

**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. 993- )  
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. 22AL-\_\_\_\_G  
RATES FOR ALL GAS RATE )  
SCHEDULES, AND MAKE OTHER )  
PROPOSED TARIFF CHANGES )  
EFFECTIVE FEBRUARY 24, 2022 )

**DIRECT TESTIMONY AND ATTACHMENTS OF MICHAEL T. KNOLL**

**ON**

**BEHALF OF**

**PUBLIC SERVICE COMPANY OF COLORADO**

**NOTICE OF CONFIDENTIALITY**  
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**Confidential:** Confidential Attachment MTK-1  
Confidential Attachment MTK-2, redactions on page 5

**January 24, 2022**

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**LIST OF ATTACHMENTS**

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| Attachment MTK-1C | Confidential 2020 Willis Towers Watson Competitive Total Direct Compensation Analysis                           |
| Attachment MTK-1  | PUBLIC 2020 Willis Towers Watson Competitive Total Direct Compensation Analysis-Slip Sheet                      |
| Attachment MTK-2C | Confidential 2020 and 2021 Xcel Energy Non-Bargaining, Exempt Employee Annual Incentive Program                 |
| Attachment MTK-2  | PUBLIC 2020 and 2021 Xcel Energy Non-Bargaining, Exempt Employee Annual Incentive Program-Redactions on Page 5. |

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**DIRECT TESTIMONY AND ATTACHMENTS OF MICHAEL T. KNOLL**

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

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

A. My name is Michael T. Knoll. My business address is 401 Nicollet Mall,  
Minneapolis, Minnesota 55401.

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

A. I am employed by Xcel Energy Services Inc. ("XES") as Director, Compensation.  
XES, which is a wholly-owned subsidiary of Xcel Energy Inc. ("Xcel Energy"),  
provides an array of support services to Public Service Company of Colorado  
("Public Service" or the "Company") and the other utility operating 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 Director, Compensation, I am primarily responsible for designing, developing,  
5           and implementing broad-based compensation programs that are intended to  
6           attract, retain, and motivate the skilled employees Public Service needs to provide  
7           safe and reliable gas service. A description of my qualifications, duties, and  
8           responsibilities is set forth in the Statement of Qualifications attached to this  
9           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; and (2) to demonstrate that the compensation amounts that  
15           Public Service asks the Colorado Public Utilities Commission (“Commission”) to  
16           approve for the calendar year 2022 Current Test Year (“CTY”) are just and  
17           reasonable. In furtherance of those purposes, my Direct Testimony addresses the  
18           following topics:

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

- 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; and
- 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 TESTIMONY AND RECOMMENDATIONS.**

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 amounts requested based upon costs incurred in the 12-month period ended June  
29 30, 2021, which is the 2021 Historical Test Year (“HTY”). Those amounts have

1        been adjusted for known and measurable changes reflective of the level of costs  
2        the Company will incur within one year of this period and before new rates from  
3        this proceeding are in effect, which are the CTY amounts. The HTY and CTY  
4        compensation amounts are as follows:

5                    **Table MTK-D-1: Compensation Amounts Requested**

| Compensation Type           | 2019 HTY     | 2021 HTY     | 2022 CTY      |
|-----------------------------|--------------|--------------|---------------|
| Bargaining wage             | \$22,352,379 | \$20,601,366 | \$21,320,713* |
| Non-Bargaining base pay     | \$67,543,769 | \$69,221,103 | \$71,812,674* |
| AIP at Target               | \$3,530,540  | \$4,254,302  | \$4,407,461*  |
| Environmental LTI at Target | N/A          | \$300,687    | \$311,136     |
| Time-based LTI at Target    | \$659,995    | \$548,062    | \$565,909     |
| Recognition awards          | \$165,161    | \$279,724    | \$251,359     |

6        \*Requested amounts reflect Public Service Gas O&M after known and measurable pay increases.

7        I recommend that the Commission approve the amounts of compensation and  
8        recognition included in the Cost of Service Study.

9        **Q. PLEASE DISCUSS HOW THESE O&M EXPENSES WILL BE MANAGED FOR**  
10       **2023 AND 2024.**

11       A. As Company witness Mr. Steven P. Berman discusses in detail in his Direct  
12       Testimony, the Company is requesting certain step increases in 2023 and 2024  
13       associated with the capital investment in those years (“2023/2024 Step  
14       Increases”), but the Company is assuming for purposes of this rate case that O&M  
15       will remain flat during that time period. While there is currently inflationary pressure



1 on O&M, it is our intention to manage employee compensation and recognition-  
2 related O&M expenses for 2023 and 2024 to the 2022 CTY level if our proposed  
3 2023/2024 Step Increases are approved.

4 **Q. ARE YOU SPONSORING ANY ATTACHMENTS AS PART OF YOUR DIRECT**  
5 **TESTIMONY?**

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

- 7 • Attachment MTK-1C, which is the Confidential version of the 2020 Willis  
8 Towers Watson ("Willis") Competitive Total Direct Compensation Analysis;
- 9 • Attachment MTK-1, which is the Pubic Version of the 2020 Willis Competitive  
10 Total Direct Compensation Analysis;
- 11 • Attachment MTK-2C, which is the Confidential version of the 2021 Xcel Energy  
12 Non-Bargaining, Exempt Employee Annual Incentive Program and;
- 13 • Attachment MTK-2, which is the Public version of the 2021 Xcel Energy Non-  
14 Bargaining, Exempt Employee Annual Incentive Program;

15 **Q. DOES ANY OTHER COMPANY WITNESS ADDRESS ISSUES RELATED TO**  
16 **COMPENSATION AND BENEFITS?**

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

- 19 • Richard R. Schrubbe describes and supports the Company's request to  
20 recover its expenses for non-cash benefits, including active health and  
21 welfare expense, pension and other post-employment benefit expense,  
22 workers' compensation expense, and other benefit-related costs; and
- 23 • The Cost of Service Study supported by Mr. Freitas incorporates the known  
24 and measurable amounts requested in my Direct Testimony for bargaining  
25 employee wages, non-bargaining employee base pay, AIP, and LTI. The  
26 Cost of Service Study also includes current pension and benefit-related  
27 expense, and it reflects the prepaid pension asset and prepaid retiree  
28 medical asset amounts that the Company seeks to include in the rate base.

