions for the 2019 plan year are made on or before September 15, 2020. Alternatively, funding balances may be forfeited such that the 4010 FTAP for each plan is above 80%. More specifically, Xcel Energy can avoid an ERISA 4010 filing with contributions and/or funding balance forfeitures by September 15, 2020 of $0.4 million, and $35.6 million to the SPS Bargaining Plan, and PSCo Bargaining Plan respectively (amounts as of January 1, 2020). If no action is taken and a 4010 filing is required for the 2020 information year, the submission deadline will be April 15, 2021.

LONG-TERM DISABILITY AND WORKERS' COMPENSATION RESULTS

The combined 2020 cost/(income) for the Workers' Compensation plan and the Long-Term Disability plan is $1.6 million, a $0.1 million decrease in cost from our February estimate of $1.7 million. The final discount rate used for these plans is 3.41%, which is a five basis point decrease from our February results.

The actual 2020 cost/(income) for the Long-Term Disability plan is $0.9 million, which is the same as the 2020 estimated cost/(income) for the plan provided in February. The actual 2020 cost/(income) for the Workers' Compensation plan is $0.8 million, which is a $0.1 million decrease in cost from the estimated 2020 cost/(income) of $0.9 million for the plan provided in February. The decrease is primarily due to to higher than expected medical payments in Minnesota and South Dakota and favorable indemnity claims experience in Colorado, which was partially offset by unfavorable incurred indemnity and medical claims experience in Minnesota and South Dakota.

RESULTS EXHIBITS

Final 2020 benefit costs (prior to potential/final settlement charges) and 2021-2025 benefit cost forecasts are attached to the end of this letter. Except as noted on page one of this letter, benefit cost results and forecasts are unchanged from the results provided on February 7, 2020. 2020 benefit costs and estimates of 2021-2025 benefit costs summarized by legal entity are presented in the attached exhibits as follows:

- Exhibit I: Benefit Cost Estimates – Qualified Pension Plans
- Exhibit II: Benefit Cost Estimates – Nonqualified Pension Plans
- Exhibit III: Benefit Cost Estimates – Retiree Medical and Life Insurance Plan
- Exhibit IV: Liabilities – LTD and Workers' Compensation
- Exhibit V: Claims and Expenses – LTD and Workers' Compensation
- Exhibit VI: Benefit Cost Estimates – LTD and Workers' Compensation
- Exhibit VII: Benefit Cost Reconciliation Details – Qualified Pension Plans

Plans Valued

The attached exhibits include estimates for the following employee benefit plans maintained by Xcel Energy Inc. (Xcel Energy):

- Xcel Energy Pension Plan
- Xcel Energy Inc. Nonbargaining Pension Plan (South) [NCE Nonbargaining Plan]
- New Century Energies Inc. Retirement Plan for SPS Bargaining Unit Employees and Former Nonbargaining Unit Employees [SPS Bargaining Plan]
- New Century Energies Inc. Retirement Plan for PSCo Bargaining Unit Employees and Former Nonbargaining Unit Employees [PSCo Bargaining Plan]
- Xcel Energy Nonqualified Defined Benefit Plan
- Xcel Energy SERP
- SPS SERP
- Employment Agreements
- Fort St. Vrain Nuclear Operations Personnel Plan
- NMC SERP Part A
- Xcel Energy Retiree Medical and Life Insurance Plan (including Executive Life Insurance)
- Xcel Energy Workers' Compensation
- Xcel Energy Long-Term Disability (LTD) Income

FORECAST RESULTS

Forecast results are based on the information summarized below.

The following provides a reconciliation of actual 2020 costs to 2021 estimated costs, prior to regulatory effects and potential qualified plan settlement charges:

Reconciliation of Benefit Costs (prior to regulatory effects and potential settlement charges)

($ in Millions)	Qualified Pension[1]	Nonqualified Pension	Retiree Medical	Workers' Compen-sation	Long Term Disability	Total
Final 2020[2]	**$103.6**	**$4.2**	**($4.4)**	**$0.8**	**$0.9**	**$105.1**
Historical asset performance	(6.0)	0.0	0.0	0.0	0.0	(6.0)
Expected liability, asset, and loss amortization changes	(12.3)	0.0	(0.5)	(0.5)	(0.6)	(13.9)
Reduced loss amortization from estimated 2020 settlement charge	0.0	(0.3)	0.0	0.0	0.0	(0.3)
Initial 2021 Estimate	**$85.3**	**$3.9**	**($4.9)**	**$0.3**	**$0.3**	**$84.9**

[1] Qualified Pension Plan costs reflect the assumption that NSP-MN and Xcel Energy Nuclear costs are determined under the Aggregate Cost Compensation Method. No additional regulatory deferrals have been reflected. See Exhibit VII for additional details.
[2] Not including estimated 2020 settlement charges.

DATA, ASSUMPTIONS, METHODS AND PLAN PROVISIONS FOR BENEFIT COSTS

The 2020 benefit costs, and estimated 2021-2025 costs reflect the following data, assumptions, methods and plan provisions:

Data

For the qualified and nonqualified pension plans and the retiree medical plan, the 2020 benefit cost results and estimates for 2021-2025 are based on participant data as of January 1, 2019, projected to the end of the year based on status, compensation and benefit changes through November 30, 2019, and known retirements for December 2019. Actual new entrants through November 30, 2019, and expected new entrants through December 31, 2019 are included for the pension plans. Mankato Energy Center employees are also included for the Xcel Energy Pension Plan. See our February 7, 2020 letter and February 28, 2020 valuation report appendices for more details. For the Workers' Compensation and Long-Term Disability plans, the 2020 benefit cost results and estimated costs for 2021-2025 are based on participant data as of January 1, 2020.

