

**NOTICE OF CONFIDENTIALITY**  
**ATTACHMENTS TO THIS TESTIMONY HAVE BEEN FILED UNDER SEAL**

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

\* \* \* \* \*

IN THE MATTER OF ADVICE NO. )  
1029-GAS OF PUBLIC SERVICE )  
COMPANY OF COLORADO TO )  
REVISE ITS COLORADO PUC NO. 6- )  
GAS TARIFF TO INCREASE )  
JURISDICTIONAL BASE RATE )  
REVENUES, IMPLEMENT NEW BASE ) PROCEEDING NO. 24AL-\_\_\_\_G  
RATES FOR ALL GAS RATE )  
SCHEDULES, AND MAKE OTHER )  
PROPOSED TARIFF CHANGES )  
EFFECTIVE FEBRUARY 29, 2024 )

**DIRECT TESTIMONY AND ATTACHMENTS OF MICHAEL P. DESELICH**

**ON**

**BEHALF OF**

**PUBLIC SERVICE COMPANY OF COLORADO**

**NOTICE OF CONFIDENTIALITY**  
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**Confidential:** Confidential Attachment MPD-1  
Confidential Attachment MPD-2, redactions on page 5 and 16

**January 29, 2024**

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Attachment MPD-1C	Confidential Version of 2023 Willis Towers Watson Competitive Total Direct Compensation Analysis
Attachment MPD-1	Public Version of 2023 Willis Towers Watson Competitive Total Direct Compensation Analysis
Attachment MPD-2C	Confidential Version of 2022 and 2023 Xcel Energy Non-Bargaining, Exempt Employee Annual Incentive Program
Attachment MPD-2	Public Version of 2022 and 2023 Xcel Energy Non-Bargaining, Exempt Employee Annual Incentive Program

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**DIRECT TESTIMONY AND ATTACHMENTS OF MICHAEL P. DESELICH**

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

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

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

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

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

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

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

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

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

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

11 A. My Direct Testimony serves two purposes: (1) to address and justify the  
12 reasonableness of the “Total Rewards Program,” which is the term that Xcel  
13 Energy uses to describe the compensation and non-cash benefits offered to Xcel  
14 Energy employees;<sup>1</sup> and (2) to demonstrate that the compensation amounts that  
15 Public Service asks the Colorado Public Utilities Commission (“Commission”) to  
16 approve for the 2023 Test Year (“Test Year” or “2023 Test Year”) are just and  
17 reasonable. In furtherance of those purposes, my Direct Testimony addresses the  
18 following topics:

- 19
- 20 • Total Rewards Program – I explain that the Total Rewards Program is  
21 designed to attract, retain, and motivate skilled employees by offering the  
22 levels and types of compensation and benefits that are comparable to the  
23 compensation and benefits offered by the employers with whom Public  
Service competes for employees.

---

<sup>1</sup> Company witness Richard R. Schrubbe separately describes and supports the Company’s request to recover its expenses for non-cash benefits, including active health and welfare expense, pension and other post-employment benefit expense, workers’ compensation expense, and other benefit-related costs.

- 1           • Base Pay/Wages – I describe and quantify the base pay/wages element of  
2           the Company’s compensation structure and explain that the levels  
3           requested by Public Service in this case are reasonable and necessary  
4           costs of providing gas service.
- 5           • Annual Incentive Program (“AIP”) – I describe the structure of the  
6           Company’s AIP and quantify the AIP expense that Public Service asks the  
7           Commission to approve for inclusion in base rates in this proceeding.
- 8           • Long-Term Incentive (“LTI”) – I describe the structure of the LTI  
9           compensation program and quantify the LTI costs that the Company is  
10          asking the Commission to approve for inclusion in base rates in this  
11          proceeding.
- 12          • Recognition Program – I describe the Recognition Program and quantify the  
13          expense requested in connection with that program.
- 14          • Non-Cash Benefits – I describe the health, welfare, and retirement benefits  
15          offered to Xcel Energy employees and the initiatives undertaken by Xcel  
16          Energy to limit increases in these costs, and I explain that the benefits  
17          offered in connection with the Total Rewards Program are reasonable and  
18          necessary.

19   **Q.     PLEASE SUMMARIZE YOUR DIRECT TESTIMONY.**

20   A.     The Total Rewards Program and its component parts are reasonable when  
21          compared to the market and are therefore necessary to attract, retain, and  
22          motivate the employees who are required to provide safe and reliable gas service  
23          to Public Service customers. Even though the Total Rewards Program as a whole  
24          provides a market-competitive compensation and benefits package, Public Service  
25          is not requesting recovery of every component of the Total Rewards Program. The  
26          cost of service study, which is Attachment APF-1 to the Direct Testimony of  
27          Company witness Mr. Arthur P. Freitas (“Cost of Service Study”), includes the  
28          requested compensation-related amounts that I support, which are based upon

1 actual costs incurred in the 12-month period ended September 30, 2023, along  
 2 with certain known and measurable adjustments for the 2023 Test Year. A  
 3 summary of Test Year compensation and benefits Operations and Maintenance  
 4 (“O&M”) expenses is contained on Table MPD-D-1 below.

5 **TABLE MPD-D-1**  
 6 **Compensation and Benefits O&M Expenses**

<b>O&amp;M Expense Categories</b>	<b>12 Months Ended December 31, 2021</b>	<b>12 Months Ended September 30, 2023</b>	<b>Adjustments</b>	<b>2023 Test Year<sup>2</sup></b>
Bargaining Employee Wages <sup>3</sup>	\$14,995,238	\$28,122,944	\$2,968,993	\$31,091,937
Non-Bargaining Employee Base Pay	\$77,017,511	\$68,593,362	\$6,258,763	\$74,852,125
<i>Subtotal of Bargaining Wages and Non-Bargaining Base Pay</i>	<i>\$92,012,748</i>	<i>\$96,716,306</i>	<i>\$9,227,756</i>	<i>\$105,944,062</i>
AIP at Target	\$4,335,108	\$4,379,445	\$894,724	\$5,274,169
Environmental LTI at Target	\$481,393	\$511,324	\$0	\$558,259
Time-based LTI at Target	\$916,215	\$1,097,243	\$0	\$1,459,045
Recognition Awards	\$290,721	\$364,145	\$0	\$292,499

<sup>2</sup> The 2023 Test Year amounts reflect Public Service Gas O&M expenses after known and measurable adjustments.

<sup>3</sup>The split between bargaining wages and non-bargaining base pay is based on a ratio of the total of bargaining wages and non-bargaining base pay.



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

3 A. Yes, I am sponsoring the following attachments:

- 4 • Attachment MPD-1C – Confidential Version of the 2023 Willis Towers  
5 Watson (“Willis”) Competitive Total Direct Compensation Analysis;
- 6 • Attachment MPD-1 – Public Version of the 2023 Willis Competitive Total  
7 Direct Compensation Analysis;
- 8 • Attachment MPD-2C – Confidential Version of the 2022 and 2023 Xcel  
9 Energy Non-Bargaining, Exempt Employee Annual Incentive Program; and
- 10 • Attachment MPD-2 – Public Version of the 2022 and 2023 Xcel Energy Non-  
11 Bargaining, Exempt Employee Annual Incentive Program.

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

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

3 A. As noted earlier in my Direct Testimony, the term "Total Rewards Program" refers  
4 collectively to all of the elements of compensation and benefits that Public Service  
5 and the other Xcel Energy subsidiaries offer to their employees. Those elements  
6 are:

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

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

3 A. The Total Rewards Program is designed to offer a market-level compensation and  
4 benefits package to Public Service employees.<sup>4</sup> Offering a market-level  
5 compensation and benefits package is fundamental to attracting, retaining, and  
6 motivating employees for any company, and it is especially important for a public  
7 utility like Public Service, which is responsible for providing customers with safe  
8 and reliable gas service every hour of the day, every day of the year. Maintaining  
9 that level of safety and reliability is a highly complex and technically demanding  
10 undertaking that can be accomplished only with the contributions of thousands of  
11 experienced and dedicated employees. To attract, retain, and motivate those  
12 employees, Public Service must offer the levels and types of compensation and  
13 benefits that are competitive with the levels offered by other companies in the labor  
14 marketplace. Thus, the Total Rewards Program is designed to provide Public  
15 Service and the other Xcel Energy subsidiaries with the tools to compete with other

---

<sup>4</sup> Public Service relies on a combination of its own employees and XES employees to provide safe, reliable gas service. To avoid the need to distinguish between Public Service and XES employees, I will refer generally to the employees who provide service to Public Service as being Public Service employees, except when necessary to identify XES specifically. In addition, my testimony sometimes refers to Xcel Energy as a whole because my group takes a corporate-wide view of certain issues, such as attrition levels.

1 employers for the employees needed to provide safe and reliable service to  
2 customers.

3 **Q. HOW DOES THE COMPANY MANAGE THE COSTS ASSOCIATED WITH ITS**  
4 **TOTAL REWARDS PROGRAM?**

5 A. Public Service manages the costs associated with its Total Rewards Program by  
6 aligning the Company's total compensation levels with the market and by actively  
7 managing our employee headcount to ensure that we have the appropriate number  
8 of employees to meet our customers' and the Company's operational needs. The  
9 number of employees that are required to meet our customers' needs can fluctuate  
10 due to retirements, changes in customer or Company needs, and the number of  
11 open positions at a given time. The amount included in the Company's 2023 Test  
12 Year for the Total Rewards Program is representative of amounts that the  
13 Company expects to incur on a prospective basis.

14 **Q. HOW DOES THE COMPANY'S TOTAL REWARDS PROGRAM ENABLE THE**  
15 **COMPANY TO ATTRACT AND RETAIN EMPLOYEES?**

16 A. In order to attract and retain the employees necessary to provide safe and reliable  
17 gas service to our customers, it is important that the Company provides market-  
18 competitive compensation and benefits package to job candidates and current  
19 employees. The Company's Total Rewards Program is market-competitive and  
20 consistent with market design practices, which allows the Company the ability to  
21 attract and retain employees across a broad range of jobs needed to successfully  
22 operate and serve our customers, both near-term and long-term.

1 **Q. ARE THERE PARTICULAR AREAS IN WHICH PUBLIC SERVICE IS HAVING**  
2 **SIGNIFICANT DIFFICULTY RECRUITING AND RETAINING EMPLOYEES?**

3 A. Yes. Prospective employees with the skills and training required for the gas utility  
4 industry continue to be in high demand. Many of the skilled trade crafts required to  
5 provide safe and reliable service, such as journeyman gas fitters, welders, and gas  
6 plant operators require strong Science, Technology, Engineering and Math  
7 (“STEM”) skills and four years of apprenticeship training. Thus, these employees  
8 are well-trained individuals that are in low supply and in high demand by  
9 contracting firms, utilities, and other sectors of the energy industry. There is a  
10 limited pool of experienced and qualified candidates for many jobs, and Public  
11 Service must compete for these employees on a national, regional, and local basis.  
12 In order to retain these skilled employees, the Company must ensure that it is  
13 providing market competitive compensation. For instance, in June 2022, Xcel  
14 Energy provided a one-time, permanent base pay increase to its Engineer job  
15 family as these employees’ pay was falling significantly below market.

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

18 A. Yes. According to the Bureau of Labor Statistics,<sup>5</sup> Colorado had an unemployment  
19 rate of 3.3 percent in November 2023, with a national unemployment rate of 3.7  
20 percent (December 2023). The relatively low unemployment rates – at both the  
21 national and local level – are surpassed by the job openings rate in Colorado (6.5

---

<sup>5</sup> [Colorado Economy at a Glance \(bls.gov\)](https://www.bls.gov) – (Preliminary November, accessed on 1/15/2024).

1           percent),<sup>6</sup> which means there are abundant opportunities for existing and potential  
2           employees to choose other employers, especially if the Total Rewards Program  
3           package provided by Public Service is not market-competitive.

---

<sup>6</sup> [Table 1. Job openings levels and rates for total nonfarm by state, seasonally adjusted - 2023 M08 Results \(bls.gov\)](#) - (Preliminary October 2023, accessed on 1/15/2024).