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

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

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

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

20 **Q. WHAT ARE THE GOALS AND OBJECTIVES OF THE TOTAL REWARDS**  
21 **PROGRAM?**

22 A. The Total Rewards Program is designed to offer a market-level compensation and  
23 benefits package to Public Service employees.<sup>1</sup> Offering a market-level

---

<sup>1</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 compensation and benefits package is fundamental to attracting, retaining, and  
2 motivating employees for any company, and it is especially important for a public  
3 utility like Public Service, which is responsible for providing customers with safe  
4 and reliable gas service every hour of the day, every day of the year. Maintaining  
5 that level of safety and reliability is a highly complex and technically demanding  
6 undertaking that can be accomplished only with the contributions of thousands of  
7 experienced and dedicated employees. To attract, retain and motivate those  
8 employees, Public Service must offer the levels and types of compensation and  
9 benefits that are competitive with the levels offered by other companies in the labor  
10 marketplace. Thus, the Total Rewards Program is designed to provide Public  
11 Service and the other Xcel Energy subsidiaries with the tools to compete with other  
12 employers for the employees needed to provide safe and reliable service to  
13 customers.

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

16 A. Yes. Prospective employees with the skills and training required for the gas utility  
17 industry are in high demand. Many of the skilled trade crafts required to provide  
18 safe and reliable service, such as journeyman gas fitters, welders, and gas plant  
19 operators require strong Science, Technology, Engineering and Math ("STEM")  
20 skills and four years of apprenticeship training. Thus, these employees are well-  
21 trained individuals that are in low supply and in high demand by contracting firms,  
22 utilities, and other sectors of the energy industry. There is a limited pool of

1 experienced and qualified candidates for many jobs, and Public Service must  
2 compete for these employees on a national, regional, and local basis.

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

5 A. Yes. According to the Bureau of Labor Statistics,<sup>2</sup> Colorado had an unemployment  
6 rate of 5.6 percent in September 2021, with a national unemployment rate of 4.8  
7 percent. The relatively low unemployment rates – at both the national and local  
8 level – are surpassed by the job openings rate in Colorado (7.2 percent)<sup>3</sup>, which  
9 means there are abundant opportunities for existing and potential employees to  
10 choose other employers, especially if the Total Rewards Program package  
11 provided by Public Service is not market-competitive.

---

<sup>2</sup> [State Employment and Unemployment - September 2021 \(bls.gov\)](https://www.bls.gov/news.release/archives/usa20210901.pdf)

<sup>3</sup> [State Job Openings and Labor Turnover Summary \(bls.gov\)](https://www.bls.gov/news.release/archives/jsln20210901.pdf)

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 MTK-D-2 summarizes employees’ eligibility for particular types of  
18 compensation:

**TABLE MTK-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>4</sup></b> | Eligible          | Eligible                                  | Eligible                                | Eligible                                                  |

\*X = ineligible

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

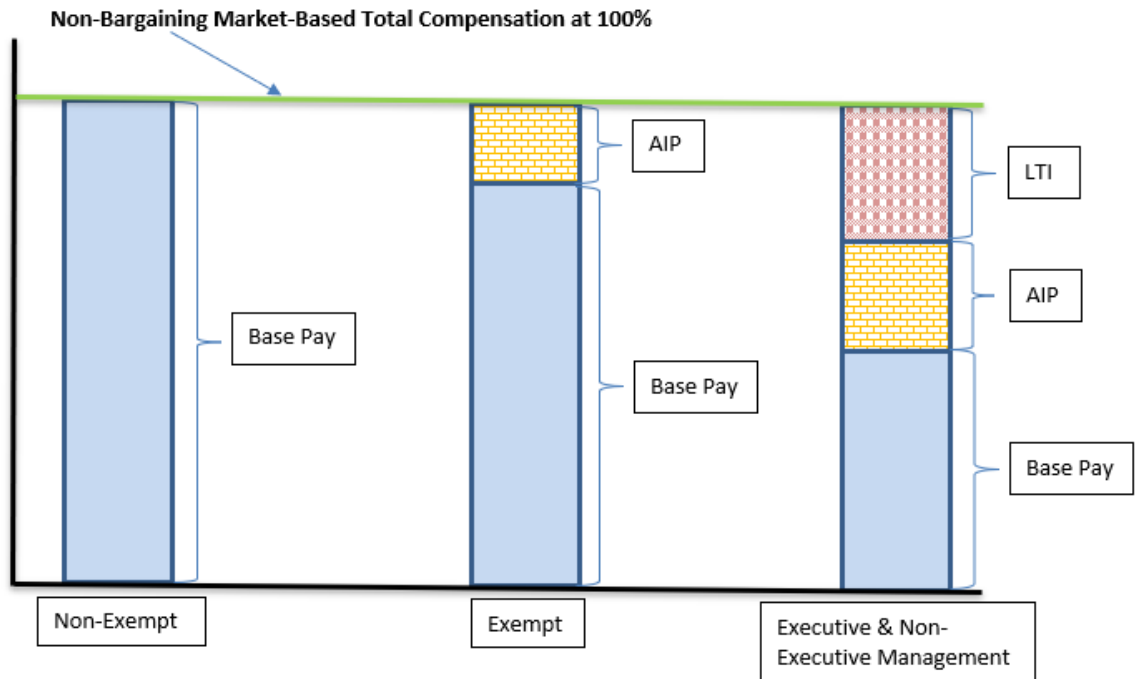
A. No. As shown in Figure MTK-D-1 (next page), executive and non-executive management employees receive a greater percentage of their compensation in the form of incentive compensation than more junior exempt employees do. This is similar to how other employers with whom Public Service competes for employees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

---

<sup>4</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 MTK-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 2022 budgeted levels.<sup>5</sup> However, all of the expenses of the  
3 Company’s compensation programs are necessary and reasonable costs of  
4 attracting, retaining and motivating the employees needed to provide safe and  
5 reliable gas service, and therefore Public Service reserves the right to request full  
6 recovery of those costs in future base rate proceedings.

---

<sup>5</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 five 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) supplemental  
6       incentive compensation; (4) certain types of long-term incentive compensation;  
7       and (5) recognition awards. I will discuss the Company's request regarding each  
8       of those elements of compensation in the following subsections.

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

10           **1. Bargaining Employee Base Wage**

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

13   A.   Bargaining employee base wage amounts, including the 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, 2020 and will remain in effect through May 31,  
20       2023. Under that agreement, a base wage increase of 2.8 percent took effect on  
21       June 1, 2021, and another base wage increase of 2.8 percent will take effect on  
22       June 1, 2022.