Economic Assumptions

The key assumptions used to determine the actual 2020 and estimated 2021-2025 benefit cost results are provided below. The assumptions used to calculate the cost under the aggregate cost method are the same as used to prepare the ASC 715 results, except as noted. Actual asset returns net of administrative expenses are assumed to equal the expected return on assets assumptions throughout the forecast period.

	May 15, 2020 Results
Benefit Cost	
Discount Rate – ASC 715:	
Xcel Energy Pension Plan	3.48%
NCE Nonbargaining Pension Plan	3.39%
SPS Bargaining Pension Plan	3.58%
PSCo Bargaining Pension Plan	3.58%
Nonqualified Pension Plan	3.33%
Retiree Medical and Life Insurance Plan	3.47%
Workers' Compensation and LTD	3.41%
Expected Return on Assets Assumption – Pension:	
Xcel Energy Pension Plan	7.10%
NCE Nonbargaining Pension Plan	6.90%
SPS Bargaining Pension Plan	6.75%
PSCo Bargaining Pension Plan	6.50%
Weighted Average Expected Return	6.87%
Expected Return on Assets Assumption – VEBA (Bargaining/Nonbargaining)	4.50%
Discount Rate – Aggregate Cost	7.10%
Salary Scale[1]	3.75%
Initial Medical Trend:	
Pre-Medicare	6.00%
Post-Medicare	5.10%
Ultimate Medical Trend	4.50%
Year Ultimate Trend is Reached	2023

[1] Career average of age-graded table (nonbargaining) and service-graded table (bargaining)

- The interest rate for converting lump sums to annuities and annuities to lump sums was updated from 4.10% to 3.25% in all years. The pre-PPA lump sum conversion interest rate was updated from 3.10% to 2.50%.
- The interest crediting rate for the 5% cash balance formula was updated from 3.10% to 2.50%. The interest crediting rate for the Retirement Spending Account was updated from 3.60% to 2.50%.

Demographic Assumptions

- Active participant counts are assumed to remain level throughout the forecast period.
- The mortality assumption was updated from the RP-2014 Collar distinct tables, as adjusted for 2014 Xcel Energy mortality study, projected with generational mortality improvements using an adjusted SOA MP-2016 methodology to the Pri-2012 Collar distinct tables, as adjusted for 2019 Xcel Energy mortality study, projected with generational mortality improvements using an adjusted SOA MP-2019 methodology.
- The mortality assumption for converting between lump sums and annuities was updated to the 2020 IRS for 2020 commencements, the 2021 IRS table for 2021 commencements and the 2021 IRS table projected to commencement date using the MP-2019 improvement scale for commencements in 2022 and beyond.

Pension Contributions

The benefit cost forecasts reflect 2020 contributions of $150 million made on January 2, 2020, and planned contributions provided by Xcel Energy for 2021 through 2025. The table below summarizes the amounts assigned to each plan over the forecast period:

	Year					
Plan	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Xcel Energy Pension Plan	$ 85.1	$ 68.0	$ 48.0	$ 70.0	$ 90.0	$ 75.0
NCE Nonbargaining Plan	15.0	12.0	12.0	15.0	5.0	5.0
SPS Bargaining Plan	10.0	10.0	5.0	0.0	5.0	15.0
PSCo Bargaining Plan	40.0	35.0	35.0	15.0	55.0	60.0
Total Contribution	**$ 150.1**	**$ 125.0**	**$ 100.0**	**$ 100.0**	**$ 155.0**	**$ 155.0**

- Contributions in 2021 and beyond are assumed to be paid on January 15 and assigned to the prior plan year.
- The above planned contributions may not be sufficient to meet minimum requirements under all economic scenarios. The planned contributions will be reviewed later this year and updated as needed to reflect current economic conditions and Xcel Energy's capital plans.

Plan Provision Updates

- Effective January 1, 2020, the "greater-of" calculation for NSP Bargaining employees was extended through 2022.

DATA, ASSUMPTIONS, METHODS AND PLAN PROVISIONS FOR PENSION PLAN FUNDING

Data

The 2020 pension funding results are based on data as of January 1, 2020 with the inclusion of 21 Mankato Energy Center employees within the Xcel Energy Pension Plan. The January 1, 2020 census data will be summarized in our upcoming data memos which are expected to be provided within the next month.

Economic Assumptions

All economic assumptions for the funding results are the same as noted above under the Benefit Cost section, except the discount rates and interest rates for converting between form of payment types. For funding purposes, the discount rates and form of payment conversions are based on the following 3-segment rates:

- 3-segment rates reflecting stabilization (3.64% / 5.21% / 5.94%)
- 3-segment rates not reflecting stabilization (2.79% / 3.92% / 4.38%))
- Applicable month: September

Demographic Assumptions

All demographic assumptions for the funding results are the same as noted above under the Benefit Cost section, except the mortality assumption. The mortality assumption reflects the IRS prescribed static mortality assumption for 2020 valuations.

Plan Provision Updates

All plan provisions valued for the funding results are the same as noted above under the Benefit Cost section.