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

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

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

6           **Q.    WHAT DO YOU MEAN WHEN YOU REFER TO “BARGAINING” AND “NON-  
7           BARGAINING” EMPLOYEES?**

8           A.    Bargaining employees are those Public Service employees who are members of  
9           the International Brotherhood of Electrical Workers Local Union No. 111 (“IBEW  
10           Local 111”). Through IBEW Local 111, those employees engage in collective  
11           bargaining with the Company over base wages and benefits. All other Public  
12           Service employees are considered to be non-bargaining employees whose base  
13           pay and benefits are established outside of the collective bargaining process.

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

16          A.    No. Bargaining employees are eligible for the hourly wage amounts agreed to as  
17          part of the collective bargaining agreements, including the amounts negotiated for  
18          overtime work. In contrast, non-bargaining employees are eligible for the following  
19          types of compensation:

- 20               • Base pay;
- 21               • AIP compensation;
- 22               • LTI compensation; and
- 23               • Recognition awards.

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

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

8 A. The eligibility for particular components of compensation varies depending on  
9 whether a non-bargaining employee is considered to be a “non-exempt” employee  
10 or an “exempt” employee under the Fair Labor Standards Act (“FLSA”). Non-  
11 exempt employees, which are employees paid on an hourly basis under the FLSA,  
12 are eligible for base pay and recognition awards. Exempt employees, which are  
13 salaried workers under the FLSA, are eligible for both base pay and various types  
14 of incentive compensation depending on their jobs or job levels.

15 **Q. PLEASE SUMMARIZE WHICH EMPLOYEES ARE ELIGIBLE FOR WHICH**  
16 **COMPENSATION COMPONENTS.**

17 A. Table MPD-D-2 below summarizes employees’ eligibility for particular types of  
18 compensation.



1

**TABLE MPD-D-2: Eligibility Grid**

	<b>Bargaining</b>	<b>Non-Bargaining Non-Exempt (Hourly)</b>	<b>Non-Bargaining Exempt (Salaried)</b>	<b>Non-Bargaining Exempt (Senior and Executive Level)</b>
<b>Base Pay/Wages</b>	Eligible	Eligible	Eligible	Eligible
<b>AIP</b>	X	X	Eligible	Eligible
<b>LTI</b>	X	X	X	Eligible
<b>Recognition<sup>7</sup></b>	Eligible	Eligible	Eligible	Eligible

2

\*X = ineligible

3

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

4

5

A. No. As shown in Figure MPD-D-1, executive and non-executive management employees receive a greater percentage of their compensation in the form of incentive compensation than more junior exempt employees do. This is similar to how other employers with whom Public Service competes for employees structure their compensation elements.

6

7

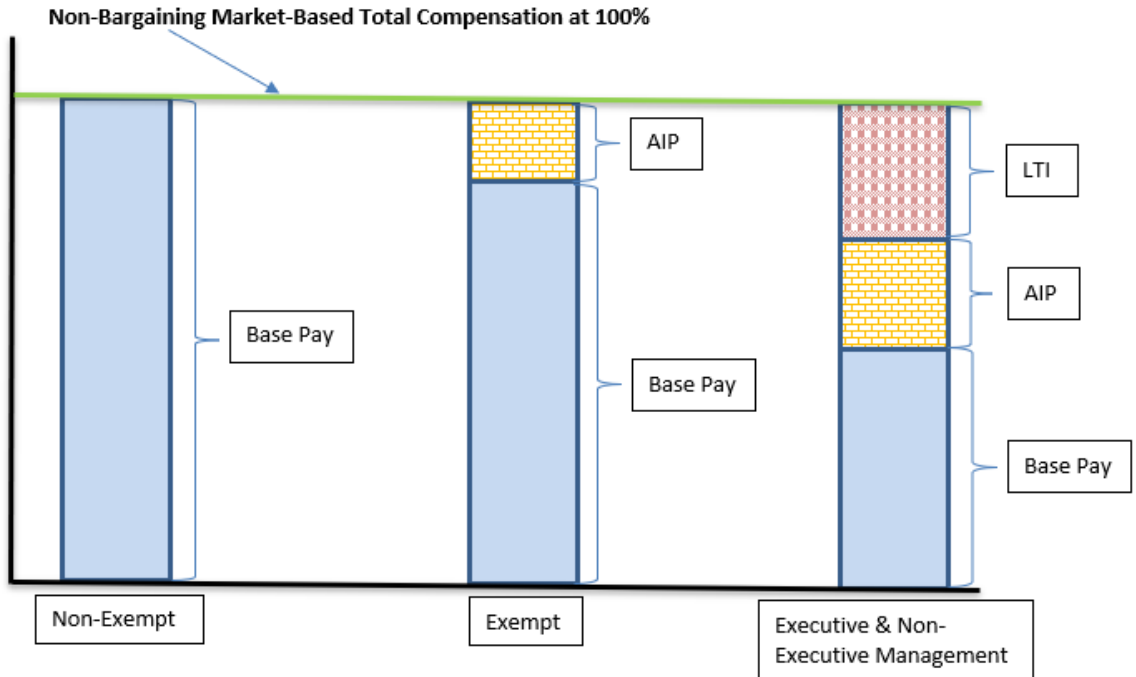
8

9

<sup>7</sup> Bargaining, Non-Bargaining Exempt (Salaried), and Non-Bargaining Exempt (Senior and Executive Level) are eligible for only the Performance Recognition and Years of Contribution portion of Recognition, not the Spot-On Award. Non-Bargaining Non-Exempt (Hourly) employees are eligible for both.

1

**FIGURE MPD-D-1**



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

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

10 A. No. As I will explain in more detail later in my Direct Testimony, Public Service  
11 has not included the LTI costs associated with relative total shareholder return as  
12 a part of its requested compensation expense in this gas rate case. In addition,

1 Public Service is limiting recovery of AIP costs to “target” levels of an employee’s  
2 base pay based on the per book incentive pay for the 12 months ended September  
3 30, 2023.<sup>8</sup> However, all of the expenses of the Company’s compensation  
4 programs are necessary and reasonable costs of attracting, retaining, and  
5 motivating the employees needed to provide safe and reliable gas service, and  
6 therefore Public Service reserves the right to request full recovery of those costs  
7 in future base rate proceedings.

---

<sup>8</sup> I explain in the next section of my Direct Testimony what is meant by a “target” level of incentive compensation.

1                   **IV.   REQUESTED ELEMENTS OF COMPENSATION**

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

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

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

10                   **1.   Bargaining Employee Base Wage**

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

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

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

18   A.   The current collective bargaining agreement classification and wage scale, as  
19       amended, was effective on June 1, 2023 and will remain in effect through May 31,  
20       2026. Under that agreement, a base wage increase of 6.1 percent took effect on  
21       June 1, 2023, and another base wage increase of 4.0 percent will take effect on  
22       June 1, 2024.

1 **Q. HAS THE COMPANY INCLUDED THESE BASE WAGE INCREASES AS A**  
2 **PART OF ITS COST OF SERVICE?**

3 A. Yes. As discussed by Company witness Mr. Freitas, the Company started with  
4 actual labor O&M expenses for the 12 months ended September 30, 2023 and  
5 then made an adjustment to reflect the bargaining unit wage increase of 6.1  
6 percent effective June 2023, plus an adjustment for the wage increase of 4.0  
7 percent effective June 2024.

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

10 A. Public Service asks the Commission to approve \$31,091,937 of base wages for  
11 bargaining employees.

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

14 A. Yes. The base wage amount for bargaining employees was negotiated as part of  
15 a collective bargaining agreement between the Company and IBEW Local Union  
16 No. 111.

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

18 **Q. HOW ARE BASE PAY AMOUNTS ESTABLISHED FOR NON-BARGAINING**  
19 **EMPLOYEES?**

20 A. On behalf of Public Service and its other subsidiaries, Xcel Energy undertakes a  
21 comprehensive evaluation process for each non-bargaining position using external  
22 market data obtained from independent third-party compensation surveys to

1 ensure its non-bargaining employee compensation levels are comparable to the  
2 market. To develop an apples-to-apples comparison, Xcel Energy must first match  
3 the job responsibilities of the Public Service positions to the job responsibilities of  
4 the positions within other companies that compete with Xcel Energy for employees.  
5 After that, Xcel Energy considers data from a variety of surveys, including data for  
6 both utility and non-utility companies.<sup>9</sup> Xcel Energy then uses the 50<sup>th</sup> percentile  
7 (that is, the median) to determine the appropriate pay range for a position. After  
8 the Company determines an appropriate pay range for a particular position, it  
9 breaks up the components of the compensation package among base pay, AIP,  
10 and LTI, as applicable. By approaching compensation in this manner, Xcel Energy  
11 is able to ensure that its total compensation levels are comparable to the market  
12 and, thus, that those costs are set at a reasonable level.

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

14 A. Yes. Although base pay is considered to be a fixed component of cash  
15 compensation, managers are allowed to award base pay increases based on  
16 employees' performance, their position in the pay range (an indicator of relative  
17 market position), and internal equity between employees. Base pay increases  
18 tend to be higher for employees who have high levels of performance and who are  
19 currently at the low end of the pay range. On the other hand, average performers  
20 who are at the higher end of the pay range for their job classification may only

---

<sup>9</sup> If the Public Service position is unique to the utility industry, Xcel Energy may restrict its comparison to only the utility-specific data in the surveys.

1 receive a small base pay increase, and a poor performer generally receives no  
2 base pay increase.

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

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

9 **Q. HOW DOES THE COMPANY DETERMINE THE ANNUAL BUDGET FOR BASE**  
10 **PAY INCREASES?**

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

- 13 • A review of external market surveys regarding base pay increases;
- 14 • Economic conditions;
- 15 • Company performance; and
- 16 • A comparison to potential or negotiated wage increases for bargaining  
17 employees.

18 **Q. WHAT BASE PAY INCREASE DID NON-BARGAINING EMPLOYEES EARN IN**  
19 **2023?**

20 A. Effective March 2023, eligible Public Service non-bargaining employees earned,  
21 on average, a 4.0 percent base pay increase. To earn a base pay increase, a non-  
22 bargaining employee had to be eligible based on job performance and had to be  
23 employed by Public Service on the effective date of the base pay increase.

1 **Q. WHAT AMOUNT OF BASE PAY INCREASE HAS PUBLIC SERVICE**  
2 **BUDGETED FOR 2024?**

3 A. For 2024, the Company anticipates a budgeted base pay increase of 4.0 percent  
4 for non-bargaining employees effective March 2024.

5 **Q. IS PUBLIC SERVICE SEEKING TO INCLUDE THESE 4.0 PERCENT**  
6 **INCREASES FOR 2023 AND 2024 IN THE COST OF SERVICE IN THIS CASE?**

7 A. Yes. As discussed by Company witness Mr. Freitas, an adjustment was made to  
8 reflect the average 4.0 percent base pay increase effective March 2023 for the 12  
9 months ended September 2023. Another adjustment was made to reflect the  
10 average increase of 4.0 percent for the non-bargaining wage increase that will be  
11 effective March 2024 for the period October 2023 through December 2024. In  
12 recent years, independent third-party surveys demonstrate that the budgeted 4.0  
13 percent increase is similar, but conservative, when compared to the projected  
14 increases by other employers with whom Public Service competes for employees.

15 **Q. WHY DOES PUBLIC SERVICE RELY ON INDEPENDENT THIRD-PARTY**  
16 **SURVEYS TO SET BASE PAY AMOUNTS AND TO EVALUATE BASE PAY**  
17 **INCREASE AMOUNTS?**

18 A. Public Service relies on independent third-party compensation surveys because  
19 the survey vendors use rigorous methodologies to collect and aggregate  
20 compensation information from a wide array of companies. Those surveys are  
21 compiled in compliance with Department of Justice and Federal Trade  
22 Commission Antitrust Safety Zone guidelines, which specify who can administer



1 surveys and define such parameters as the minimum number of participants in the  
2 survey, the percentage of data a single survey participant can represent in  
3 weighted results, and the age of the data. In addition, the results of the surveys  
4 are available only to authorized users, which acts as an incentive for companies  
5 to share competitive information they would not otherwise release. Use of  
6 independent third-party compensation surveys is a best practice for determining  
7 compensation across industries.