1 **Q. HAS THE COMPANY INCLUDED THE BASE WAGE INCREASES**  
2 **SCHEDULED FOR 2022 AS A PART OF ITS CTY COST OF SERVICE?**

3 A. Yes. The rates established in this case will go into effect in 2022, and the  
4 bargaining wage increase for 2022 is a forecasted adjustment. Therefore, it is  
5 appropriate to include the 2022 increase in the base wage amount approved for  
6 bargaining employees.

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

9 A. Public Service asks the Commission to approve \$21,320,713 of base wages for  
10 bargaining employees.

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

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

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

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

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

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

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

13 A. Yes. Although base pay is considered to be a fixed component of cash  
14 compensation, managers are allowed to award base pay increases based on  
15 employees' performance, their position in the pay range (an indicator of relative  
16 market position), and internal equity between employees. Base pay increases  
17 tend to be higher for employees who have high levels of performance and who are  
18 currently at the low end of the pay range. On the other hand, average performers  
19 who are at the higher end of the pay range for their job classification may only  
20 receive a small base pay increase, and a poor performer generally receives no  
21 base pay increase.

---

<sup>6</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 **Q. ARE THE BASE PAY INCREASES EARNED BY NON-BARGAINING**  
2 **EMPLOYEES THE SAME AS COST-OF-LIVING INCREASES?**

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

7 **Q. HOW DOES THE COMPANY DETERMINE THE ANNUAL BUDGET FOR BASE**  
8 **PAY INCREASES?**

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

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

16 **Q. WHAT BASE PAY INCREASE DID NON-BARGAINING EMPLOYEES EARN IN**  
17 **2021?**

18 A. Effective March 2021, eligible Public Service non-bargaining employees earned,  
19 on average, a 3.0 percent base pay increase. To earn a base pay increase, a non-  
20 bargaining employee had to be eligible based on job performance and had to be  
21 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 2022?**

3   A.   For 2022, the Company anticipates a budgeted base pay increase of 3.0 percent  
4       for non-bargaining employees.

5   **Q.   IS PUBLIC SERVICE SEEKING TO INCLUDE THE BUDGETED 3.0 PERCENT**  
6       **INCREASE FOR 2022 IN THE CTY COST OF SERVICE IN THIS CASE?**

7   A.   Yes. The 3.0 percent base pay increase will be effective in March 2022, which is  
8       prior to the time the rates established in this case go into effect, and the amount of  
9       the increase for is consistent with forecasted adjustments. Over the past several  
10      years, independent third-party surveys demonstrate that the budgeted 3.0 percent  
11      increase is comparable to the projected increases by other employers with whom  
12      Public Service competes for employees.

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

16   A.   Public Service relies on independent third-party compensation surveys because  
17      the survey vendors use rigorous methodologies to collect and aggregate  
18      compensation information from a wide array of companies. Those surveys are  
19      compiled in compliance with Department of Justice and Federal Trade  
20      Commission Antitrust Safety Zone guidelines, which specify who can administer  
21      surveys and define such parameters as the minimum number of participants in the  
22      survey, the percentage of data a single survey participant can represent in  
23      weighted results, and the age of the data. In addition, the results of the surveys

1 are available only to authorized users, which acts as an incentive for companies  
2 to share competitive information they would not otherwise release. Use of  
3 independent third-party compensation surveys is a best practice for determining  
4 compensation across industries.

5 **Q. CAN YOU DEMONSTRATE THAT THE 3.0 PERCENT BASE PAY INCREASES**  
6 **EARNED BY NON-BARGAINING EMPLOYEES IN 2021 AND BUDGETED FOR**  
7 **2022 ARE REASONABLE?**

8 A. Yes. The independent third-party surveys that I described above demonstrate that  
9 for 2021, the 3.0 percent base pay increase for Public Service employees was  
10 competitive with the market as a whole. In particular, five different survey sources  
11 reported the following base pay increase ranges:

- 12 • 3.0 percent to 3.3 percent for all utilities on a national basis; and
- 13 • 2.7 percent to 3.9 percent for all companies on a national basis.<sup>7</sup>

14 As these independent surveys show, the 3.0 percent base pay increase for Public  
15 Service's non-bargaining employees was reasonable when compared to the  
16 market in 2021.

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<sup>7</sup> WorldatWork "2021-2022 Salary Budget Survey"; The Conference Board "2021 Salary Increase Budget Survey Results"; Willis Towers Watson, "2021 General Industry Salary Budget Survey"; Mercer "2021 US Compensation Planning Survey"; and Aon Hewitt "2021 Salary Increase and Turnover Study-United States."

1 **Q. IS A 3.0 PERCENT BASE PAY INCREASE CONSISTENT WITH LONG-TERM**  
2 **TRENDS FOR BASE PAY INCREASES?**

3 A. Yes. Table MTK-D-3 identifies the projected and actual non-bargaining base pay  
4 increase percentages available from 2017 through the 2021 projected increase,  
5 using the survey methodology described above:

6 **TABLE MTK-D-3**

| Year | Projected Increase | Actual Increase |
|------|--------------------|-----------------|
| 2017 | 2.9% - 3.2%        | 2.8% - 3.0%     |
| 2018 | 2.9% - 3.1%        | 2.9% - 3.3%     |
| 2019 | 3.0% - 3.3%        | 3.0% - 3.5%     |
| 2020 | 3.1% - 3.7%        | 2.6% - 3.5%     |
| 2021 | 2.6% - 3.5%        | 2.7% - 3.9%     |
| 2022 | 2.9% - 4.1%        | Pending         |

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

9 A. I conclude that the 2022 base pay increase for non-bargaining employees is  
10 reasonable and should be included in the Company's CTY cost of service.  
11 Accordingly, Public Service requests that the Commission approve \$71,812,674  
12 for non-bargaining base pay.

13 **B. Annual Incentive Compensation**

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

16 A. I discuss three topics related to the Company's Annual Incentive Program, which  
17 is sometimes referred to by the acronym "AIP." First, I explain that the Company's  
18 use of incentive compensation benefits customers, as compared to a



1 compensation system that would provide all of a non-bargaining employee's  
2 compensation through base pay. Second, I describe the structure of Xcel Energy's  
3 incentive compensation program. Finally, I quantify the amount of incentive  
4 compensation that Public Service asks the Commission to approve and the  
5 reasoning underlying it.