ACTUARIAL CERTIFICATION

This valuation has been conducted in accordance with generally accepted actuarial principles and practices. However please note the information discussed below regarding this valuation.

Reliances

In preparing the results presented in this report, we have relied upon information regarding plan provisions, participants, assets, sponsor accounting policies and methods and sponsor elections provided Xcel Energy Inc. and other persons or organizations designated by Xcel Energy Inc. In addition, the results in this report are dependent on contributions reported for the prior plan year and maintenance of funding balance elections after the valuation date. We have relied on all the data and information provided as complete and accurate. We have reviewed this information for overall reasonableness and consistency, but have neither audited nor independently verified this information. Based on discussions with and concurrence by the plan sponsor, assumptions or estimates may have been made if data were not available. We are not aware of any errors or omissions in the data that would have a significant effect on the results of our calculations. The results presented in this report are directly dependent upon the accuracy and completeness of the underlying data and information. Any material inaccuracy in the data, assets, plan provisions or other information provided to us may have produced results that are not suitable for the purposes of this report and such inaccuracies, as corrected by Xcel Energy Inc., may produce materially different results that could require that a revised report be issued.

Assumptions and methods under ERISA and the Internal Revenue Code for funding purposes

The plan sponsor selected, as prescribed by regulation, key assumptions and funding methods (including the mortality assumption, asset valuation method and the choice among prescribed interest rates) employed in the development of the contribution amounts and communicated them to us in the letter(s) dated March 13, 2020. To the extent not prescribed by ERISA, the Internal Revenue Code and regulatory guidance from the Treasury and the IRS, or selected by the sponsor, the actuarial assumptions and methods employed in the development of the contribution amounts have been selected by Willis Towers Watson, with the concurrence of the plan sponsor. It is beyond the scope of this actuarial valuation to analyze the reasonableness and appropriateness of prescribed methods and assumptions, or to analyze other sponsor elections from among the alternatives available for prescribed methods and assumptions. Other than prescribed assumptions, ERISA and the Internal Revenue Code require the use of assumptions each of which is "reasonable (taking into account the experience of the plan and reasonable expectations), and which, in combination, offer the actuary's best estimate of anticipated experience under the plan." The results shown in this report have been developed based on actuarial assumptions that, to the extent evaluated or selected by Willis Towers Watson, we consider to be reasonable. Other actuarial assumptions could also be considered to be reasonable. Thus, reasonable results differing from those presented in this report could have been developed by selecting different reasonable assumptions. Note that any subsequent changes in methods or assumptions for the 2020 plan year for any plan will change the results shown in this report for such plan, and could result in plan qualification issues under IRC §436 if the application of benefit restrictions is affected by the change.

This valuation reflects our understanding of the relevant provisions of the Pension Protection Act of 2006 and subsequent amendments. The IRS has yet to issue final guidance with respect to certain aspects of these laws. It is possible that such guidance may conflict with our understanding of these laws based on currently available guidance and could therefore affect results shown in this report.

The funding results prepared in this letter are subject to Actuarial Standard of Practice (ASOP) 51 regarding disclosure of significant risks related to the calculation of actuarially determined contributions. The ASOP 51 appendices in the actuarial valuation reports to determine funding requirements for the plan year beginning January 1, 2020 dated March 31, 2020 (PSCo) and January 1, 2019 dated September 30, 2019 (All other plans) should be considered part of this report.

Assumptions and methods under US-GAAP

As required by U.S. GAAP, the actuarial assumptions and methods employed in the development of the pension cost and other financial reporting have been selected by Xcel Energy Inc. Willis Towers Watson has concurred with these assumptions and methods, except for the expected rate of return on plan assets selected as of January 1, 2020. A complete evaluation of the expected return assumption was outside the scope of Willis Towers Watson's assignment and would have required substantial additional work that we were not engaged to perform. Based on information Willis Towers Watson received from Xcel Energy Inc.'s investment advisors, we do not believe the expected return on plan assets assumption is significantly biased. U.S. GAAP requires that each significant assumption "individually represent the best estimate of a particular future event." The results shown in this report have been developed based on actuarial assumptions that, to the extent evaluated by Willis Towers Watson, we consider to be reasonable. Other actuarial assumptions could also be considered to be reasonable. Thus, reasonable results differing from those presented in this report could have been developed by selecting different reasonable assumptions. Note that any subsequent changes in methods or assumptions for the January 1, 2020 measurement date will change the results shown in this report.

Xcel Energy Inc. uses the standards set out in ASC 715 to calculate pension cost for each plan in total; pension cost for the subsidiaries (excluding MEC) is calculated based on plan assets allocated to each subsidiary in proportion to the PBO for each subsidiary. For 2020, pension cost for MEC has been calculated assuming the beginning of year asset value is $0. Beginning in fiscal 2010, Discontinued Operations is allocated assets in proportion to its PBO, similar to nondiscontinued operations. The gain/(loss) amortization is allocated to each subsidiary in proportion to the gain/(loss) balance for each subsidiary (excluding deferred asset gains and losses). This methodology is consistent with former NSP's methodology since 1998 and has been applied to the former NCE pension plans since January 1, 2001. A similar methodology is used for the ASC 715 costs for the Retiree Medical and Life Plan, except separate asset accounts are used for each subsidiary.