8 **Q. CAN YOU DEMONSTRATE THAT THE 4.0 PERCENT BASE PAY INCREASES**  
9 **EARNED BY NON-BARGAINING EMPLOYEES IN 2023 AND BUDGETED FOR**  
10 **2024 ARE REASONABLE?**

11 A. Yes. The independent third-party surveys that I described above demonstrate that  
12 for 2023, the 4.0 percent base pay increase for Public Service employees was  
13 competitive with the market as a whole. In particular, five different survey sources  
14 reported the following base pay increase ranges:

- 15 • 4.4 percent to 4.9 percent for all utilities on a national basis; and
- 16 • 4.3 percent to 4.7 percent for all companies on a national basis.<sup>10</sup>

17 As these independent surveys show, the 4.0 percent base pay increase for Public  
18 Service's non-bargaining employees was reasonable, if not conservative, when  
19 compared to the market in 2023.

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<sup>10</sup> WorldatWork "2023-2024 Salary Budget Survey"; The Conference Board "2023-2024 Salary Increase Budgets Survey Results"; Willis Towers Watson, "2023 Salary Budget Planning Report"; Mercer "2023 Salary Budget Snapshot-United States"; and Aon Hewitt "2023 Salary Increase and Turnover Study."

1 **Q. BASED ON THESE SURVEYS, WHAT DO YOU CONCLUDE ABOUT PUBLIC**  
2 **SERVICE'S BASE PAY AND ASSOCIATED INCREASES FOR NON-**  
3 **BARGAINING EMPLOYEES FOR 2024?**

4 A. I conclude that the 2024 base pay increase for non-bargaining employees is  
5 reasonable and should be included in the Company's cost of service. Accordingly,  
6 Public Service requests that the Commission approve \$74,852,125 for non-  
7 bargaining base pay.

8 **B. Annual Incentive Compensation**

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

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

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

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

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

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

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

1 receive the payment regardless of performance. Thus, the use of incentive  
2 compensation helps Public Service motivate and reward its employees for  
3 delivering superior performance.

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

5 A. The use of incentive compensation reduces labor costs by lowering the base pay  
6 amount to which annual escalation rates are applied. For example, if a non-  
7 bargaining employee's total cash compensation was \$100,000 in year one and all  
8 of the compensation was in the form of base pay, a 4.0 percent base pay increase  
9 would lead to a base pay increase of \$4,000 in year two and a new base pay of  
10 \$104,000.

11 In contrast, customers benefit if total cash compensation is structured with  
12 base pay and an incentive compensation opportunity (variable pay) to reach total  
13 compensation. For example, an employee with an overall target compensation of  
14 \$100,000 and a 20 percent incentive compensation opportunity would have a base  
15 pay of \$83,350. The difference between base pay and total cash compensation  
16 would need to be re-earned annually through the AIP. Additionally, unlike the fixed  
17 cost described above, when total cash compensation is delivered in base pay, the  
18 4.0 percent base pay increase would lead to an increase of \$3,334 in year two  
19 ( $\$83,350 \times 4.0\% = \$3,334$ ) and a new base pay of \$86,684. Thus, by moving a  
20 portion of each employee's pay from base pay to incentive pay, Public Service  
21 reduces overall fixed labor costs (base pay) by avoiding the compounding effect  
22 of annual base pay increases on the higher base pay amount, as shown in Table  
23 MPD-D-3 below.

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

	<b>Total Compensation Base Pay Only</b>	<b>Total Compensation Base Pay and AIP</b>
Competitive Market Total Cash Compensation Median	<b>\$100,000</b>	
Fixed Cost - Base Pay	\$100,000	\$83,350
Incentive Target Opportunity	0%	20%
Variable Pay at Target	\$0	\$16,670
<b>Total Cash Compensation</b>	<b>\$100,000</b>	<b>\$100,020</b>
Base Pay Increase (4.0%)	\$4,000	\$3,334
<b>Fixed Cost - Post Increase</b>	<b>\$104,000</b>	<b>\$86,684</b>

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Furthermore, fixed costs associated with base pay affect a variety of benefit-related expenses, such as 401(k) match, life insurance premiums, long-term disability premiums, and short-term disability expenses. If total cash compensation were provided through base pay at 100 percent, the additional fixed costs would correspondingly increase benefit-related expenses. In contrast, variable pay expenses associated with incentive compensation do not affect all benefit expenses, and variable pay may fluctuate from year to year. These factors, along with prorated awards and eligibility requirements for payout, also contribute to incentive design savings. In summary, by using base pay and incentive components in the Total Rewards Program, Public Service reduces costs for

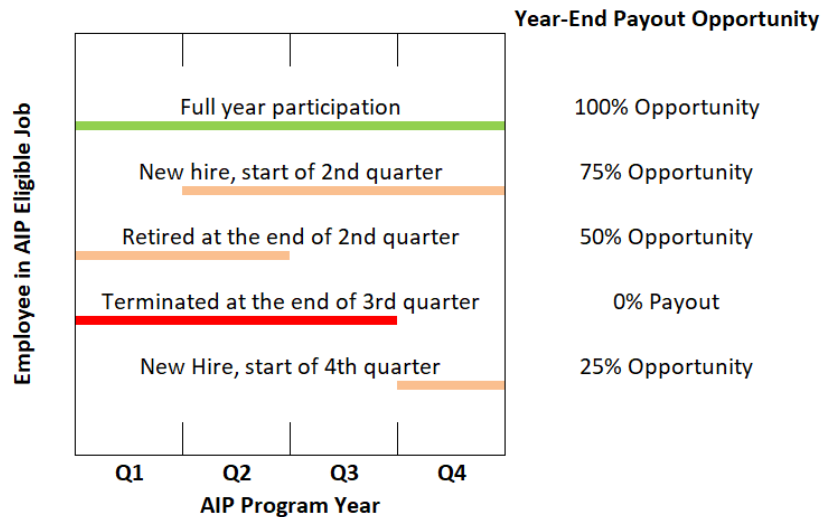
1 customers, while offering employees market-based, target-level total cash  
2 compensation.

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

11 Table MPD-D-4 illustrates a few simple examples of how and when  
12 employees in AIP eligible jobs may or may not have full or pro-rated AIP  
13 opportunity in relation to the year-end AIP award.

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**TABLE MPD-D-4**  
**AIP Payout Examples**



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

6 **A.** Yes. The use of incentive compensation by employers is a prevalent practice  
 7 throughout the United States. According to the 2023 Willis Towers Watson  
 8 Compensation Study (Confidential Attachment MPD-1), 100 percent of energy  
 9 companies in the national sample maintain an annual incentive plan, and 100  
 10 percent of energy companies in the revenue-based sample (i.e., utility companies  
 11 with similar total revenue as Xcel Energy) maintain an annual incentive plan.

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

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

14 **A.** The AIP is the mechanism through which Public Service ties part of an eligible  
 15 employee’s compensation to the achievement of defined performance objectives

1 called Key Performance Indicators (“KPI”). Public Service uses the AIP to align  
2 employees’ goals with the Company’s corporate and business goals, and to  
3 recognize and reward employees for results that contribute to the achievement of  
4 reliability, customer satisfaction, and safety goals. When combined with base pay,  
5 the incentive compensation component is designed to produce a market-  
6 competitive total cash compensation package.

7 **Q. WHICH EMPLOYEES ARE ELIGIBLE TO PARTICIPATE IN THE ANNUAL**  
8 **INCENTIVE PROGRAM?**

9 A. The AIP applies to exempt, non-bargaining employees. An eligible employee must  
10 be employed by December 31 of a particular year to be eligible for a prorated year-  
11 end portion of the AIP compensation for that program year. With limited  
12 exceptions, a person must also be actively employed by Xcel Energy on the date  
13 that the year-end award payments are made in order to receive an incentive  
14 award.<sup>11</sup>

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

18 A. During the first quarter of each year, Xcel Energy develops a Corporate scorecard  
19 that identifies certain priorities for the year. In 2023, for example, the Corporate  
20 KPIS are focused on four priorities: (1) leading the clean energy transition; (2)  
21 enhancing the customer experience; (3) keeping bills low; and (4) promoting safety

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<sup>11</sup> The exceptions are involuntary termination with severance, retirement, death, disability, or qualified leave of absence.



1 and reliability.<sup>12</sup> As shown in Table MPD-D-5, those four priorities resulted in six  
 2 Corporate KPIs for the year:

3 **TABLE MPD-D-5**  
 4 **2023 Corporate Scorecard**

Priorities	Key Performance Indicator	2023 Goal			
		Threshold	Target	Maximum	Weight
Lead the Clean Energy Transition	<b>Customer Satisfaction</b> <i>(JD Power residential survey)</i>	26 <sup>th</sup> percentile	38 <sup>th</sup> percentile	50 <sup>th</sup> percentile	20%
	<b>Public Safety</b> <i>(gas emergency response)</i>	92.0%	96.5%	99.0%	20%
Enhance the Customer Experience	<b>Electric System Reliability</b> <i>(SAIDI)</i>	103	94	85	20%
	<b>Employee Safety<sup>1</sup></b> <i>(safety culture)</i>	Declining 80-82	Steady/Improving 83-84	Significant Improvement 85	20%
Keep Bills Low	<b>Diversity, Equity &amp; Inclusion</b> <i>(index)</i>	100	200	300	10%
	<b>Wind Availability</b> <i>(equivalent availability factor)</i>	94.0%	96.0%	98.0%	10%
Safety and Reliability					

5 **Q. TABLE MPD-D-5 USES THE TERMS “THRESHOLD,” “TARGET,” AND**  
 6 **“MAXIMUM” FOR THE CORPORATE SCORECARD. CAN YOU EXPLAIN**  
 7 **WHAT THOSE TERMS MEAN?**

8 **A.** Yes. As shown in Table MPD-D-5, Xcel Energy establishes quantitative measures  
 9 to evaluate whether the Corporate scorecard KPIs have been met. The “target”  
 10 amount reflects the level of achievement that Xcel Energy considers to be  
 11 reasonable for the particular Corporate KPI. The “threshold” amount represents

<sup>12</sup> At the time of this filing, the Company’s 2024 Corporate KPIs are still under development.

1 the lower bound that must be achieved before that Corporate KPI may be used in  
2 the incentive payout calculation, whereas the “maximum” represents the upper  
3 bound of results for purposes of establishing the maximum amount of incentive  
4 compensation for that Corporate KPI. As shown in Table MPD-D-6, the amount of  
5 incentive compensation an employee is eligible to receive under the Corporate  
6 scorecard depends on the degree of success that the corporation as a whole  
7 achieves for the Corporate KPIs:

8 **TABLE MPD-D-6**  
9 **Corporate KPI Results Calculation**

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

10 The 2023 AIP program document, which is Confidential Attachment MPD-2,  
11 provides additional details and specifics about the program.

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

14 A. The purpose of the individual component is to focus an employee on individual  
15 goals and to reward that employee for his or her achievement of those goals.  
16 Including an individual component allows managers to recognize and reward

1 employees based on their levels of contribution and performance, consistent with  
2 Xcel Energy's pay-for-performance philosophy.

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

4 A. The individual component is based on the individual performance results of specific  
5 goals identified by the employee and the employee's manager. Goals are tied  
6 specifically to the employee's job functions and are developed in alignment with  
7 business area and corporate objectives. Each manager has discretion to  
8 determine the year-end individual component award within a range of 0 to 150  
9 percent based on the employee's contributions and performance during the year.<sup>13</sup>

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

12 A. No. The importance of the Corporate KPIS for year-end AIP payout varies based  
13 upon the employee's position and level of responsibility. The weightings of  
14 Corporate versus Individual KPIS are designed such that an employee's goals are  
15 more strongly linked to objectives that he or she has the greatest potential to affect.  
16 For example, the weighting for non-supervisory employees focuses on the job of  
17 the individual to have day-to-day interactions tied to customer satisfaction, safety,  
18 and reliability. In contrast, the weighting for more senior level positions focuses on  
19 broader corporate goals. Table MPD-D-7 shows the weightings of these different  
20 categories for the 2023 AIP.

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<sup>13</sup> The individual component also includes the "I Deliver Award" and "Innovator Award." These awards, however, are not part of the year-end evaluation of whether an employee achieved his or her individual KPIS during that year.