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

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

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

18 **Q. PLEASE EXPLAIN HOW INCENTIVE COMPENSATION PROMOTES**  
19 **SUPERIOR EMPLOYEE PERFORMANCE.**

20 A. A well-designed incentive compensation plan motivates employees to focus on  
21 activities that benefit customers, such as improving customer service response  
22 times, enhancing reliability, and achieving environmental goals. In addition, a

1 compensation structure that includes incentive compensation strengthens the link  
2 between pay and performance by putting a portion of the employee's  
3 compensation at risk. Employees are motivated to meet the performance  
4 standards in order to earn their full compensation amount. Using base pay alone  
5 to meet the necessary total compensation levels would allow the employee to  
6 receive the payment regardless of performance. Thus, the use of incentive  
7 compensation helps Public Service motivate and reward its employees for  
8 delivering superior performance.

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

10 A. The use of incentive compensation reduces labor costs by lowering the base pay  
11 amount to which annual escalation rates are applied. For example, if a non-  
12 bargaining employee's total cash compensation was \$50,000 in year one and all  
13 of the compensation was in the form of base pay, a 3.0 percent base pay increase  
14 would lead to a base pay increase of \$1,500 in year two and a new base pay of  
15 \$51,500.

16 In contrast, customers benefit if total cash compensation is structured with  
17 base pay and an incentive compensation opportunity (variable pay) to reach total  
18 compensation. For example, an employee with an overall target compensation of  
19 \$50,000 and a 20 percent incentive compensation opportunity would have a base  
20 pay of \$41,670. The difference between base pay and total cash compensation  
21 would need to be re-earned annually through the AIP. Additionally, unlike the fixed  
22 cost described above, when total cash compensation is delivered in base pay, the

3.0 percent base pay increase would lead to an increase of \$1,250 in year two (\$41,670 x 3.0% = \$1,250) and a new base pay of \$42,920. Thus, by moving a portion of each employee's pay from base pay to incentive pay, Public Service reduces overall fixed labor costs (base pay) by avoiding the compounding effect of annual base pay increases on the higher base pay amount, as noted in Table MTK-D-4 below.

**TABLE MTK-D-4**  
**Fixed Cost and Variable Pay Example**

|                                                         | <b>Total<br/>Compensation<br/>Base Pay<br/>Only</b> | <b>Total<br/>Compensation<br/>Base Pay and<br/>AIP</b> |
|---------------------------------------------------------|-----------------------------------------------------|--------------------------------------------------------|
| Competitive Market Total<br>Cash Compensation<br>Median | <b>\$50,000</b>                                     |                                                        |
| Fixed Cost - Base Pay                                   | \$50,000                                            | \$41,670                                               |
| Incentive Target<br>Opportunity                         | 0%                                                  | 20%                                                    |
| Variable Pay at Target                                  | \$0                                                 | \$8,334                                                |
| <b>Total Cash<br/>Compensation</b>                      | <b>\$50,000</b>                                     | <b>\$50,004</b>                                        |
| Base Pay Increase<br>(3.0%)                             | \$1,500                                             | \$1,250                                                |
| <b>Fixed Cost - Post<br/>Increase</b>                   | <b>\$51,500</b>                                     | <b>\$42,920</b>                                        |

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

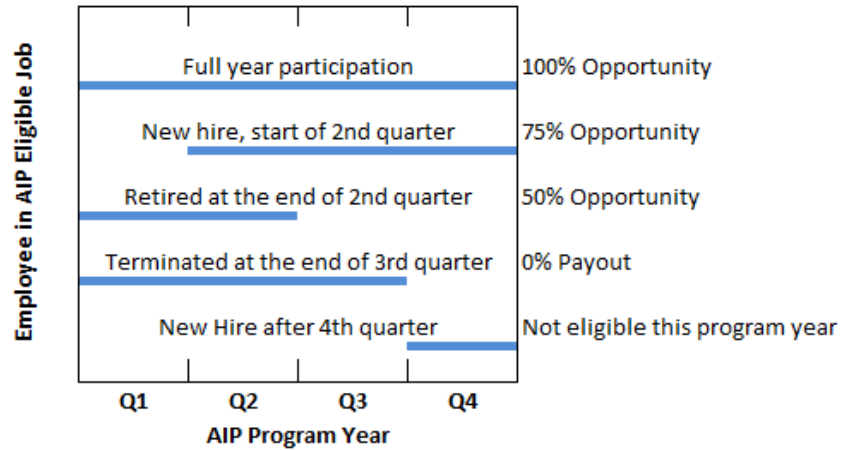
1 expenses associated with incentive compensation do not affect all benefit  
2 expenses, and variable pay may fluctuate from year to year. These factors, along  
3 with prorated awards and eligibility requirements for payout, also contribute to  
4 incentive design savings. In summary, by utilizing base pay and incentive  
5 components in the Total Rewards Program, Public Service reduces costs for  
6 customers, while offering employees market-based, target-level total cash  
7 compensation.

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

16 Table MTK-D-5 illustrates a few simple examples of how and when  
17 employees in AIP eligible jobs may or may not have full or pro-rated AIP  
18 opportunity in relation to the year-end AIP award.

1

**TABLE MTK-D-5**



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

5 A. Yes. The use of incentive compensation by employers is a prevalent practice  
 6 throughout the United States. According to the 2020 Willis Towers Watson  
 7 Compensation Study (Confidential Attachment MTK-1), 100 percent of energy  
 8 companies in the national sample maintain an annual incentive plan, and 100  
 9 percent of energy companies in the revenue-based sample maintain an annual  
 10 incentive plan.

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

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

13 A. The AIP is the mechanism through which Public Service ties part of an eligible  
 14 employee's compensation to the achievement of defined performance objectives  
 15 called Key Performance Indicators ("KPI"). Public Service uses the AIP to align

1 employees' goals with the Company's corporate and business goals, and to  
2 recognize and reward employees for results that contribute to the achievement of  
3 reliability, customer satisfaction, and safety goals. When combined with base pay,  
4 the incentive compensation component is designed to produce a market-  
5 competitive total cash compensation package.