Nature of actuarial calculations

The results shown in this report are estimates based on data that may be imperfect and on assumptions about future events that cannot be predicted with any certainty. The effects of certain plan provisions may be approximated, or determined to be insignificant and therefore not valued. Reasonable efforts were made in preparing these valuations to confirm that items that are significant in the context of the actuarial liabilities or costs are treated appropriately, and are not excluded or included inappropriately. Any rounding (or lack thereof) used for displaying numbers in this report is not intended to imply a degree of precision, which is not a characteristic of actuarial calculations. If overall future plan experience produces higher benefit payments or lower investment returns than assumed, the relative level of plan costs or contribution requirements reported in this valuation will likely increase in future valuations (and vice versa). Future actuarial measurements may differ significantly from the current measurements presented in this report due to many factors, including: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for the measurements (such as the end of an amortization period); or additional contribution requirements based on the plan's funded status; and changes in plan provisions or applicable law. It is beyond the scope of this valuation to analyze the potential range of future pension contributions, but we can do so upon request.

Limitations on use

This report is provided subject to the terms set out herein and in our engagement letter dated June 1, 2011 and any accompanying or referenced terms and conditions. The information contained in this report was prepared for the internal use of Xcel Energy Inc. and its auditors in connection with our actuarial valuation of the pension plans. It is not intended for and may not be used for other purposes, and we accept no responsibility or liability in this regard. Xcel Energy Inc. may distribute this actuarial valuation report to the appropriate authorities who have the legal right to require Xcel Energy Inc. to provide them this report, in which case Xcel Energy Inc. will use best efforts to notify Willis Towers Watson in advance of this distribution. Further distribution to, or use by, other parties of all or part of this report is expressly prohibited without Willis Towers Watson's prior written consent. Willis Towers Watson accepts no responsibility for any consequences arising from any other party relying on this report or any advice relating to its contents.

Except as otherwise provided herein, the results presented are based on the data, assumptions, methods, plan provisions and other information, outlined in the actuarial valuation reports to determine accounting requirements for the plan year beginning January 1, 2020 dated February 28, 2020 for all plans other than Workers' Compensation and LTD and for the plan year beginning January 1, 2020 to be delivered in the next month for the Workers' Compensation and LTD plan. The results are also based on the actuarial valuation reports to determine funding requirements for the plan year beginning January 1, 2020 dated March 31, 2020 for the PSCo Bargaining Plan and except as noted above the plan year beginning January 1, 2019 dated September 2019 for the other plans. Therefore, such information, and the reliances and limitations of the valuation report and its use, should be considered part of this letter.

Professional qualifications

The undersigned consulting actuaries are members of the Society of Actuaries and meet the "Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States" relating to pension and postretirement welfare plans. Our objectivity is not impaired by any relationship between the plan sponsor and our employer, Willis Towers Watson US LLC.

NEXT STEPS

If you have any questions or would like to discuss, please contact Mark at 952-842-6445, Kristoff at 952-842-6359 or Ali at 952-842-6225.

Sincerely,

Mark A. Afdahl, FSA, EA Director, Retirement	Kristoff M. Hendrickson, FSA, EA Director, Retirement	Ali Rehan Rattansi, ASA, EA Associate Director, Retirement

cc: Todd Degrugillier — Xcel Energy Inc.
Darla Figoli — Xcel Energy Inc.
Levi Glines — Xcel Energy Inc.
Kris Lindemann — Xcel Energy Inc.
Ruth Lowenthal — Xcel Energy Inc.
Garrett Mikrut — Xcel Energy Inc.
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Nancy Monson — Willis Towers Watson
Jim Shaddy — Willis Towers Watson
Ariah Tough — Willis Towers Watson

http://natct.internal.towerswatson.com/clients/609084A/XcelRETActuarial-2020/Documents/Projections/May/L_05152020_Schrubbe_2020_Cost_Funding.docx

XCEL ENERGY INC. - Qualified Pension Plans
Cost by Legal Entity
($ in Thousands)

2020	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	Settlement Charge [1]	Aggregate Cost Compensation Method	Aggregate Cost 20-year Amortization Method	January 1 Prepaid (Accrued)	Contribution	PBO
Xcel Energy Pension Plan (XEPP)												
Discontinued Operations[2]	-	2,572	(4,525)	-	3,345	1,392	-	N/A	N/A	35,792	3,493	76,854
Xcel Energy Nuclear	5,830	3,543	(6,236)	(214)	874	3,797	-	3,529	3,222	(7,919)	4,846	105,931
NSP - MN	21,118	27,680	(48,698)	179	31,625	31,904	-	27,855	25,437	320,792	39,113	836,251
NSP - WI	4,723	4,790	(8,441)	(24)	4,764	5,812	-	N/A	N/A	44,732	6,734	143,385
Xcel Services[3]	23,511	22,522	(39,614)	(985)	15,191	20,625	-	N/A	N/A	95,273	30,787	675,394
XEPC (former EMI)	-	21	(35)	-	7	(7)	-	N/A	N/A	(22)	27	714
Mankato Energy Center[4]	78	-	-	-	-	78	-	N/A	N/A	-	78	-
Total XEPP	55,260	61,128	(107,549)	(1,044)	55,806	63,601	-	31,384	28,659	488,648	85,078	1,838,529
NCE Non-Bargaining Pension Plan												
Discontinued Operations - Cheyenne	-	116	(200)	-	151	67	-	N/A	N/A	1,426	193	3,579
PSCo	3,875	6,204	(10,688)	(165)	3,891	3,117	-	N/A	N/A	15,687	10,379	191,074
SPS	2,484	2,632	(4,525)	(137)	2,639	3,093	-	N/A	N/A	20,024	4,428	81,928
Total NCE	6,359	8,952	(15,413)	(302)	6,681	6,277	-	N/A	N/A	37,137	15,000	276,581
SPS Bargaining Plan												
SPS	7,148	15,243	(24,816)	-	10,477	8,052	-	N/A	N/A	127,961	10,000	436,854
Total SPS	7,148	15,243	(24,816)	-	10,477	8,052	-	N/A	N/A	127,961	10,000	436,854
PSCo Bargaining Plan												
Discontinued Operations - Cheyenne	-	351	(529)	-	448	270	-	N/A	N/A	6,314	354	10,217
PSCo	26,603	39,586	(59,815)	(2,650)	25,984	29,708	-	N/A	N/A	255,652	39,646	1,138,688
Total PSCo	26,603	39,937	(60,344)	(2,650)	26,432	29,978	-	N/A	N/A	261,966	40,000	1,148,905
Total Xcel Energy	95,370	125,260	(208,122)	(3,996)	99,396	107,908	-	31,384	28,659	915,712	150,078	3,700,869