**TABLE MPD-D-7**

**2023 AIP Weights**

<b>2023 AIP Weights</b>		
<b>(Exempt, Non-Bargaining Employees)</b>		
<b>Salary Tiers/Grades</b>	<b>Corporate</b>	<b>Individual</b>
Exempt N, O; Engineer A, B	10%	90%
Exempt P, Q; Engineer C; Trader 1	20%	80%
Management R-T; Engineer D, E; Trader 2-6	30%	70%
Senior Leader Group	50%	50%

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

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

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

A. No. As I explained earlier, the percentage of total compensation paid as incentive compensation is determined by the non-bargaining employee's position or level

1 within the organization. Thus, for example, an employee at a 10 percent target  
2 opportunity level with a base salary of \$80,000 will receive \$8,000 in incentive  
3 compensation, assuming achievement of 100 percent of the Corporate and  
4 Individual KPIs. Target opportunities vary based on market competitive incentive  
5 and design levels. As such, the more senior the non-bargaining employee, the  
6 more of his or her total cash compensation is at risk to be earned through incentive  
7 compensation.

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

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

1                   **3. AIP Request**

2   **Q.    WHAT AMOUNT OF 2024 INCENTIVE COMPENSATION EXPENSE IS PUBLIC**  
3   **SERVICE ASKING THE COMMISSION TO APPROVE IN THIS CASE?**

4   A.    Public Services is requesting the 2024 AIP target-level expense of \$5,274,169.

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

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

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

16 A.    No. For many Company employees, and especially those in senior leadership,  
17    management and certain individual contributor positions, the target opportunity  
18    amount of AIP comprises more than 15 percent of base pay. However, the overall  
19    compensation of those employees – which includes base pay, the target amount  
20    of AIP, and LTI (if applicable) – is set at a market-based level. Thus, if the  
21    Commission limits the recovery of AIP to 15 percent of base pay, it would prevent

1 the Company from recovering part of those employees' market-based  
2 compensation.

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

5 A. Not in my opinion. The Company has to provide market-competitive compensation  
6 to attract and retain employees. Therefore, the Company's market-based  
7 compensation is a reasonable and necessary cost of service. If the Commission  
8 intends to disallow part of the Company's reasonable and necessary cost of  
9 service, it should be based on a valid reason for disallowance, not on an arbitrary  
10 percentage. And if the Commission's reason for disallowance is simply that it  
11 believes the Company should structure its compensation so that more of it is  
12 offered in the form of base pay and less in incentive pay, I would submit that reason  
13 is misguided for the reasons I identified earlier: Incentive compensation promotes  
14 superior employee performance; it reduces fixed labor costs; and it provides a  
15 comparable, market-based compensation design similar to other employers with  
16 whom Public Service competes for employees. By limiting the amount of AIP to  
17 15 percent of base pay, the Commission would be signaling that it does not believe  
18 those are worthwhile goals. The Commission would also be signaling that the  
19 practice of offering compensation through a sound and widely practiced market-  
20 based program is inherently flawed.

1           **C.     Long-Term Incentive Compensation**

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

3           A.     Xcel Energy's LTI program is component of overall compensation for certain  
4           employees but like AIP, LTI allows the Company to tie compensation to  
5           achievement of goals and requirements for the benefit of customers and the  
6           Company. Like the other Xcel Energy compensation programs, the LTI program  
7           is intended to attract, retain, and motivate employees. LTI differs from AIP and  
8           other types of compensation in that is offered only to executives and non-executive  
9           management employees, as determined by market-competitive compensation  
10          designs. Like the AIP, the compensation tied to LTI is at-risk compensation. This  
11          means that the performance goals must be met and/or the employee must remain  
12          employed for a certain period of time in order to earn his or her full compensation.  
13          The LTI is necessary, however, to ensure that those employees' compensation  
14          levels and mix of compensation are competitive.

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

16          A.     Yes. LTI programs are widely used compensation vehicles for executives and  
17          certain non-executive employees in the utility industry, as shown in the 2023 Willis  
18          Towers Watson Study, which is Confidential Attachment MPD-1. These types of  
19          programs create an incentive for eligible employees to engage in high-level  
20          planning that will lead to benefits over the long-term. LTI programs also serve as  
21          a retention tool and encourages those eligible employees to remain with the  
22          Company and to follow through on longer-term plans, decisions, and projects. LTI



1 compensation is not extra payment or bonus for job related work, it is an integral  
2 part of the total compensation package for the job the employee is hired to  
3 complete and is necessary to reach the competitive level of compensation found  
4 in the job market.

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

7 A. No. Public Service is not seeking recovery for the LTI portion related to total  
8 shareholder return. Public Service is, however, requesting recovery of the  
9 performance-based LTI related to Xcel Energy's environmental activities for XES  
10 and Public Service executives, which I refer to as the "environmental" LTI. Public  
11 Service also seeks recovery of the time-based LTI related to executives and non-  
12 executive management participants.

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

14 A. Some of the performance-based shares granted to executives relate to the  
15 environmental LTI. The measurement for the environmental LTI is based on the  
16 percentage reduction in carbon emissions. The types of activities that affect the  
17 results are such things as implementing renewable energy resources, promoting  
18 energy efficiency programs, improving plant operations to reduce carbon output,  
19 and accelerating retirement of fossil plants. Because the majority of Xcel Energy's  
20 LTI for executives is performance-based, payout of compensation occurs only  
21 when pre-defined performance goals are achieved. The performance period is

1 three years. The performance shares are granted in the first year, and  
2 performance is measured throughout the three-year period.

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

5 A. Yes. The achievement of the environmental LTI directly benefits customers and  
6 the public through prudently reducing air emissions and their impact on the  
7 environment.

8 **Q. HOW DOES THE ENVIRONMENTAL LTI BENEFIT THE COMPANY'S GAS**  
9 **CUSTOMERS?**

10 A The Environmental LTI is established to minimize carbon-emissions related to  
11 production of electricity, which can include the use of production from natural gas,  
12 and the achievement of this goal positively impacts the environment for both the  
13 Company's gas and electric customers. In addition, while environmental LTI  
14 relates to carbon reduction for the Company's electric service, this is a reasonable  
15 proxy for the Company's efforts to reduce greenhouse gas emissions relative to  
16 our gas operations, where, among other things, the Company has set a goal of  
17 providing net-zero gas service by 2050.

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

20 A. Yes. I have two comments. First, the starting point for the Commission's  
21 compensation analysis should be whether the Company is seeking to recover  
22 more than its market-based total compensation expense. If not, the expense

1 should be presumed reasonable. The environmental LTI expense is related to a  
2 component of an eligible employee's market-based total compensation, not an  
3 addition to the market-based total compensation. The established goal provides  
4 a measured outcome in order to attain payment of the opportunity provided by this  
5 element of LTI. Because Public Service is asking to recover only market-based  
6 total compensation minus the exclusions previously, there is no reason for the  
7 Commission to disallow a form of LTI simply for not directly aligning with the state's  
8 goal during a given period of time, which has no relation to market-based total  
9 compensation. Second, disallowing Public Service's environmental LTI costs  
10 could send the message that the Commission does not support the Company's  
11 effort to focus on and motivate employees to achieve emissions reduction goals  
12 and importance of tying this type of goal accomplishment to employee  
13 compensation.

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

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

1 **Q. IS IT REASONABLE TO GRANT RATE RECOVERY OF LTI COSTS RELATED**  
2 **TO THE TIME-BASED EXECUTIVE AND NON-EXECUTIVE EMPLOYEES?**

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

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

21 A. Yes. Table MPD-D-8 provides the total compensation for a new hypothetical  
22 employee, including base pay, AIP and LTI. The green highlighted amounts

1 identify the calendar years in which the employee would receive the respective  
 2 forms of compensation.

3 **TABLE MPD-D-8**  
 4 **Total Compensation Example**

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

5 In this example, the employee's market-based total compensation in 2021 is  
 6 \$168,000, but the employee receives only \$120,000 of that amount in 2021. The  
 7 employee must wait until 2022 to receive the \$24,000 of AIP deferred from 2021,  
 8 based on target-level Company and employee performance, and the employee  
 9 must remain employed at Xcel Energy until the spring of 2024 to receive the  
 10 remaining \$24,000 that was deferred from 2021. If the employee leaves before  
 11 the 2024 LTI settlement, he or she forfeits the entire \$24,000 that was deferred  
 12 from 2021. By deferring payment of part of the compensation earned in 2021 until  
 13 2024, the Company may be able to retain employees that would otherwise pursue  
 14 new opportunities.

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

3 A. Accrual of LTI expense occurs ratably over a three-year period and, therefore,  
4 reflects LTI plans in effect during each of the three years. The 2021, 2022, and  
5 2023 LTI years are included in the Test Year cost of service.

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

8 A. The respective accrual amounts are set forth in Table MPD-D-9:

9 **TABLE MPD-D-9**

10 **Test Year Requested LTI Amount**

<b>LTI Type</b>	<b>Accrual Amount</b>
Environmental LTI	\$558,259
Time-based LTI	\$1,459,045
Total of Environmental and Time-Based LTI	\$2,017,304

11 **D. Recognition Programs**

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

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

1 was created as a tool for managers to reward outstanding performance for non-  
 2 exempt, non-bargaining employees, who are generally not eligible to receive AIP.

3 **Q. WHAT AMOUNT IS PUBLIC SERVICE REQUESTING FOR RECOGNITION**  
 4 **PROGRAMS IN THE TEST YEAR?**

5 A. The Company is requesting the amounts set forth in Table MPD-D-10.

6 **TABLE MPD-D-10**  
 7 **Recognition Expenses**

<b>Recognition Program</b>	<b>Requested Amounts</b>
Performance Recognition and Years of Contribution	\$277,426
Spot On Award	\$15,073
<b>Total</b>	<b>\$292,499</b>

1 **V. BOARD EQUITY COMPENSATION**

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

4 A. Yes. Public Service is requesting recovery of \$126,591 for Board of Director total  
5 compensation for the Test Year. Consistent with Colorado Senate Bill 23-291,  
6 specifically §40-3-114(2)(a), C.R.S., this amount represents 50 percent of the  
7 annual total compensation. In addition, as discussed by Mr. Freitas in his Direct  
8 Testimony, the Company is also including an adjustment to eliminate the travel,  
9 lodging, food, and beverage expenses for the Board of Directors.<sup>14</sup>

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

11 A. Yes. As a Minnesota corporation, Xcel Energy is required to have a board of  
12 directors pursuant to Minn. Stat. § 302A.201, subd. 1. Paying compensation to the  
13 Board of Directors in exchange for the work they perform is reasonable and  
14 consistent with how boards of directors of other corporations are treated.

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

17 A. Similar to the process I describe in Section IV of my Direct Testimony for  
18 establishing cash compensation levels for non-bargaining employees, Xcel Energy  
19 establishes Board of Directors' compensation by utilizing market data for the board

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<sup>14</sup> §40-3-114(2)(a), C.R.S. provides that a utility is not allowed to recover from customers “more than fifty percent of annual total compensation of or expense reimbursement for members of the board of directors of the utility” and §40-3-114(2)(i), C.R.S., does not allow recovery of “travel, lodging, food, and beverage expenses for the utility’s board of directors and officers.”



1 of directors from 20 – 23 other utilities. The market assessment is completed by  
2 an external independent consulting firm.

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

5 A. The compensation is provided to the Board of Directors in two components: (1) a  
6 retainer, which the director can choose to have paid either as cash or the director  
7 can elect to defer all or a portion of their cash retainer into stock equivalent units;  
8 and (2) deferred stock equivalent units or taken as common stock. Public Service  
9 incurs an allocable portion of these expense for these compensation costs on an  
10 annual basis.

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

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

6   A.   Yes. Public Service uses the median of market survey data to ensure that its total  
7       cash compensation and total direct compensation levels are consistent with the  
8       market. Public Service also engaged Willis Towers Watson to perform an analysis  
9       of how Xcel Energy's 2022 target total cash compensation and total direct  
10      compensation compare with the compensation of other utility companies. A copy  
11      of the 2023 Willis Towers Watson Compensation Study is provided as Confidential  
12      Attachment MPD-1. That study includes compensation information related to  
13      exempt and executive employees.