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

8 A. The AIP applies to exempt, non-bargaining employees. An eligible employee must  
9 be employed by October 1 of a particular year to be eligible for a prorated year-  
10 end portion of the AIP compensation for that program year. With limited  
11 exceptions, a person must also be actively employed by the Company on the date  
12 that the year-end award payments are made in order to receive an incentive  
13 award.<sup>8</sup>

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

17 A. During the first quarter of each year, Xcel Energy develops a Corporate scorecard  
18 that identifies certain priorities for the year. In 2021, for example, the Corporate  
19 KPIS are focused on four priorities: (1) leading the clean energy transition; (2)  
20 enhancing the customer experience; (3) keeping bills low; and (4) promoting safety  
21 and reliability. As shown in Table MTK-D-6, those four priorities resulted in six  
22 Corporate KPIS for the year:

23 

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<sup>8</sup> The exceptions are involuntary termination with severance, retirement, death, disability, or  
qualified leave of absence.

1

**TABLE MTK-D-6**

| Priority                                                                                                    | Key Performance Indicator                                     | Threshold (50%) | Target (100%)    | Maximum (150%)          | KPI Weight |
|-------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------|-----------------|------------------|-------------------------|------------|
| Lead the Clean Energy Transition<br>Enhance Customer Experience<br>Keep Bills Low<br>Safety and Reliability | <b>Customer Satisfaction</b><br>(JD Power residential survey) | 747             | 762              | 777                     | 20%        |
|                                                                                                             | <b>Public Safety</b><br>(gas emergency response) <sup>9</sup> | 91%             | 96%              | 99%                     | 20%        |
|                                                                                                             | <b>Electric System Reliability</b><br>(SAIDI)                 | 100             | 92               | 84                      | 20%        |
|                                                                                                             | <b>Employee Safety</b><br>(safety culture)                    | Declining       | Steady/Improving | Significant Improvement | 20%        |
|                                                                                                             | <b>Diversity, Equity &amp; Inclusion</b><br>(index)           | 100             | 200              | 300                     | 10%        |
|                                                                                                             | <b>Wind Availability</b><br>(equivalent availability factor)  | 92.0%           | 94.5%            | 97.0%                   | 10%        |

2 **Q. TABLE MTK-D-6 USES THE TERMS “THRESHOLD,” “TARGET,” AND**  
 3 **“MAXIMUM” FOR THE CORPORATE SCORECARD. CAN YOU EXPLAIN**  
 4 **WHAT THOSE TERMS MEAN?**

5 **A.** Yes. As shown in Table MTK-D-6, Xcel Energy establishes quantitative measures  
 6 to evaluate whether the Corporate scorecard KPIs have been met. The “target”  
 7 amount reflects the level of achievement that Xcel Energy considers to be  
 8 reasonable for the particular Corporate KPI. The “threshold” amount represents  
 9 the lower bound that must be achieved before that Corporate KPI may be used in

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<sup>9</sup> This is the Corporate scorecard for Xcel Energy as a whole, so it also includes KPIs relevant to Xcel Energy gas utilities and electric utilities.

the incentive payout calculation, whereas the “maximum” represents the upper bound of results for purposes of establishing the maximum amount of incentive compensation for that Corporate KPI. As shown in Table MTK-D-7, the amount of incentive compensation an employee is eligible to receive under the Corporate scorecard depends on the degree of success that the corporation as a whole achieves for the Corporate KPIs:

**TABLE MTK-D-7**

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

The 2021 AIP program document, which is Confidential Attachment MTK-2, provides additional details and specifics about the program.

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

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



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

2   A.   The individual component is based on the individual performance results of specific  
3       goals identified by the employee and his or her manager. Goals are tied  
4       specifically to the employee's job functions and are developed in alignment with  
5       business area and corporate objectives. Each manager has discretion to  
6       determine the year-end individual component award within a range of 0 to 150  
7       percent based on the employee's contributions and performance during the year.<sup>10</sup>

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

10  A.   No. The importance of the Corporate KPIS for year-end AIP payout varies based  
11       upon the employee's position and level of responsibility. The weightings of  
12       Corporate versus Individual KPIS are designed such that an employee's goals are  
13       more strongly linked to objectives that he or she has the greatest potential to affect.  
14       For example, the weighting for non-supervisory employees focuses on the job of  
15       the individual to have day-to-day interactions tied to customer satisfaction, safety,  
16       and reliability. In contrast, the weighting for more senior level positions focuses on  
17       broader corporate goals. Table MTK-D-8 shows the weightings of these different  
18       categories for the 2021 AIP:

---

<sup>10</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.

1

**TABLE MTK-D-8**

| <b>2021 AIP Weights</b>                      |                  |                   |
|----------------------------------------------|------------------|-------------------|
| <b>(Exempt, Non-Bargaining Employees)</b>    |                  |                   |
| <b>Salary Tiers/Grades</b>                   | <b>Corporate</b> | <b>Individual</b> |
| Exempt N, O;<br>Engineer A, B                | 10%              | 90%               |
| Exempt P, Q;<br>Engineer C; Trader 1         | 20%              | 80%               |
| Management R-T;<br>Engineer D, E; Trader 2-6 | 30%              | 70%               |
| Senior Leader Group                          | 50%              | 50%               |

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

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

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

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

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

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

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

1                   **3. AIP Request**

2   **Q.   WHAT AMOUNT OF 2022 INCENTIVE COMPENSATION EXPENSE IS PUBLIC**  
3       **SERVICE ASKING THE COMMISSION TO APPROVE IN THIS CASE?**

4   A.   Public Services is requesting the 2022 AIP target-level expense of \$4,407,461.

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

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

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

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

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

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

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

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

21 A. Like the other Xcel Energy compensation programs, the LTI program is intended  
22 to attract, retain, and motivate employees. LTI differs from AIP and other types of

1 compensation in that is offered only to executives and non-executive management  
2 employees, as determined by market-competitive compensation designs. Like the  
3 AIP, the compensation tied to LTI is at-risk compensation. This means that the  
4 performance goals must be met and/or the employee must remain employed for a  
5 certain period of time in order to earn his or her full compensation. The LTI is  
6 necessary, however, to ensure that those employees' compensation levels and  
7 mix of compensation are competitive.

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

9 A. Yes. LTI programs are widely used compensation vehicles for executives and  
10 certain non-executive employees, as shown in the 2020 Willis Towers Watson  
11 Study, which is Confidential Attachment MTK-1. These types of programs create  
12 an incentive for eligible employees to engage in high-level planning that will lead  
13 to benefits over the long-term. It also encourages those employees to remain with  
14 the Company and to follow through on longer-term decisions and projects.

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

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

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

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

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

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

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<sup>11</sup> Company witness Mr. Freitas has removed approximately \$4.5 million from the Test Year cost of service related to LTI costs for Relative Total Shareholder Return. Please refer to his cost of service study, and particularly to Attachment APF-1.