[1] Settlement accounting may be required if lump sum benefit payments exceed the sum of service cost and interest on a plan by plan basis. No settlements have been estimated at this time.
[2] Includes NRG, BMG, Viking, Natro Gas, Utility Engineering, Seren, Quixx, Crockett and QPS
[3] Includes Eloigne
[4] Cost reflects final census data. See May 15, 2020 letter for additional details.

Assumptions

Discount Rate - U.S. GAAP	
XEPP	3.48%
NCE	3.39%
SPS	3.58%
PSCo	3.58%
Discount Rate - Aggregate Normal Cost	7.10%
Salary Scale	3.75%
Expected Return on Assets	
XEPP	7.10%
NCE	6.90%
SPS	6.75%
PSCo	6.50%
Assumed Mortality Table	
Bargaining Participants	Pri-2012 Blue Collar, as adjusted for 2019 Xcel Energy mortality study, projected with generational mortality improvements using an adjusted SOA MP-2019 methodology
Non-bargaining Participants	Pri-2012 White Collar, as adjusted for 2019 Xcel Energy mortality study, projected with generational mortality improvements using an adjusted SOA MP-2019 methodology

See May 15, 2020 letter for additional information on data, assumptions, methods, and plan provisions.
Contributions already made are allocated in accordance with the January 2, 2020 contribution directives.

XCEL ENERGY INC. - Nonqualified Pension Plans
Cost by Legal Entity
($ in Thousands)

2020	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Settlement Charge[1]	Net Cost	January 1 Prepaid (Accrued)	Expected Benefit Payments
Discontinued Operations[2]	-	22	-	-	(58)	-	(36)	(1,265)	91
Xcel Energy Nuclear	98	23	-	-	2	-	123	(715)	63
NSP - MN	34	104	-	-	309	-	447	(345)	436
NSP - WI	17	15	-	-	4	-	36	(448)	50
PSCo[3]	54	87	-	-	294	-	435	(8)	472
SPS	15	64	-	-	170	-	249	(416)	275
Xcel Services[4]	840	848	-	133	1,143	2,000	4,964	(17,481)	6,663
XEPC (former EMI)	-	-	-	-	(2)	-	(2)	(24)	-
Total Xcel Energy	1,058	1,163	-	133	1,862	2,000	6,216	(20,702)	8,050

[1] Settlement charge of $2M is a high-level estimate and assumes $3.6 million of lump sum payments representing approximately 9% of the projected liability
[2] Includes NRG, BMG, Viking, Natrogas, Quixx, Seren and UE
[3] Includes Fort St. Vrain
[4] Includes Eloigne

Assumptions

Discount Rate	3.33%
Salary Scale (career average)	3.75%
Assumed Mortality Table	Pri-2012 White Collar, as adjusted for 2019 Xcel Energy mortality study, projected with generational mortality improvements using an adjusted SOA MP-2019 methodology

See May 15, 2020 letter for additional information on data, assumptions, methods, and plan provisions.

XCEL ENERGY INC. - Postretirement Benefits
U.S. GAAP Cost Estimates by Legal Entity
($ in Thousands)

2020	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	January 1 Prepaid (Accrued)	Contribution
Discontinued Operations[1]	-	242	(75)	(111)	57	113	(4,270)	606
Xcel Energy Nuclear	16	33	-	95	(9)	135	(914)	20
NSP - MN[2]	143	2,466	(115)	(3,014)	1,279	759	(44,593)	6,880
NSP - WI	35	429	(14)	(337)	240	353	(6,736)	1,140
PSCo	248	12,690	(17,378)	(3,762)	1,542	(6,660)	55,187	-
SPS[3]	1,021	1,448	(1,897)	(425)	(411)	(264)	(12,837)	-
Xcel Services[3]	54	968	(37)	(365)	577	1,197	(12,250)	1,645
XEPC (former EMI)	-	1	-	-	(3)	(2)	(114)	2
Total Xcel Energy	1,517	18,277	(19,516)	(7,919)	3,272	(4,369)	(26,527)	10,293

[1]Includes NRG, BMG, Viking, Natrogas, Cheyenne, Quixx and UE.

[2]Includes Eloigne and Seren.

[3]Includes Executive Life Insurance benefits.