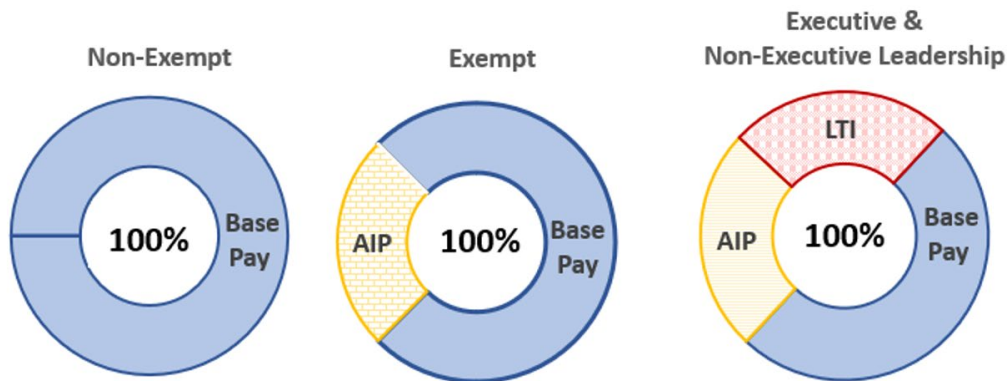
14   **Q.   IN THE PREVIOUS RESPONSE, YOU USED THE PHRASES "TOTAL CASH**  
15       **COMPENSATION" AND "TOTAL DIRECT COMPENSATION." WHAT IS THE**  
16       **DIFFERENCE BETWEEN THOSE CONCEPTS?**

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

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

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

8 **FIGURE MPD-D-2**



9 **Q. PLEASE DESCRIBE THE SPECIFIC ELEMENTS OF THE 2023 WILLIS**  
10 **TOWERS WATSON COMPENSATION STUDY.**

11 A. The 2023 Willis Towers Watson Compensation Study compared:

- 12 • Xcel Energy's total cash compensation levels to competitive market  
13 target total cash compensation levels;
- 14 • Xcel Energy's total direct compensation levels to competitive market  
15 target total direct compensation levels;
- 16
- 17

1  
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- Xcel Energy’s base salary levels to competitive market total cash compensation levels;
- Xcel Energy’s annual incentive targets to market annual incentive targets; and
- Xcel Energy’s long-term incentive targets to the market long-term incentive targets.

10 The 2023 Willis Towers Watson Compensation Study compared Xcel Energy’s  
11 level of compensation to the median and average levels of compensation paid by  
12 the comparison groups.

13 **Q. WHAT COMPARISON GROUPS DID THE 2023 WILLIS TOWERS WATSON**  
14 **COMPENSATION STUDY USE?**

15 A. The study compared compensation levels with two sets of data. The first set of  
16 data compared Xcel Energy’s compensation programs to the programs of a large  
17 number of investor-owned utilities across the nation, including those both smaller  
18 and larger than Xcel Energy. The second set of data compared Xcel Energy’s  
19 compensation programs to those of investor-owned utilities similar in revenue size  
20 to Xcel Energy.

21 **Q. WHAT WERE THE RESULTS OF THE 2023 WILLIS TOWERS WATSON**  
22 **COMPENSATION STUDY?**

23 A. As shown on Table MPD-D-11, the 2023 Willis Towers Watson Compensation  
24 Study found that with the inclusion of AIP, Public Service’s median total cash  
25 compensation levels were slightly below the average market median when  
26 compared to other utilities. Without the target-level AIP, however, the median total

1 cash compensation provided would be well below the overall utility market and  
2 would put Public Service at a material disadvantage in the competition for  
3 employees.

4 Similarly, Public Service's compensation would be at an unacceptable level  
5 with regard to total direct compensation for certain employee groups if it did not  
6 provide a competitive LTI package for its executive and senior exempt talent and  
7 leadership. Long-term incentive can be a significant portion of compensation  
8 package offered to attract, retain, and motivate this group of employees to design,  
9 organize, lead, and manage one of the most forward-looking utilities in the country.

1  
2

**TABLE MPD-D-11**  
**Willis Towers Watson Compensation Comparison**

<b>Components of Xcel Energy Compensation</b>	<b>Compared to Base Salaries and Incentives of Utilities with Similar Revenues (Revenue Sample) *</b>	<b>Compared to Base Salaries and Incentives of Utilities Across the Nation (National Sample)</b>
Base Salary Only (excludes Target AIP)	Below Market by 15.9%	Below Market by 14.3%
Target Total Cash Compensation (Base Salary + Target AIP)	Below Market by 2.5%	At Market
Base Salary Only (excludes Target AIP and Target LTI**)	Below Market by 22.4%	Below Market by 19.7%
Base Salary + Target AIP (excludes Target LTI**)	Below Market by 10.0%	Below Market by 6.3%
Target Total Direct Compensation (Base + Target AIP + Target LTI**)	Below Market by 2.5%	Above Market by 3.3%

\* Primary comparison group using median pay components

\*\* Includes those eligible for LTI

3 **Q. WHAT DO YOU CONCLUDE FROM THE 2023 WILLIS TOWERS WATSON**  
 4 **COMPENSATION STUDY?**

5 A. The 2023 Willis Towers Watson Compensation Study illustrates that Xcel Energy's  
 6 compensation structure (i.e., both base salary and the AIP) provides a market level

1 of total cash compensation based on the national sample, and slightly below  
2 market level when compared to utilities with similar revenues. This confirms that  
3 Public Service's requested total cash compensation expense is appropriate and  
4 reasonable. The study also confirms that the target level annual incentives  
5 provided to employees through the AIP are aligned with those for similar positions  
6 in the competitive market. Without the full level of AIP, however, Public Service's  
7 total cash compensation would lag the market by 15.9 percent (compared to  
8 utilities with similar revenues), which would put Public Service at a material  
9 disadvantage when competing for skilled employees.

10 Additionally, the study confirms that the level of total direct compensation,  
11 of which LTI is an essential component, is in-line with the market. Clearly, LTI is  
12 a necessary component of pay for executives and non-executive management to  
13 reach their market-based level of compensation at 100 percent. Without the LTI,  
14 however, Public Service's total direct compensation would lag the market by 10.0  
15 percent compared to utilities with similar revenues.

16 In summary, with base pay alone lagging the market for both total cash  
17 compensation-eligible employees and total direct compensation-eligible  
18 employees, excluding or limiting AIP and, as applicable, LTI, would significantly  
19 hamper Public Service's ability to attract, retain and motivate employees.

1 **Q. ARE XCEL ENERGY'S COMPENSATION PROGRAMS NECESSARY AND**  
2 **REASONABLE?**

3 A. Yes. Public Service and Xcel Energy must provide a market-competitive level of  
4 total cash compensation to attract and retain the employees who in turn provide  
5 safe and reliable gas service to Public Service's customers. Furthermore, base  
6 pay coupled with the AIP is an appropriate method of providing market competitive  
7 total cash compensation.

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



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

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

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

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

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

15 **A. Active Health Care**

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

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

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

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

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

20 A. These initiatives include:

- 21
- 22 • Xcel Energy offers a HDHP medical plan to encourage participating  
23 employees to make (1) healthier lifestyle choices; and (2) informed  
24 consumer choices when utilizing healthcare providers.
  - To help mitigate pharmacy costs, Xcel Energy's pharmacy coverage

1 mandates that employees fill prescriptions with generic drugs when  
2 available, unless there is medical need to use a brand name.

- 3 • Contracts with benefit vendors are monitored and renegotiated on an  
4 ongoing basis. These negotiations focus on administrative fee  
5 reductions, better performance guarantees and rebates, and improved  
6 discounts on provider networks. All of these efforts contribute to Xcel  
7 Energy's ability to minimize rising healthcare costs and benefit  
8 administration costs charged by third parties.
- 9 • We examined emerging benefit designs that would continue to drive our  
10 employees and their covered family members to high quality, cost-  
11 efficient healthcare providers. We also continuously assess programs  
12 that will provide more cost-effective opportunities for employees and  
13 help drive healthy behaviors. For example, we offer a telemedicine or  
14 virtual visit option for routine medical visits, a personalized diabetes  
15 management program for non-bargaining employees, and an online  
16 program to help employees manage stress. These non-traditional visits  
17 with a trained physician or other provider are convenient and provide a  
18 less expensive option for employees and the Company. In addition, the  
19 Plan provides lower levels of benefits coverage for using out-of-network  
20 medical providers in order to encourage members to use in-network  
21 providers when possible.

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

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

26 **B. Retiree Medical Expense**

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

28 A. For bargaining employees who joined the union prior to July 2003 and non-  
29 bargaining employees who retired prior to July 2003, the Company provides  
30 subsidized medical and pharmacy coverage at varying levels based on the year in  
31 which the employee retired. Employees who joined the union or retired after those  
32 dates receive access to medical coverage but are responsible for 100 percent of

1 the cost. Mr. Schrubbe outlines the retiree medical expenses in his Direct  
2 Testimony.

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

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

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

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

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

10   **A. Defined Benefit Plan**

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

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

14           **1. Qualified Pension Plan**

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

17   A. Public Service is seeking to recover \$1,655,222 of qualified pension expense.  
18   Public Service witness Mr. Schrubbe also provides details related to qualified  
19   pension expense in his Direct Testimony.

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

3 A. Yes. Effective January 1, 2018, the Company eliminated the annual Retirement  
4 Spending Account credits on a going-forward basis for all non-bargaining  
5 employees, and it eliminated the Social Security Supplement for all non-bargaining  
6 employees who did not meet retirement eligibility by December 31, 2022.  
7 Additionally, effective February 21, 2018, all new and rehired bargaining unit  
8 employees are eligible to participate in a five percent Cash Balance Plan formula  
9 without pension supplements (i.e. Retirement Spending Account or Social Security  
10 Supplement).

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

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

1                   **2. Non-Qualified Pension**

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

4   A.   Public Service is seeking to recover \$110,550 of non-qualified pension expense.  
5       Public Service witness Mr. Schrubbe also provides details related to non-qualified  
6       pension expense in his Direct Testimony.

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

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

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

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

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

3 A. No. In fact, through the non-qualified pension benefit, Public Service is simply  
4 providing the same level of retirement benefits to all employees, including those  
5 with compensation in excess of Internal Revenue Code qualified plan limits. The  
6 non-qualified pension benefit does not provide “extra” benefits for recipients  
7 compared to the pension benefits provided to other non-bargaining employees.

8 **B. Defined Contribution Plan**

9 **Q. PLEASE DESCRIBE THE COMPANY’S DEFINED CONTRIBUTION PLAN.**

10 A. The Company’s defined contribution plan, which is a 401(k) savings plan, provides  
11 an employer contribution equal to a maximum of four percent of an employee’s  
12 eligible compensation (i.e., base pay). The Company matches 50 cents on the  
13 dollar up to eight percent of a non-bargaining employee’s eligible compensation.  
14 For bargaining unit employees, Public Service matches 100 percent of the first  
15 three percent plus 50 percent of the next four percent (up to a maximum of five  
16 percent) of an employee’s eligible compensation.

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

19 A. Yes. Providing a 401(k) match for employees is a common practice and is a benefit  
20 to employees. The employer contribution encourages employees to plan for their  
21 retirement and reach higher personal contribution levels. The more the employee



1 saves, the higher the Company contribution, up to the Company maximum  
2 amount.

3 **3. Reasonableness of Public Service's Retirement Benefits**

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

9 A. Yes. It is important to compare programs holistically because the competitive  
10 market offers varying combinations of retirement programs, including a  
11 combination of pension and 401(k) plans. Public Service offers a cost-effective  
12 program by maintaining a pension benefit, which provides employees the stability  
13 of maintaining a portion of their income after retirement, while also offering a  
14 401(k), which allows employees to increase their overall retirement savings.

15 **Q. IS THE TOTAL REWARDS PROGRAM YOU DESCRIBE REASONABLE AND**  
16 **NECESSARY FOR PUBLIC SERVICE TO PROVIDE SAFE AND RELIABLE**  
17 **GAS SERVICE TO ITS CUSTOMERS?**

18 A. Yes. The Total Rewards Program is necessary to attract, retain and motivate the  
19 employees needed to provide safe and reliable gas service to our customers. The  
20 compensation (base pay, annual incentive and long-term incentive), benefits and  
21 recognition programs are competitively aligned with the dollar value and design  
22 found in the utility industry and follow best practices. Therefore, the costs

1 associated with the Total Rewards Program are comparable to companies across  
2 the industry and represent reasonable costs of providing service to Public Service  
3 customers.