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

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

6   **Q.   IN ONE OF THE COMPANY'S EARLIER GAS RATE CASES, THE**  
7   **COMMISSION DENIED RECOVERY OF ENVIRONMENTAL LTI ON THE**  
8   **GROUND THAT IT WAS NOT SPECIFIC TO GAS. SHOULD THE COMMISSION**  
9   **APPLY THAT SAME LOGIC IN THIS CASE?**

10  A   No. Like all forms of compensation included to reach market total compensation,  
11  this expense is allocated across all jurisdictions served by Xcel Energy. An  
12  employee who is eligible for environmental LTI helps achieve the Company's and  
13  the State's environmental goals. The fact this particular goal is established to  
14  minimize carbon-emissions related to production of electricity, which can include  
15  natural gas, does not mean the achievement does not positively impact the  
16  environment for the Company's gas customers, and therefore is no reason to  
17  disallow part of that employee's market-based compensation.

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 compensation expense. If not, the expense should be



1 presumed reasonable. The environmental LTI expense is related to a component  
2 of an eligible employee's market-based compensation, not an addition to the  
3 market-based compensation. For example, if the market-based compensation for  
4 a particular position was \$100,000, the environmental LTI compensation would be  
5 included in the \$100,000, and Public Service would seek to recover only that  
6 \$100,000, not some greater amount. Because Public Service is asking to recover  
7 only market-based compensation, there is no reason for the Commission to  
8 disallow environmental LTI.

9 Second, disallowing Public Service's environmental LTI costs would send  
10 the message that the Commission does not approve of the Company's effort to  
11 motivate employees to achieve carbon-reduction goals. It is my understanding,  
12 however, that the General Assembly enacted legislation, House Bill 19-1261, that  
13 is intended to reduce carbon emissions in Colorado. Denying recovery of LTI  
14 expense on the ground that its purpose is to incentivize employees to achieve  
15 carbon reduction would be at odds with the State's policy goals.

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

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

1 Xcel Energy accomplishes that goal by requiring a three-year vesting period for  
2 the LTI payment.

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

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

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

A. Yes. Table MTK-D-9 provides the total compensation for a new hypothetical employee, including base pay, AIP and LTI. The green highlighted amounts identify the calendar years in which the employee would receive the respective forms of compensation.

**TABLE MTK-D-9**

|                               |                        |                        |                        |                                                        |
|-------------------------------|------------------------|------------------------|------------------------|--------------------------------------------------------|
| Total Compensation            | \$168,000              |                        |                        |                                                        |
|                               | Calendar 2020          | Calendar 2021          | Calendar 2022          | Calendar 2023                                          |
| 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                    | 2020 (\$8,000 accrued) |                        |                        |                                                        |
| LTI - yr 2                    |                        | 2021 (\$8,000 accrued) |                        |                                                        |
| LTI - yr 3                    |                        |                        | 2022 (\$8,000 accrued) |                                                        |
| LTI Settlement                |                        |                        |                        | 2023 (2020 LTI Compensation Realized by EE - \$24,000) |

In this example, the employee's total market-based compensation in 2020 is \$168,000, but the employee receives only \$120,000 of that amount in 2020. The employee must wait until 2021 to receive the \$24,000 of AIP deferred from 2020, based on target-level Company and employee performance, and the employee must remain employed at Xcel Energy until the spring of 2023 to receive the remaining \$24,000 that was deferred from 2020. If the employee leaves before the 2023 LTI settlement, he or she forfeits the entire \$24,000 that was deferred from 2020. By deferring payment of part of the compensation earned in 2020 until 2023, the Company may be able to retain employees that would otherwise pursue new opportunities.

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

A. Accrual of LTI expense occurs ratably over a three-year period and, therefore, reflects LTI plans in effect during each of the three years. Since the Test Year is 2022, the 2020, 2021, and 2022 LTI years are included in the Test Year cost of service.

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

A. The respective accrual amounts are set forth in Table MTK-D-10:

**TABLE MTK-D-10**

| <b>LTI Type</b> | <b>Accrual Amount</b> |
|-----------------|-----------------------|
| Environmental   | \$311,136             |
| Time-based      | \$565,909             |
| Total           | \$877,045             |

**D. Recognition Programs**

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

A. The recognition programs include a years-of-contribution program, a corporate recognition program, and the Spot-On Award program. The years-of-contribution program recognizes employee loyalty and cumulative career effort every five years. The corporate recognition program provides thank-you cards, nominal gift cards, small gifts, or items with the Xcel Energy logo to recognize individuals and 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?**

5 A. The Company is requesting the amounts set forth in Table MTK-D-11.

6 **TABLE MTK-D-11**

| Recognition Program                                  | Requested Amounts |
|------------------------------------------------------|-------------------|
| Performance Recognition<br>and Years of Contribution | \$204,238         |
| Spot On Award                                        | \$47,121          |
| <b>Total</b>                                         | <b>\$251,359</b>  |

**V. BOARD EQUITY COMPENSATION**

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

A. Yes. Public Service is requesting recovery of \$233,504 for Board of Director equity compensation for the CTY.

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

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

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

A. Similar to the process I describe in Section IV of my Direct Testimony for establishing cash compensation levels for non-bargaining employees, Xcel Energy establishes Board of Directors' compensation by utilizing market data for the board of directors from 20 – 23 other utilities. The market assessment is completed by an external independent consulting firm.

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

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

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

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

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

A. Yes. Public Service uses the median of market survey data to ensure that its total cash compensation and total direct compensation levels are consistent with the market. Public Service also engaged Willis Towers Watson to perform an analysis of how Xcel Energy's 2020 target total cash compensation and total direct compensation compare with the compensation of other utility companies. A copy of the 2020 Willis Towers Watson Compensation Study is provided as Confidential Attachment MTK-1. That study includes compensation information related to exempt and executive employees.