Assumptions

Discount Rate	3.47%	
Expected Return on Assets	4.50%	
Medical Trend	Pre-65	Post-65
Initial (2020)	6.00%	5.10%
Ultimate	4.50%	4.50%
Year Ultimate Reached	2023	2023

Assumed Mortality Table

Bargaining: PriH-2012 Blue Collar headcount-weighted table adjusted for Xcel Energy mortality study, projected with generational mortality improvements using an adjusted SOA MP-2019 methodology.

Non-bargaining: PriH-2012 White Collar headcount-weighted table adjusted for Xcel Energy mortality study, projected with generational mortality improvements using an adjusted SOA MP-2019 methodology.

Contributions for PSCo and SPS are assumed equal to the net cost, but not less than zero. Contributions for other legal entities are assumed equal to the expected benefit payments.
See May 15, 2020 letter for additional information on data, assumptions, methods, and plan provisions.

Xcel Energy Inc. - LTD and Workers' Compensation
Benefit Cost Estimates by Legal Entity
($ in Thousands)

Fiscal Year Ending	2019	2020	2021	2022	2023	2024	2025
U.S. GAAP	Actual	Actual	Budget	Budget	Budget	Budget	Budget
Discount Rate- Workers' Compensation	4.25%	3.41%	3.41%	3.41%	3.41%	3.41%	3.41%
Former NSP - Workers' Compensation [1]							
MN/SD	(1,517)	707	210	197	182	171	159
MI/WI	(22)	(46)	2	2	3	2	3
Subtotal	(1,539)	661	212	199	185	173	162
Former NCE - Workers' Compensation [1]							
Colorado - PSCo	(250)	95	40	39	37	36	34
Deductible States - Workers' Compensation							
Deductible States - SPS (KS, OK, NM, and TX)	-	-	-	-	-	-	-
Total Xcel Energy Workers' Compensation	**(1,789)**	**756**	**252**	**238**	**222**	**209**	**196**
Discount Rate - LTD Income	4.25%	3.41%	3.41%	3.41%	3.41%	3.41%	3.41%
LTD Income							
Discontinued Operations - Cheyenne	11	(27)	3	1	2	2	-
Discontinued Operations [2]	89	93	19	17	17	15	14
NSP-MN	(153)	516	177	166	156	146	137
NSP-WI	(16)	(54)	36	33	31	29	28
PSCo	70	177	25	21	16	14	11
SPS	(76)	79	9	6	4	2	1
Utility Engineering	(3)	(3)	1	1	1	2	-
Xcel Services	3	93	6	6	4	4	3
XEPC	-	-	-	-	-	-	-
Total Xcel Energy LTD Income	**(75)**	**874**	**276**	**251**	**231**	**214**	**194**
Total Xcel Energy U.S. GAAP	**(1,864)**	**1,630**	**528**	**489**	**453**	**423**	**390**

[1] *Results for former NSP states include income replacement and medical benefits as well as reserve for bankrupt insurers. Colorado results include reserve for bankrupt insurers.*
[2] *Includes NRG, BMG, Viking and Natrogas.*

See May 15, 2020 letter for additional information on data, assumptions, methods, and plan provisions.

Southwestern Public Service Company

Calculation of Actuarially Determined Pension and Benefit Amounts

Total Cost Amounts from Actuarial Reports

	QUALIFIED PENSION		OPEB RETIREE MEDICAL	
	2019	2020	2019	2020
SPS-NCE	3,604,000	3,093,000		
SPS-Barg	7,908,000	8,052,000		
SPS Total	11,512,000	11,145,000	(305,000)	(264,000)
Xcel Service	21,759,000	20,625,000	1,253,000	1,197,000
	(1)	(4)	(2)	(5)

Calculation of Total Cost Amounts to Cost of Service Amounts

	QUALIFIED PENSION			OPEB RETIREE MEDICAL		
	Test Year 12 Months Ending 9/30/20	2020 Cost	Known & Measurable Incr/(Decr) from Test Year	Test Year 12 Months Ending 9/30/20	2020 Cost	Known & Measurable Incr/(Decr) from Test Year
SPS						
SPS-NCE Total Cost	3,220,750	3,093,000	(127,750)			
SPS-Barg Total Cost	8,016,000	8,052,000	36,000			
Total SPS	11,236,750	11,145,000	(91,750)	(274,250)	(264,000)	10,250
Percent to SPS O&M FERC 926	57.76%	56.01%		57.76%	56.01%	
Amount to SPS O&M FERC 926	6,490,160	6,242,101	(248,059)	(158,402)	(147,861)	10,541
Xcel Service						
Xcel Service Total Cost	20,908,500	20,625,000	(283,500)	1,211,000	1,197,000	(14,000)
Percent to SPS O&M FERC 926	10.76%	10.69%		10.76%	10.69%	
Amount to SPS O&M FERC 926	2,249,194	2,205,148	(44,046)	130,271	127,979	(2,292)
Affiliate Charges	8	8	-	-	-	-
Total						
Amount to SPS O&M	**8,739,363**	**8,447,257**	**(292,106)**	**(28,131)**	**(19,883)**	**8,249**

1) Attachment RRS-2, Exhibit I Page 1 of 6
2) Attachment RRS-2, Exhibit III Page 1 of 6
4) Attachment RRS-3, Exhibit I Page 1 of 6
5) Attachment RRS-3, Exhibit III Page 1 of 6