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

5 A. Yes.

## **Statement of Qualifications**

### **MICHAEL P. DESELICH**

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

In my broader role as a member of the human resources team, I am also responsible for supporting our regulatory process related to human resource matters supporting the Total Rewards regulatory efforts to include research, draft testimonies and discovery responses. I have not previously filed direct testimony in the Public Service Company Colorado Gas Jurisdiction, however I have filed rebuttal testimony in the 2022 rate case (Proceeding No. 22AI-0046G). I have also filed direct and rebuttal testimony in the Public Service Company Colorado Electric Jurisdiction. Additionally, I have filed direct and/or rebuttal testimonies in other Xcel Energy jurisdictions, including: Southwestern Public Service Company Texas (Electric) and New Mexico (Electric), Northern States Power Minnesota (Gas), and Northern States Power Wisconsin (Electric and Gas). I have also appeared before the Colorado Public Utility Commission for the Public Service Company Colorado gas hearing and the Wisconsin Public Service Commission for the Northern States Power Wisconsin combined gas and electric hearing.

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

I received my Bachelor of Science in Airway Science Management degree from Kent State University, Kent, Ohio and my Master of Science Administration in Human Resource Management degree from Central Michigan University, Mount Pleasant, Michigan. I have served in a variety of human resources roles in my 25-plus year corporate career, though mainly focusing on employee compensation. I have stayed educated on current market trends, human resource best-practices and workforce challenges facing employers, as well as presented materials regarding trending compensation topics. I have also attended various seminars related to human resources topics, maintained insights by reading industry publications and have completed Certified Compensation Professional certification courses from World at Work Total Rewards Association.

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF COLORADO

\* \* \* \* \*

IN THE MATTER OF ADVICE NO. )  
1029-GAS OF PUBLIC SERVICE )  
COMPANY OF COLORADO TO )  
REVISE ITS COLORADO PUC NO. 6- )  
GAS TARIFF TO INCREASE )  
JURISDICTIONAL BASE RATE )  
REVENUES, IMPLEMENT NEW BASE ) PROCEEDING NO. 24AL-\_\_\_\_G  
RATES FOR ALL GAS RATE )  
SCHEDULES, AND MAKE OTHER )  
PROPOSED TARIFF CHANGES )  
EFFECTIVE FEBRUARY 29, 2024 )

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

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

Dated at Minneapolis, Minnesota, this 24 day of January, 2024.

  
\_\_\_\_\_  
Michael P. Deselich  
Sr. Consultant, Compensation

Subscribed and sworn to before me this 24<sup>th</sup> day of January, 2024.



  
\_\_\_\_\_  
Susan M. Nerheim  
Notary Public

My Commission  
expires January 31, 2028

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

\* \* \* \* \*

IN THE MATTER OF ADVICE NO. 1029- )  
GAS OF PUBLIC SERVICE COMPANY OF )  
COLORADO TO REVISE ITS COLORADO )  
PUC NO. 6-GAS TARIFF TO INCREASE )  
JURISDICTIONAL BASE RATE ) PROCEEDING NO. 24AL - \_\_\_\_\_ G  
REVENUES, IMPLEMENT NEW BASE )  
RATES FOR ALL GAS RATE )  
SCHEDULES, AND MAKE OTHER )  
PROPOSED TARIFF CHANGES )  
EFFECTIVE FEBRUARY 29, 2024 )

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**HEARING EXHIBIT 108, PUBLIC ATTACHMENT MPD-1**

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**NOTICE OF CONFIDENTIALITY:  
THIS DOCUMENT HAS BEEN FILED UNDER SEAL**



**XCEL ENERGY NON-BARGAINING, EXEMPT EMPLOYEE  
ANNUAL INCENTIVE PROGRAM**

**Program Year: January 1 – December 31, 2022**

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## INTRODUCTION

Xcel Energy Inc. (individually and collectively with its affiliates and subsidiaries, “Xcel Energy” or “the Company”) offers a market-based total cash compensation package. Your total cash compensation includes your base salary and the opportunity to earn an annual incentive when the Company achieves its goals.

- Base salary is the fixed component of your total cash compensation. Generally, it does not change unless you have a change in your job (such as a promotion), change in your status (such as full time to part time), or have a change in pay (such as an earned base pay increase).
- Xcel Energy’s Annual Incentive Program (the “Program”) is the variable component of your total cash compensation.
- Variable compensation is not guaranteed pay as it is subject to achievement of goals, including your own performance, and your contribution to team or company results.

The Program will be in effect from January 1 to December 31, 2022 (the “Program Year”), unless amended to end at an earlier date or terminated. In order for the Program to pay out year-end incentive awards in the Program Year, Xcel Energy must meet certain operating goals and an affordability objective. Your incentive award is primarily based on corporate goal achievement and discretionary based on your individual contributions and performance.

The purpose of this document is to provide a high-level overview of the annual incentive program components and to outline the eligibility and administrative framework of the program. More detailed information regarding the program components can be found in XpressNET under Benefits/Pay/Incentives/Annual Incentive.

## PURPOSE OF THE PROGRAM

Incentive Programs are a variable portion of employee total cash compensation and are directly aligned with the achievement of certain corporate KPIs in addition to your individual contributions and performance.

Xcel Energy uses the Program to align employees’ goals with corporate and business area objectives, and to recognize and reward employees for results that contribute to the achievement of Xcel Energy’s key performance indicators (or KPIs), including those focused on reliability, our customers and our employees. It is also used to motivate employees to enhance the customer experience, innovate and drive continuous improvement.

The Program also supports the Company’s position as an employer of choice by:

- Offering a market-competitive total cash compensation package;
- Fostering the growth and development of employees; and
- Enabling the Company to attract, retain, motivate and reward employees whose performance and contribution meets or exceeds Company expectations.

**PARTICIPATION**

The Program applies to regular, full and part-time status employees who are exempt, non-bargaining employees.

Newly hired or rehired employees must be actively employed by and working for Xcel Energy prior to October 1 of the Program Year to be eligible to participate in the Year-End Award portion of the Program for that Program Year.

Participants must also be actively employed by Xcel Energy on the day Program award payments are made in order to receive an incentive award under the program.

- Exceptions to active employment on the date awards are paid include: Involuntary Termination (with severance); Retirement; Death; Disability; or Qualified Leave of Absence.

For additional information regarding participation in the Program, see “Program Administration” beginning on page 7.

**PERFORMANCE COMPONENTS**

The Program for 2022 is based on two performance components, Corporate and Individual:

Level	Component	Timing of Opportunity
Corporate	Corporate Scorecard KPIs align to the priorities of Lead the Clean Energy Transition, Enhance the Customer Experience, Keep Bills Low, Safety and Reliability. Specific goals are listed on XpressNET at <a href="#">Corporate Scorecards (sharepoint.com)</a>	Year-end
Individual	a) Year-End Award individual contributions and performance that can be aligned to your performance goals as determined with your manager	Year-end
	b) I Deliver Award	Time Relevant
	c) Innovator Award	Time Relevant

**INCENTIVE TARGETS**

Incentive targets are based on salary grade and correspond to varying weights or percentages for the corporate and individual performance components, as shown below.

Salary Plans and Grades <sup>1</sup>				Incentive Target	Components Weights <sup>2</sup>	
Exempt	SLG	Engineer	Trader		Corporate	Individual
N, O	--	--	--	[REDACTED]	10%	90%
--	--	A, B	--		20%	80%
P, Q	--	C	001		30%	70%
--	--	D, E	--		40%	60%
R, S, T	--	--	002-006		50%	50%
U, V	--	--	--			
--	All	--	--			

<sup>1</sup> Does not represent all salary plans. Other grades and salary structures will be mapped accordingly. Eligibility for each participant is determined by salary plan or grade as tracked in the Human Resources information systems and not based on job title.

<sup>2</sup> Generally no award will be paid to an employee who was or is on a Performance Improvement Plan (PIP) or was or is part of any other performance improvement or disciplinary process during or after the Program Year. However, managers will have the discretion to provide awards to these employees in situations where the employee has demonstrated sufficient improvement in performance.

The year-end incentive is subject to proration based on an employee’s eligible position(s) during the Program Year. For additional information on prorated awards, see page 9.

For an employee on a Developmental (or Rotational) Assignment, his or her annual incentive target percentage is based on the salary grade of the job held prior to accepting the Developmental (or Rotational) Assignment position.

The payout range for achievement of year-end incentive award goals (unless otherwise noted on the scorecard) can be anywhere from zero percent (0%) to one hundred fifty percent (150%), as noted on the following page. In no circumstance will the year-end incentive paid exceed 150% of the employee’s year-end incentive opportunity.

There is no maximum payout restriction for the I Deliver and Innovator awards. That could result in an employee earning a total annual incentive payout greater than 150% of their incentive target by earning one or more of these awards based on superior contributions and performance.

**PROGRAM COMPONENTS**

**Corporate Scorecard – KPI**

The 2022 corporate scorecard goals focus on four priorities: Lead the Clean Energy Transition, Enhance the Customer Experience, Keep Bills Low, Safety and Reliability.

Priorities	Key Performance Indicator	2022 Goal			
		Threshold	Target	Maximum	Weight
Lead the Clean Energy Transition	<b>Customer Satisfaction</b> <i>(JD Power residential survey)</i>	737	752	767	20%
	<b>Public Safety</b> <i>(gas emergency response)</i>	91%	96%	99%	20%
Enhance the Customer Experience	<b>Electric System Reliability</b> <i>(SAIDI)</i>	101	92	83	20%
	<b>Employee Safety<sup>1</sup></b> <i>(safety culture)</i>	Declining 82-84	Steady/ Improving 85-87	Significant Improvement 88	20%
Keep Bills Low	<b>Diversity, Equity &amp; Inclusion</b> <i>(index)</i>	100	200	300	10%
Safety and Reliability	<b>Wind Availability</b> <i>(equivalent availability factor)</i>	94.0%	96.0%	97.0%	10%

<sup>1</sup> If, during the year, there was an employee fatality caused by a workplace injury that occurred in the course of business and the Company has achieved threshold or better performance, the KPI result's contribution to the corporate scorecard performance will be decreased to threshold (82).

If, during the year, an employee fatality caused by a workplace injury does not occur and the Company experiences both of the following conditions:

- 1) No employee has direct personal contact with an energized primary (voltage) electric system that results in a DART Recordable injury; and
- 2) No employee experiences an unplanned natural gas ignition while working on company owned equipment that results in a DART Recordable injury.

Then, if the Company has achieved target or better performance, the KPI result's contribution to the corporate scorecard performance will be increased to maximum. If the Company has achieved results at threshold or better but below target, the KPI result's contribution to the corporate scorecard performance will be increased to target (86).

Award calculation is based on linear interpolation, below the threshold = 0%, threshold (82) = 50.00%, target (86) = 100.00%, and maximum (88) = 150.00%.

Results are calculated in this manner:

Goal Achievement	Payout
Below Threshold	0%
Threshold	50%
Threshold to Target	50.01 % - 99.99% (based on a linear interpolation)
Target	100%
Target to Maximum	100.01%-149.99% (based on a linear interpolation)
Maximum	150%

*Results will be rounded to the second decimal.*

## **The Individual Component**

The purpose of the Individual Component is to focus and reward employees for their individual performance and contribution to team or company results during the Program Year and to motivate them to enhance the customer experience, innovate and drive continuous improvement. The Individual Component is comprised of three separate opportunities: Year-End Award, I Deliver Award and the Innovator Award.

**Year-End Award:** Your manager has discretion to determine your year-end individual component award from within a range of 0% to 150% of your year-end individual opportunity based on your contributions and performance over the Program Year.

Having an individual award range allows management to recognize and differentiate employees based on their level of contribution and performance, consistent with the Company's pay-for-performance philosophy. Differentiation occurs at all levels based on relative contribution and performance as well as the AIP budget available to the business area.

The Year-End Award represents the largest portion of an eligible employee's individual component opportunity.

**I Deliver Award:** Eligible employees or teams can be nominated for an I Deliver award. These awards allow management to provide timely rewards to eligible employees and teams who deliver greater than expected results that have an impact at a team or department level and are linked to supporting the company strategy. The exceptional work should stand out compared to what is expected from the individual in the course of performing his or her job and link to a benefit for our customers. Nominations are reviewed and approved by a designated group of management on a monthly basis.