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

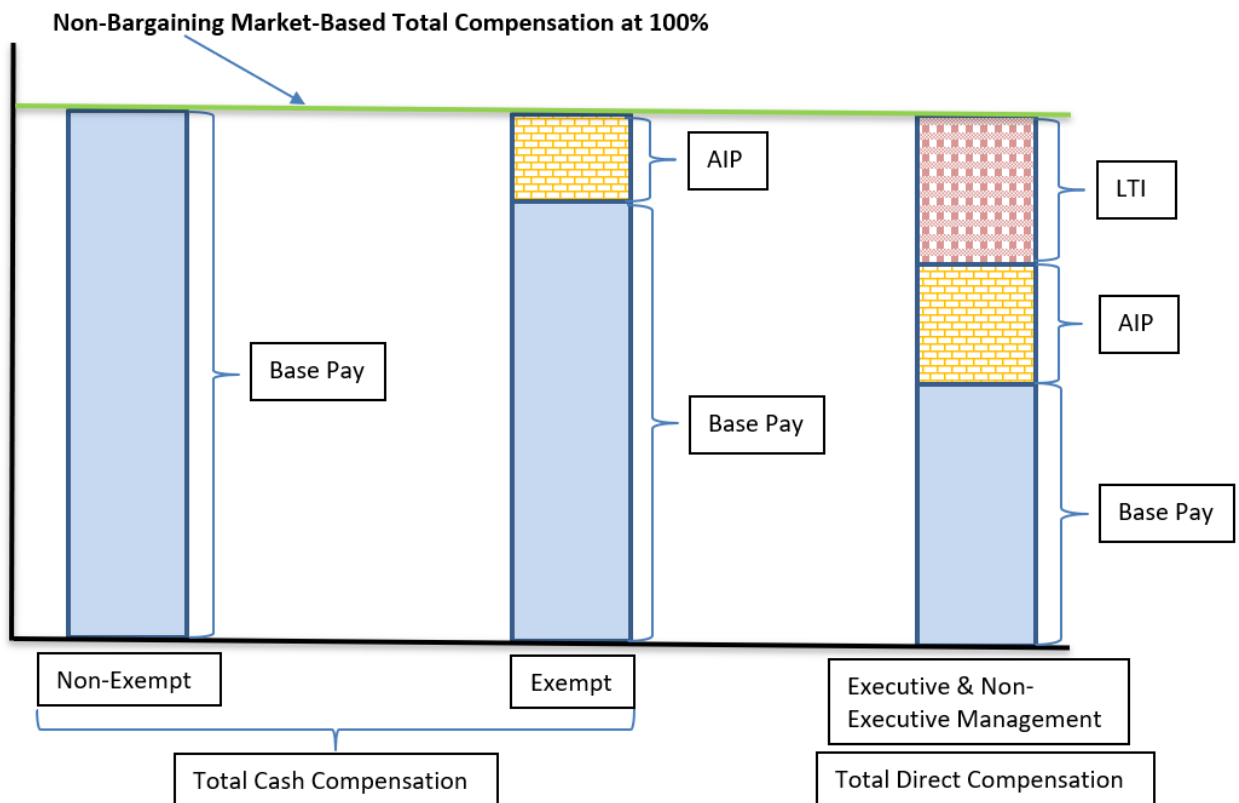
A. Total cash compensation is the combination of base pay plus short-term incentive compensation (AIP) elements. These two compensation elements apply to all non-bargaining, exempt employees, and are the main components of the compensation package offered to a majority of these non-bargaining, exempt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

Total direct compensation is used to describe the compensation package 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 MTK-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.  
6 These three elements make up 100 percent of the market-based compensation for  
7 this group of eligible employees.

8 **FIGURE MTK-D-2**



1 **Q. PLEASE DESCRIBE THE SPECIFIC ELEMENTS OF THE 2020 WILLIS**  
2 **TOWERS WATSON COMPENSATION STUDY.**

3 A. The 2020 Willis Towers Watson Compensation Study compared:

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

14 The 2020 Willis Towers Watson Compensation Study compared Xcel Energy's  
15 level of compensation to the median and average levels of compensation paid by  
16 the comparison groups.

17 **Q. WHAT COMPARISON GROUPS DID THE 2020 WILLIS TOWERS WATSON**  
18 **COMPENSATION STUDY USE?**

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

1   **Q.   WHAT WERE THE RESULTS OF THE 2020 WILLIS TOWERS WATSON**  
2       **COMPENSATION STUDY?**

3   A.   As shown on Table MTK-D-12, the 2020 Willis Towers Watson Compensation  
4       Study found that with the inclusion of AIP, Public Service's median total cash  
5       compensation levels are generally in line with other utilities. Without the target-  
6       level AIP, however, the median total cash compensation provided would be well  
7       below the overall utility market and would put Public Service at a material  
8       disadvantage in the competition for employees.

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

1

**TABLE MTK-D-12**

| <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<br>(excludes Target AIP)                              | Below Market by 15.2%                                                                                 | Below Market by 13.0%                                                                            |
| Target Total Cash Compensation<br>(Base Salary + Target AIP)           | Below Market by 1.9%                                                                                  | Above Market by 0.6%                                                                             |
| Base Salary Only<br>(excludes Target AIP and Target LTI**)             | Below Market by 23.2%                                                                                 | Below Market by 19.4%                                                                            |
| Base Salary + Target AIP (excludes Target LTI**)                       | Below Market by 11.1%                                                                                 | Below Market by 6.8%                                                                             |
| Target Total Direct Compensation<br>(Base + Target AIP + Target LTI**) | Below Market by 1.4%                                                                                  | Above Market by 3.3%                                                                             |

\* Primary comparison group using median pay components

\*\* Includes those eligible for LTI

2 **Q. WHAT DO YOU CONCLUDE FROM THE 2020 WILLIS TOWERS WATSON**  
 3 **COMPENSATION STUDY?**

4 A. The 2020 Willis Towers Watson Compensation Study illustrates that Xcel Energy's  
 5 compensation structure (i.e., both base salary and the AIP) provides a market level

1 of compensation, which confirms that Public Service's requested compensation  
2 expense is appropriate and reasonable. The study also confirms that the target  
3 level annual incentives provided to employees through the AIP are aligned with  
4 those for similar positions in the competitive market. Without the AIP, however,  
5 Public Service's total cash compensation would lag the market by 15.2 percent  
6 (compared to utilities with similar revenues), which would put Public Service at a  
7 material disadvantage when competing for skilled employees.

8 Additionally, the study confirms that the level of LTI offered to eligible  
9 employees is both in-line with the market and a necessary component of pay for  
10 executives and non-executive management to reach their market-based level of  
11 compensation at 100 percent. Without the LTI, however, Public Service's total  
12 direct compensation would lag the market by 11.1 percent compared to utilities  
13 with similar revenues.