Southwestern Public Service Company

Calculation of Actuarially Determined Pension and Benefit Amounts

Total Cost Amounts from Actuarial Reports

	FAS 112 LONG-TERM DISABILITY AND WORKERS COMPENSATION	
	2019	**2020**
SPS	(76,000)	79,000
Xcel Service	3,000	93,000
	(3)	(6)

Calculation of Total Cost Amounts to Cost of Service Amounts

	FAS 112 LONG-TERM DISABILITY AND WORKERS COMPENSATION		
	Test Year 12 Months Ending 9/30/20	**2020 Cost**	**Known & Measurable Incr/(Decr) from Test Year**
SPS			
SPS Total Cost	40,250	79,000	38,750
Percent to SPS O&M FERC 926	57.76%	56.01%	
Amount to SPS O&M FERC 926	23,248	44,246	20,999
Xcel Service			
Xcel Service Total Cost	70,500	93,000	22,500
Percent to SPS O&M FERC 926	10.76%	10.69%	
Amount to SPS O&M FERC 926	7,584	9,943	2,359
Affiliate Charges	-	-	-
Total			
Amount to SPS O&M	**30,832**	**54,190**	**23,358**

3) Attachment RRS-2, Exhibit VI
6) Attachment RRS-3, Exhibit VI

Southwestern Public Service Company

Calculation of Health and Welfare Costs and the Active Health Care Known and Measurable Adjustment

Calculation of Total Cost Amounts to Cost of Service Amounts

	ACTIVE HEALTH CARE			MISC BENEFIT PROGRAMS AND LIFE INSURANCE			TOTAL HEALTH AND WELFARE		
	Test Year 12 Months Ending 9/30/20	Amount Included in Cost of Service	Known & Measurable Incr/(Decr) from Base Period Adjusted	Test Year 12 Months Ending 9/30/20	Amount Included in Cost of Service	Known & Measurable Incr/(Decr) from Base Period Adjusted	Test Year 12 Months Ending 9/30/20	Amount Included in Cost of Service	Known & Measurable Incr/(Decr) from Test Year Adjusted
SPS									
Total Cost Per Book Amount	15,566,151	16,346,956		823,419	885,069		16,389,570	17,232,025	
Percent to SPS O&M FERC 926	57.75%	55.99%		57.76%	56.01%		57.76%	55.99%	
Amount to SPS O&M FERC 926	8,989,537	9,152,804	163,267	475,593	495,709	20,116	9,465,130	9,648,513	183,382
Xcel Service									
Total Cost on Incurred Basis	38,104,762	40,702,171		5,946,119	5,544,003		44,050,881	46,246,174	
Percent to SPS O&M FERC 926	10.80%	10.71%		10.76%	10.69%		10.76%	10.92%	
Amount to SPS O&M FERC 926	4,114,066	4,455,453	341,387	639,643	592,744	(46,899)	4,753,709	5,048,197	294,488
Affiliate/Other Charges	11	10	(1)	1	1	-	12	11	(1)
Total									
Amount to SPS O&M FERC 926	**13,103,614**	**13,608,267**	**504,653**	**1,115,237**	**1,088,454**	**(26,783)**	**14,218,851**	**14,696,721**	**477,870**

Southwestern Public Service Company

Average Balances - Qualified Pension

Prepaid Pension Asset - Qualified

FERC Account	JDE Object Account	SAP Object Account	Account Desciption	Dec LTD (2019)	Jan LTD (2020)	Feb LTD (2020)	Mar LTD (2020)	Apr LTD (2020)
228.3	431110.1000	2421006	Accrd Qual Pen Post 15	$ (60,640,000)	$ (46,059,167)	$ (45,906,333)	$ (45,753,500)	$ (45,600,667)
182.3	150201.1700	1151021	FAS 158 Reg Asset Pensi	11,054,000	(11,054,000)	(11,054,000)	(12,578,750)	(12,578,750)
182.3	244510.9997	1402006	FAS 158 RA Pension Cont	(11,054,000)	11,054,000	11,054,000	12,578,750	12,578,750
182.3	244510.1700	1402006	FAS 158 Reg Asset Pensi	208,761,253	207,543,670	206,462,086	205,380,503	204,298,920
Total Prepaid Pension Asset - Qualified				**$ 148,121,253**	**$ 161,484,503**	**$ 160,555,753**	**$ 159,627,003**	**$ 158,698,253**

Prepaid Pension Asset - Qualified

FERC Account	JDE Object Account	SAP Object Account	Account Desciption	May LTD (2020)	June LTD (2020)	Jul LTD (2020)	Aug LTD (2020)	Sep LTD (2020)
228.3	431110.1000	2421006	Accrd Qual Pen Post 15	$ (45,447,833)	$ (45,295,000)	$ (45,142,167)	$ (44,989,333)	$ (44,836,500)
182.3	150201.1700	1151021	FAS 158 Reg Asset Pensi	(12,578,750)	(12,178,500)	(12,178,500)	(12,178,500)	(11,778,250)
182.3	244510.9997	1402006	FAS 158 RA Pension Cont	12,578,750	12,178,500	12,178,500	12,178,500	11,778,250
182.3	244510.1700	1402006	FAS 158 Reg Asset Pensi	203,217,336	202,135,753	201,054,170	199,972,586	198,891,003
Total Prepaid Pension Asset - Qualified				**$ 157,769,503**	**$ 156,840,753**	**$ 155,912,003**	**$ 154,983,253**	**$ 154,054,503**