**Innovator Award:** Eligible employees or teams can be nominated for an Innovator award. These awards provide timely rewards to eligible employees or teams who implement innovative, high-impact solutions or processes that result in measurable savings or significant customer benefits at a company-wide level. All Innovator Award nominations are reviewed and approved by a designated group of management on a quarterly basis.

## **FUNDING THE PROGRAM**

A prudent element of the Program is making sure the Company has the ability to pay for the annual incentives. Before the Year-End Award component of the Program will pay, an affordability trigger must be met as described below.

### **Earnings Per Share Determines Affordability**

An affordability trigger, based on EPS at \$3.10, must be achieved before any Year-End Award can be paid. The 2022 EPS is based on continuing operations and shall be adjusted to exclude the positive or negative earnings impacts for any one-time, unusual events if the impact of the event exceeds \$20 million on an after-tax basis.

The funding allocated to the I Deliver and Innovator awards are not subject to an affordability trigger.

The Corporate Scorecard results can be multiplied by a funding factor based on EPS. The funding factor is selected by the CEO from an assessment of results and is within the following funding guidelines:

- 50% - 100% for \$3.10 to \$3.15
- 100% - 150% for \$3.16+

In no case will a Year-End Award payment be greater than 150% of the year-end incentive opportunity. However, an employee could earn a total annual incentive payout greater than 150% of their incentive target if they are nominated and earn one or more I Deliver or Innovator awards during the course of the program year.

## **PROGRAM ADMINISTRATION**

<b>Effective date of Program</b>	The Annual Incentive Program covers a performance period of January 1 to December 31, 2022 and becomes effective at the start of that performance period (January 1). This is defined as the Program Year. The scorecard goals, as defined by the KPIs, are communicated to employee participants at or near the start of the performance period.
<b>Approval and Timing of Payment</b>	<p>After the 2022 financial statements are released, the Governance, Compensation &amp; Nominating Committee of the Xcel Energy Inc. Board of Directors will review financial and corporate results. Actual Year-End Award payments will be made no later than two and a half months following the end of the relevant Program Year.</p> <p>I Deliver and Innovator awards are reviewed and approved by Company management on a periodic basis. Award payments will be made as soon as administratively feasible after awards have been approved.</p>
<b>Form of Payment</b>	Annual incentive awards are paid in cash and payment will be made separately from the normal payment of wages. No deferrals can be made to the 401(k) Retirement Savings Program from annual incentive awards. Eligible employees may defer all or a portion of their Year-End Awards into the Xcel Energy Deferred Compensation Plan (“DCP,” see descriptions for details on eligibility). In addition, the Company, at its discretion, may allow deductions to be made from year-end incentive payments to Health Savings Accounts (HSA) as allowable under IRS regulations. The Company will deduct all legally required withholdings on cash payments, DCP deferral elections and/or HSA deduction.

## Eligibility

You must be considered a regular, non-bargaining exempt (full- or part-time) employee of Xcel Energy at any point during the Program Year.

Non-Exempt employees are not eligible for the Year-End and I Deliver awards but are eligible to receive an Innovator Award. Funding for Innovator Awards for non-exempt employees will come from sources outside of the Program.

Bargaining Unit employees, employees considered “temporary” and/or are interns, and independent contractors are not eligible to participate in the Program.

**Status Changes.** If an employee’s status changes from:

- Temporary to regular status prior to October 1st of the Program Year, the year-end portion of the incentive will be prorated based on the number of days worked after becoming a regular status employee.
- Temporary to regular status after October 1st, the employee will not be eligible to participate in the year-end portion of the incentive for that Program Year.
- Non-bargaining to bargaining or vice versa, the year-end incentive will be prorated based on the number of days worked in an eligible non-bargaining status.

**Hired or Rehired During Program Year.** New employees, including independent contractors hired as employees, hired or rehired during the Program Year must be hired or rehired and actively employed by and working for Xcel Energy prior to October 1 of the Program Year to be eligible to participate in the year-end portion of the incentive for that year.

It is recommended that an employee has completed at least one quarter of employment before being nominated for an I Deliver or Innovator award.

**Employed on Last Day of Program Year and Date of Payment.** You must be an active employee of Xcel Energy on December 31, 2022, and you must have continuous service through the day the year-end incentive award is paid, unless one of the following applies:

- Retirement, death, long-term disability (LTD), Qualified Leave of Absence (unpaid military leave and personal leave), involuntary termination with severance – Eligible for a prorated year-end incentive award based on individual performance during the length of qualifying active service (number of calendar days of service divided by number of calendar days in the Program Year) during the Program Year. Final Year-End Awards will be calculated and paid at the same time Year-End Awards are paid to active participants. Deferral and payment elections become null and void.

Employed on Date of Payment. You must have continuous service through the date of I Deliver and Innovator awards are paid, unless one of the following applies:

- Retirement, death, long-term disability (LTD), Qualified Leave of Absence (unpaid military leave and personal leave), involuntary termination with severance. I Deliver and Innovator awards will be paid at the same time these awards are paid to active participants.

If you are terminated for any other reason (e.g., voluntary resignation or involuntary termination for cause) during the Program Year, you lose all rights to any incentive through the date of your termination and will receive no award.

Generally, no award will be paid to an employee who was or is on a Performance Improvement Plan (PIP) or was or is part of any other performance improvement or disciplinary process during or after the Program Year. However, managers will have the discretion to provide awards to these employees in situations where the employee has demonstrated sufficient improvement in performance.

If you participate in any other Xcel Energy incentive or commission program, or any incentive program established specifically as an alternative to this Program, you are not eligible to participate in the Xcel Energy Non-bargaining Exempt Employee Annual Incentive Program without prior approval. Additionally, I Deliver and Innovator Awards cannot be used to reward employees for actions covered under another type of program or agreement. The Executive Vice President, Chief Human Resources Officer or his/her designee or successor will resolve any disputes related to Program participation and administration.

**Calendar Days** All references in this Program booklet to number of calendar days will be based on 365 days in the year (including leap years).

### **Award Proration**

This list contains the most common proration scenarios. As additional situations arise that impact award proration, they will be administered consistent with the scenarios outlined below and program administration practices.

Year-end incentive awards for the Program Year are prorated as follows:

- An eligible employee who is hired or who is transferred to/from /between an eligible position(s) during the Program Year is eligible for a Year-End Award based on the number of calendar days employed in a qualifying position. Award basis (incentive target and salary grade) is described on page 4.



- An eligible employee who retires, dies, qualifies for long-term disability (LTD), takes a leave of absence or is involuntarily terminated with severance is eligible for a Year-End Award based on the number of calendar days actively employed by Xcel Energy in an AIP eligible position.
- An eligible employee who changes from full-time to part-time status, or vice versa, is eligible for a Year-End Award based on the period of time within each status. An award range attributable to the full-time service period will be calculated in the same manner as awards are calculated for other full-time employees. In addition, an award range for the part-time service will be calculated in the same manner as other part-time employees. The results of these calculations will be added together and paid as one incentive award.
- An eligible employee who changes salary plans, incentive targets or has an annual salary change will receive a Year-End Award calculated for each period. The results of these calculations will be added together and paid as one incentive award.
- An employee who voluntarily resigns from Xcel Energy during the Program Year but is rehired and actively working prior to October 1<sup>st</sup> of the Program Year, forfeits any year-end incentive through the date the employee resigned. However, the employee is eligible for a prorated Year-End Award based on the number of days worked from the rehire date through the end of the Program Year, as long as the employee remains continuously employed through the date the year-end incentive payment is made.

#### **INCENTIVE AWARD PROGRAM RELATED INFORMATION**

- |   |   |
|---|---|
| <b>Chief Executive Officer</b>          | The Chief Executive Officer (or designee) will have full discretion and final authority to adopt, amend, alter or rescind the Program without advance notice for any reason at his/her sole discretion based upon financial or operating conditions or otherwise. |
| <b>No Right to Continued Employment</b> | No individual shall have any claim or right to be granted an award under the Program, and the granting of an award shall not be construed as giving the participant the right of continued employment with Xcel Energy.   |



**XCEL ENERGY NON-BARGAINING, EXEMPT EMPLOYEE  
ANNUAL INCENTIVE PROGRAM**

**Program Year: January 1 – December 31, 2023**

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## INTRODUCTION

Xcel Energy Inc. (individually and collectively with its affiliates and subsidiaries, “Xcel Energy” or “the Company”) offers a market-based total cash compensation package. Your total cash compensation includes your base salary and the opportunity to earn an annual incentive when the Company achieves its goals.

- Base salary is the fixed component of your total cash compensation. Generally, it does not change unless you have a change in your job (such as a promotion), change in your status (such as full time to part time), or have a change in pay (such as an earned base pay increase).
- Xcel Energy’s Annual Incentive Program (the “Program”) is the variable component of your total cash compensation.
- Variable compensation is not guaranteed pay as it is subject to achievement of goals, including your own performance, and your contribution to team or company results.

The Program will be in effect from January 1 to December 31, 2023 (the “Program Year”), unless amended to end at an earlier date or terminated. In order for the Program to pay out year-end incentive awards in the Program Year, Xcel Energy must meet certain operating goals and an affordability objective. Your incentive award is primarily based on corporate goal achievement and discretionary based on your individual contributions and performance.

The purpose of this document is to provide a high-level overview of the annual incentive program components and to outline the eligibility and administrative framework of the program. Detailed information regarding the program components can be found at [HR – All Employees - Annual Incentive \(service-now.com\)](#)

## PURPOSE OF THE PROGRAM

Incentive Programs are a variable portion of employee total cash compensation and are directly aligned with the achievement of certain corporate KPIs in addition to your individual contributions and performance.

Xcel Energy uses the Program to align employees’ goals with corporate and business area objectives, and to recognize and reward employees for results that contribute to the achievement of Xcel Energy’s key performance indicators (or KPIs), including those focused on reliability, our customers and our employees. It is also used to motivate employees to enhance the customer experience, innovate and drive continuous improvement.

The Program also supports the Company’s position as an employer of choice by:

- Offering a market-competitive total cash compensation package;
- Fostering the growth and development of employees; and
- Enabling the Company to attract, retain, motivate and reward employees whose performance and contribution meets or exceeds Company expectations.

**PARTICIPATION**

The Program applies to regular, full and part-time status employees who are exempt, non-bargaining employees.

Newly hired or rehired employees must be actively employed by and working for Xcel Energy on or before December 31 of the Program Year to be eligible to participate in the Year-End Award portion of the Program for that Program Year.

Participants must also be actively employed by Xcel Energy on the day Program award payments are made in order to receive an incentive award under the program.

- Exceptions to active employment on the date awards are paid include Involuntary Termination (with severance); Retirement; Death; Disability; or Qualified Leave of Absence.

For additional information regarding participation in the Program, see “Program Administration” beginning on page 7.

**PERFORMANCE COMPONENTS**

The Program for 2023 is based on two performance components, Corporate and Individual:

Level	Component	Timing of Opportunity
Corporate	Corporate Scorecard KPIs align to the priorities of Lead the Clean Energy Transition, Enhance the Customer Experience, Keep Bills Low, Safety and Reliability. Specific goals are listed at <a href="#">Corporate Scorecards (sharepoint.com)</a>	Year-end
Individual	a) Year-End Award individual contributions and performance that can be aligned to your performance goals as determined with your manager	Year-end
	b) I Deliver Award	Time Relevant
	c) Innovator Award	Time Relevant

## INCENTIVE TARGETS

Incentive targets are based on salary grade and correspond to varying weights or percentages for the corporate and individual performance components, as shown below.

Salary Plans and Grades <sup>1</sup>				Incentive Target	Components Weights <sup>2</sup>	
Exempt	SLG	Engineer	Trader		Corporate	Individual
N, O	--	--	--		10%	90%
--	--	A, B	--		20%	80%
P, Q	--	C	001		30%	70%
--	--	D, E	--		40%	60%
R, S, T	--	--	002-006		50%	50%
U, V	--	--	--			
--	All	--	--			

<sup>1</sup> Does not represent all salary plans. Other grades and salary structures will be mapped accordingly. Eligibility for each participant is determined by salary plan or grade as tracked in the Human Resources information systems and not based on job title.

<sup>2</sup> Generally no award will be paid to an employee who was or is on a Performance Improvement Plan (PIP) or was or is part of any other performance improvement or disciplinary process during or after the Program Year. However, managers will have the discretion to provide awards to these employees in situations where the employee has demonstrated sufficient improvement in performance.