14 In total, excluding these two forms of compensation (AIP and LTI) would  
15 significantly hamper Public Service's ability to attract, retain and motivate eligible  
16 employees, because the levels of compensation would be 23.2 percent below  
17 market competitive levels compared to utilities with similar revenues.

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

20 **A.** Yes. Public Service and Xcel Energy must provide a market-competitive level of  
21 total cash compensation to attract and retain the employees who in turn provide  
22 safe and reliable gas service to Public Service's customers. Furthermore, base

1 pay coupled with the AIP is an appropriate method of providing market competitive  
2 total cash compensation.

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

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

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

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

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

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

**A. Active Health Care**

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

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

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

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

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

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



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

**A.** These initiatives include:

- Xcel Energy offers a HDHP medical plan to encourage participating employees to make (1) healthier lifestyle choices; and (2) informed consumer choices when utilizing healthcare providers;
- To help mitigate pharmacy costs, Xcel Energy's pharmacy coverage mandates that employees fill prescriptions with generic drugs when available, unless there is medical need to use a brand name;
- Effective January 2018, Xcel Energy introduced a monthly surcharge for non-bargaining employees and spouses and domestic partners who are enrolled in the medical plan and are tobacco users;
- Effective January 2017, Xcel Energy introduced a monthly surcharge for coverage of a spouse or domestic partner when that spouse or partner's employer offers medical coverage;
- Contracts with benefit vendors are monitored and renegotiated on an ongoing basis. These negotiations focus on administrative fee reductions, better performance guarantees and rebates, and improved discounts on provider networks. All of these efforts contribute to Xcel Energy's ability to minimize rising healthcare costs and benefit administration costs charged by third parties;
- Effective January 2016, Public Service negotiated with IBEW Local Union No. 111 to transition bargaining employees to a HDHP, so now all bargaining and non-bargaining employees across Public Service and Xcel Energy are on HDHPs;
- We examined emerging benefit designs that would continue to drive our employees and their covered family members to high quality, cost-efficient healthcare providers. We also continuously assess programs that will provide more cost-effective opportunities for employees and help drive healthy behaviors. For example, we offer a telemedicine or virtual visit option for routine medical visits, a personalized diabetes management program for non-bargaining employees, and an online program to help employees manage stress. These non-traditional visits with a trained physician or other provider are convenient and provide a less expensive option for employees and the Company. In addition, the Plan provides lower levels of benefits coverage for using out-of-network medical providers in order to encourage members to use in-network providers when possible; and

- Effective April 2017, Xcel Energy outsourced the FMLA administration, which was previously administered internally.

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

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

**B. Retiree Medical Expense**

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

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

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

A. Our retirees contributed greatly to the success and reliability of our Company and to the products, services, and infrastructure that our customers use today. The current expense for retiree medical benefits is a legacy from prior programs. But even though there are no new entrants into the plan, current employees who were hired prior to the termination date are still eligible for this benefit. The Company continues to pursue aggressive benefit designs that manage or reduce our retiree

1 expenses while fulfilling our obligations to them for their past service with the  
2 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 \$4,966,723 of qualified pension expense.  
18   Public Service witness Mr. Schrubbe also provides details related to non-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               Effective February 21, 2018, all new and rehired bargaining unit employees  
8       are eligible to participate in a five percent Cash Balance Plan formula without  
9       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 \$261,742 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.



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

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

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

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

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

1           the industry and represent reasonable costs of providing service to Public Service  
2           customers.

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

4   **A.    Yes.**

## **Statement of Qualifications**

### **Michael T. Knoll**

I am employed by Xcel Energy Services Inc. (XES), as Director of Compensation. I have held this position since October 2018 and have held the positions of Compensation Manager and Principal Executive Compensation Consultant since joining Xcel Energy Services Inc. in February 2014. XES is a wholly-owned subsidiary of Xcel Energy Inc. (Xcel Energy), and provides an array of support services to Public Service Company of Colorado and the other utility operating company subsidiaries of Xcel Energy on a coordinated basis. As Director of Compensation, my responsibilities include designing, developing, and implementing broad-based compensation programs, which include base pay and incentive strategy and administration, as well as managing the recognition programs. 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 management team, I am also responsible for supporting our regulatory process related to human resource matters for rate case testimony, and more specifically describing our total rewards programs.

Prior to joining XES, I worked for Supervalu Corporation as the Senior Manager of Compensation, a wholesale and retail grocery company located in various regions throughout the United States. My responsibilities included the design and administration of broad-based and executive compensation programs. Throughout the last 15 years of my corporate career, I have worked for domestic companies where my primary focus was compensation administration in the retail and business process services industries.

I received my Bachelor of Arts degree in Business Administration and Economics from Northland College, Ashland, Wisconsin and my Masters of Business Administration in Finance from The University of St. Thomas, St. Paul, Minnesota. Throughout the last 15 years of my corporate career, I have stayed educated on current market trends, human resource best-practices and workforce challenges facing employers, as well as presented materials regarding trending compensation topics. I have also attended various seminars related to human resources topics, maintained insights by reading industry publications and have completed Certified Compensation Professional certification courses from World at Work Society of Compensation Professionals.

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF COLORADO

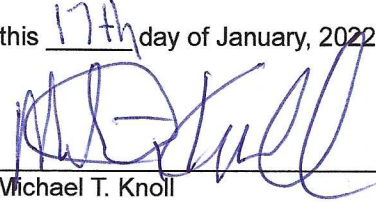
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IN THE MATTER OF ADVICE NO.)  
993-GAS OF PUBLIC SERVICE)  
COMPANY OF COLORADO TO)  
REVISE ITS COLORADO PUC NO. 6-)  
GAS TARIFF TO INCREASE)  
JURISDICTIONAL BASE RATE) PROCEEDING NO. 22AL-\_\_\_\_G  
REVENUES, IMPLEMENT NEW)  
BASE RATES FOR ALL GAS RATE)  
SCHEDULES, AND MAKE OTHER)  
PROPOSED TARIFF CHANGES)  
EFFECTIVE FEBRUARY 24, 2022

AFFIDAVIT OF MICHAEL T. KNOLL  
ON BEHALF OF  
PUBLIC SERVICE COMPANY OF COLORADO

I, Michael T. Knoll, 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 17th day of January, 2022.

  
\_\_\_\_\_  
Michael T. Knoll  
Director, Compensation

Subscribed and sworn to before me this 17th day of January, 2022.

  
\_\_\_\_\_  
Notary Public

My Commission expires 1/31/26