Prepaid Pension Asset - Qualified

FERC Account	JDE Object Account	SAP Object Account	Account Desciption	Oct LTD (2020)	Nov LTD (2020)	Dec (est) LTD (2020)	13 Month Average
228.3	431110.1000	2421006	Accrd Qual Pen Post 15	$ (44,683,667)	$ (44,530,833)	$ (44,378,000)	
182.3	150201.1700	1151021	FAS 158 Reg Asset Pensi	(11,778,250)	(11,778,250)	(11,378,000)	
182.3	244510.9997	1402006	FAS 158 RA Pension Cont	11,778,250	11,778,250	11,378,000	
182.3	244510.1700	1402006	FAS 158 Reg Asset Pensi	197,809,420	196,727,836	195,646,253	
Total Prepaid Pension Asset - Qualified				**$ 153,125,753**	**$ 152,197,003**	**$ 151,268,253**	**$ 157,697,353**

Southwestern Public Service Company

Prepaid Qualified Pension Asset

($ in Thousands)	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*
	Aug. 31	**Aug. 31**	**Aug. 31**	**Aug. 31**	**Aug. 31**	**Aug. 31**	**Aug. 31**	**Aug. 31**	**Aug. 31**	**Sep. - Dec.**
	1988	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**Transition**
Begining Balance Pension Asset (Liability)	$ 2,706	$ 3,724	$ 3,902	$ 4,531	$ (5,955)	$ (7,207)	$ (7,347)	$ (7,039)	$ (7,045)	$ (6,905)
Pension (Expense) Credit Accrual	$ 1,018	$ (471)	$ (1,332)	$ (2,464)	$ (2,487)	$ (1,354)	$ (761)	$ (1,097)	$ (855)	$ 9
Net Employer Contributions	$ -	$ 649	$ 1,961	$ -	$ 1,235	$ 1,214	$ 1,069	$ 1,091	$ 995	$ 348
Other				$ (8,022)						
Ending Balance Pension Asset (Liability)	$ 3,724	$ 3,902	$ 4,531	$ (5,955)	$ (7,207)	$ (7,347)	$ (7,039)	$ (7,045)	$ (6,905)	$ (6,548)

Southwestern Public Service Company

Prepaid Qualified Pension Asset

($ in Thousands)	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*
	Dec. 31	**Dec. 31**	**Dec. 31**	**Dec. 31**	**Dec. 31**	**Dec. 31**	**Dec. 31**	**Dec. 31**	**Dec. 31**	**Dec. 31**
	1997	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Begining Balance Pension Asset (Liability)	$ (6,548)	$ -	$ 24,611	$ 40,087	$ 61,359	$ 82,503	$ 105,044	$ 121,580	$ 132,757	$ 143,309
Pension (Expense) Credit Accrual	$ 12,645	$ 15,175	$ 15,476	$ 21,352	$ 21,131	$ 22,235	$ 16,536	$ 11,177	$ 9,102	$ 6,934
Net Employer Contributions	$ (6,097)		$ -	$ -	$ -	$ -	$ -	$ -	$ 1,450	$ 584
Other		$ 9,436		$ (80)	$ 14	$ 306				
Ending Balance Pension Asset (Liability)	$ -	$ 24,611	$ 40,087	$ 61,359	$ 82,503	$ 105,044	$ 121,580	$ 132,757	$ 143,309	$ 150,827

Southwestern Public Service Company

Prepaid Qualified Pension Asset

($ in Thousands)	*Actual* Dec. 31 2007	*Actual* Dec. 31 2008	*Actual* Dec. 31 2009	*Actual* Dec. 31 2010	*Actual* Dec. 31 2011	*Actual* Dec. 31 2012	*Actual* Dec. 31 2013	*Actual* Dec. 31 2014	*Actual* Dec. 31 2015	*Actual* Dec. 31 2016
Begining Balance Pension Asset (Liability)	$ 150,827	$ 158,778	$ 169,516	$ 184,514	$ 178,721	$ 171,936	$ 167,329	$ 167,773	153,681	147,626
Pension (Expense) Credit Accrual	$ 7,951	$ 10,738	$ 6,644	$ (5,793)	$ (11,961)	$ (17,624)	$ (21,571)	$ (16,829)	(17,706)	(15,404)
Net Employer Contributions	$ -	$ -	$ 8,354	$ -	$ 5,176	$ 13,060	$ 22,015	$ 4,869	11,651	18,088
Other						$ (44)		$ (2,132)		(6,135)
Ending Balance Pension Asset (Liability)	$ 158,778	$ 169,516	$ 184,514	$ 178,721	$ 171,936	$ 167,329	$ 167,773	$ 153,681	$ 147,626	$ 144,174

Southwestern Public Service Company

Prepaid Qualified Pension Asset

($ in Thousands)	*Actual*	*Actual*	*Actual*	*Forecast*
	Dec. 31	**Dec. 31**	**Dec. 31**	**Dec. 31**
	2017	**2018**	**2019**	**2020**
Begining Balance Pension Asset (Liability)	144,174	153,002	144,091	148,121
Pension (Expense) Credit Accrual	(14,566)	(13,732)	(11,512)	(11,145)
Net Employer Contributions	23,503	8,033	17,916	14,428
Other	(109)	(3,212)	(2,374)	(136)
Ending Balance Pension Asset (Liability)	$ 153,002	$ 144,091	$ 148,121	$ 151,268