The year-end incentive is subject to proration based on an employee's eligible position(s) during the Program Year. For additional information on prorated awards, see page 9.

For an employee on a Developmental (or Rotational) Assignment, their annual incentive target percentage is based on the salary grade of the job held prior to accepting the Developmental (or Rotational) Assignment position.

The payout range for achievement of year-end incentive award goals (unless otherwise noted on the scorecard) can be anywhere from zero percent (0%) to one hundred fifty percent (150%), as noted on the following page. In no circumstance will the year-end incentive paid exceed 150% of the employee's year-end incentive opportunity.

There is no maximum payout restriction for the I Deliver and Innovator awards. That could result in an employee earning a total annual incentive payout greater than 150% of their incentive target by earning one or more of these awards based on superior contributions and performance.

## PROGRAM COMPONENTS

### Corporate Scorecard – KPI

The 2023 corporate scorecard goals focus on four priorities: Lead the Clean Energy Transition, Enhance the Customer Experience, Keep Bills Low, Safety and Reliability.

Priorities	Key Performance Indicator	2023 Goal			
		Threshold	Target	Maximum	Weight
Lead the Clean Energy Transition	<b>Customer Satisfaction</b> <i>(JD Power residential survey)</i>	26 <sup>th</sup> percentile	38 <sup>th</sup> percentile	50 <sup>th</sup> percentile	20%
	<b>Public Safety</b> <i>(gas emergency response)</i>	92.0%	96.5%	99.0%	20%
Enhance the Customer Experience	<b>Electric System Reliability</b> <i>(SAIDI)</i>	103	94	85	20%
	<b>Employee Safety<sup>1</sup></b> <i>(safety culture)</i>	Declining 80-82	Steady/Improving 83-84	Significant Improvement 85	20%
Keep Bills Low	<b>Diversity, Equity &amp; Inclusion</b> <i>(index)</i>	100	200	300	10%
	<b>Wind Availability</b> <i>(equivalent availability factor)</i>	94.0%	96.0%	98.0%	10%
Safety and Reliability					

<sup>1</sup> If, during the year, there was an employee fatality caused by a workplace injury that occurred in the course of business and the Company has achieved threshold or better performance, the KPI result's contribution to the corporate scorecard performance will be decreased to threshold (80).

If, during the year, an employee fatality caused by a workplace injury does not occur and the Company experiences both of the following conditions:

- 1) No employee has direct personal contact with an energized primary (voltage) electric system that results in a DART Recordable injury; and
- 2) No employee experiences an unplanned natural gas ignition while working on company owned equipment that results in a DART Recordable injury.

Then, if the Company has achieved target or better performance, the KPI result's contribution to the corporate scorecard performance will be increased to maximum. If the Company has achieved results at threshold or better but below target, the KPI result's contribution to the corporate scorecard performance will be increased to target (83).

Award calculation is based on linear interpolation, below the threshold = 0%, threshold (80) = 50.00%, target (83) = 100.00%, and maximum (85) = 150.00%.

Results are calculated in this manner:

Goal Achievement	Payout
Below Threshold	0%
Threshold	50%
Threshold to Target	50.01 % - 99.99% (based on a linear interpolation)
Target	100%
Target to Maximum	100.01%-149.99% (based on a linear interpolation)
Maximum	150%

*Results will be rounded to the second decimal.*

### The Individual Component

The purpose of the Individual Component is to focus and reward employees for their individual performance and contribution to team or company results during the Program Year and to motivate them to enhance the customer experience, innovate and drive continuous improvement. The Individual Component is comprised of three separate opportunities: Year-End Award, I Deliver Award and the Innovator Award.

**Year-End Award:** Your manager has discretion to determine your year-end individual component award from within a range of 0% to 150% of your year-end individual opportunity based on your contributions and performance over the Program Year.

Having an individual award range allows management to recognize and differentiate employees based on their level of contribution and performance, consistent with the Company’s pay-for-performance philosophy. Differentiation occurs at all levels based on relative contribution and performance as well as the AIP budget available to the business area.

The Year-End Award represents the largest portion of an eligible employee’s individual component opportunity.

**I Deliver Award:** Eligible employees or teams can be nominated for an I Deliver award. These awards allow management to provide timely rewards to eligible employees and teams who deliver greater than expected results that have an impact at a team or department level and are linked to supporting the company strategy. The exceptional work should stand out compared to what is expected from the individual in the course of performing their job and link to a benefit for our customers. Nominations are reviewed and approved by a designated group of management on a monthly basis.

**Innovator Award:** Eligible employees or teams can be nominated for an Innovator award. These awards provide timely rewards to eligible employees or teams who implement innovative, high-impact solutions or processes that result in measurable savings or significant customer benefits at a company-wide level. All Innovator Award nominations are reviewed and approved by a designated group of management on a semiannual basis.



## FUNDING THE PROGRAM

A prudent element of the Program is making sure the Company has the ability to pay for the annual incentives. Before the Year-End Award component of the Program will pay, an affordability trigger must be met as described below.

### Earnings Per Share Determines Affordability

An affordability trigger, based on EPS at \$3.30, must be achieved before any Year-End Award can be paid. The 2023 EPS is based on continuing operations and shall be adjusted to exclude the positive or negative earnings impacts for any one-time, unusual events if the impact of the event exceeds \$20 million on an after-tax basis.

The funding allocated to the I Deliver and Innovator awards are not subject to an affordability trigger.

The Corporate Scorecard results can be multiplied by a funding factor based on EPS. The funding factor is selected by the CEO from an assessment of results and is within the following guidelines:

- 50% - 100% for \$3.30 to \$3.34
- 100% - 150% for \$3.35+

In no case will a Year-End Award payment be greater than 150% of the year-end incentive opportunity. However, an employee could earn a total annual incentive payout greater than 150% of their incentive target if they are nominated and earn one or more I Deliver or Innovator awards during the course of the program year.

## PROGRAM ADMINISTRATION

**Effective date of Program** The Annual Incentive Program covers a performance period of January 1 to December 31, 2023 and becomes effective at the start of that performance period (January 1). This is defined as the Program Year. The scorecard goals, as defined by the KPIs, are communicated to employee participants at or near the start of the performance period.

**Approval and Timing of Payment** After the 2023 financial statements are released, the Governance, Compensation & Nominating Committee of the Xcel Energy Inc. Board of Directors will review financial and corporate results. Actual Year-End Award payments will be made as soon as administratively feasible following the end of the relevant Program Year.

I Deliver and Innovator awards are reviewed and approved by Company management on a periodic basis. Award payments will be made as soon as administratively feasible after awards have been approved.

**Form of Payment** Annual incentive awards are paid in cash and payment will be made separately from the normal payment of wages. No deferrals can be made to the 401(k) Retirement Savings Program from annual incentive awards.

Eligible employees may defer all or a portion of their Year-End Awards into the Xcel Energy Deferred Compensation Plan (“DCP,” see descriptions for details on eligibility). In addition, the Company, at its discretion, may allow deductions to be made from year-end incentive payments to Health Savings Accounts (HSA) as allowable under IRS regulations. The Company will deduct all legally required withholdings on cash payments, DCP deferral elections and/or HSA deduction. Awards under \$100 will not be paid.

## **Eligibility**

You must be considered a regular, non-bargaining exempt (full- or part-time) employee of Xcel Energy at any point during the Program Year.

Non-Exempt employees are not eligible for the Year-End and I Deliver awards but are eligible to receive an Innovator Award. Funding for Innovator Awards for non-exempt employees will come from sources outside of the Program.

Bargaining Unit employees, employees considered “temporary” and/or are interns, and independent contractors are not eligible to participate in the Program.

**Status Changes.** If an employee’s status changes from:

- Temporary to regular status on or before December 31 of the Program Year, the year-end portion of the incentive will be prorated based on the number of days worked after becoming a regular status employee.
- Temporary to regular status after December 31, the employee will not be eligible to participate in the year-end portion of the incentive for that Program Year.
- Non-bargaining to bargaining or vice versa, the year-end incentive will be prorated based on the number of days worked in an eligible non-bargaining status.

**Hired or Rehired During Program Year.** New employees, including independent contractors hired as employees, hired or rehired during the Program Year must be hired or rehired and actively employed by and working for Xcel Energy on or before December 31 of the Program Year to be eligible to participate in the year-end portion of the incentive for that year.

It is recommended an employee has completed at least one quarter of employment before being nominated for an I Deliver or Innovator award.

**Employed on Last Day of Program Year and Date of Payment.** You must be an active employee of Xcel Energy on December 31, 2023, and you must have continuous service through the day the year-end incentive award is paid, unless one of the following applies:

- Retirement, death, long-term disability (LTD), Qualified Leave of Absence (paid or unpaid military leave and personal leave), involuntary termination with severance – Eligible for a prorated

year-end incentive award based on individual performance during the length of qualifying active service (number of calendar days of service divided by number of calendar days in the Program Year) during the Program Year. Final Year-End Awards will be calculated and paid at the same time Year-End Awards are paid to active participants. Deferral and payment elections become null and void.

Employed on Date of Payment. You must have continuous service through the date I Deliver and Innovator awards are paid, unless one of the following applies:

- Retirement, death, long-term disability (LTD), Qualified Leave of Absence (paid or unpaid military leave and personal leave), involuntary termination with severance. I Deliver and Innovator awards will be paid at the same time these awards are paid to active participants.

If you are terminated for any other reason (e.g., voluntary resignation or involuntary termination for cause) during the Program Year, you lose all rights to any incentive through the date of your termination and will receive no award.

Generally, no award will be paid to an employee who was or is on a Performance Improvement Plan (PIP) or was or is part of any other performance improvement or disciplinary process during or after the Program Year. However, managers will have the discretion to provide awards to these employees in situations where the employee has demonstrated sufficient improvement in performance.

If you participate in any other Xcel Energy incentive or commission program, or any incentive program established specifically as an alternative to this Program, you are not eligible to participate in the Xcel Energy Non-bargaining Exempt Employee Annual Incentive Program without prior approval. Additionally, I Deliver and Innovator Awards cannot be used to reward employees for actions covered under another type of program or agreement. The Executive Vice President, Chief Human Resources Officer or their designee or successor will resolve any disputes related to Program participation and administration.

**Calendar Days** All references in this Program booklet to number of calendar days will be based on 365 days in the year (including leap years).

### **Award Proration**

This list contains the most common proration scenarios. As additional situations arise that impact award proration, they will be administered consistent with the scenarios outlined below and program administration practices.

Year-end incentive awards for the Program Year are prorated as follows:

- An eligible employee who is hired or who is transferred to/from/between an eligible position(s) during the Program Year is eligible for a Year-End Award based on the number of calendar days employed in a qualifying position. Award basis (incentive target and salary grade) is described on page 4.
- An eligible employee who retires, dies, qualifies for long-term disability (LTD), takes a leave of absence or is involuntarily terminated with severance is eligible for a Year-End Award based on the number of calendar days actively employed by Xcel Energy in an AIP eligible position.
- An eligible employee who changes from full-time to part-time status, or vice versa, is eligible for a Year-End Award based on the period within each status. An award range attributable to the full-time service period will be calculated in the same manner as awards are calculated for other full-time employees. In addition, an award range for the part-time service will be calculated in the same manner as other part-time employees. The results of these calculations will be added together and paid as one incentive award.
- An eligible employee who changes salary plans, incentive targets or has an annual salary change will receive a Year-End Award calculated for each period. The results of these calculations will be added together and paid as one incentive award.
- An employee who voluntarily resigns from Xcel Energy during the Program Year but is rehired and actively working on or before December 31 of the Program Year, forfeits any year-end incentive through the date the employee resigned. However, the employee is eligible for a prorated Year-End Award based on the number of days worked from the rehire date through the end of the Program Year, as long as the employee remains continuously employed through the date the year-end incentive payment is made.

## **INCENTIVE AWARD PROGRAM RELATED INFORMATION**

### **Chief Executive Officer**

The Chief Executive Officer (or designee) will have full discretion and final authority to adopt, amend, alter or rescind the Program without advance notice for any reason at their sole discretion based upon financial or operating conditions or otherwise.

### **No Right to Continued Employment**

No individual shall have any claim or right to be granted an award under the Program, and the granting of an award shall not be construed as giving the participant the right of continued employment with Xcel Energy.