

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

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

* * * * *

RE: IN THE MATTER OF ADVICE NO.)
1797-ELECTRIC OF PUBLIC SERVICE)
COMPANY OF COLORADO TO REVISE)
ITS COLORADO P.U.C. NO. 8-) PROCEEDING NO. 19AL-_____E
ELECTRIC TARIFF TO IMPLEMENT)
RATE CHANGES EFFECTIVE ON)
THIRTY-DAYS' NOTICE.)

DIRECT TESTIMONY AND ATTACHMENTS OF MICHAEL T. KNOLL

ON

BEHALF OF

PUBLIC SERVICE COMPANY OF COLORADO

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

Confidential: Confidential Attachment MTK-1
Confidential Attachment MTK-2, redactions on page 5

May 20, 2019

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LIST OF ATTACHMENTS

CONFIDENTIAL Attachment MTK-1	2018 Willis Towers Watson Competitive Total Direct Compensation Analysis
CONFIDENTIAL Attachment MTK-2	2019 Xcel Energy Non-Bargaining, Exempt Employee Annual Incentive Program
PUBLIC Attachment MTK-1	2018 Willis Towers Watson Competitive Total Direct Compensation Analysis-Slip Sheet
PUBLIC Attachment MTK-2	2019 Xcel Energy Non-Bargaining, Exempt Employee Annual Incentive Program- Redactions on Page 5.
Attachment MTK-3	Operation and Maintenance (“O&M”) Expense by Cost Element
Attachment MTK-4	O&M Expense by FERC Account

GLOSSARY OF ACRONYMS AND DEFINED TERMS

<u>Acronym/Defined Term</u>	<u>Meaning</u>
AIP	Annual Incentive Program
Commission	Colorado Public Utilities Commission
EPS	Earnings Per Share
Exempt	Salaried employees
FERC	Federal Energy Regulatory Commission
FLSA	Fair Labor Standards Act
FMLA	Family & Medical Leave Act
HDHP	High Deductible Health Plan
HTY	Historical Test Year
IBEW	International Brotherhood of Electrical Workers
KPI	Key Performance Indicators
LTI	Long-Term Incentive
Non-Exempt	Hourly employees
O&M	Operations & Maintenance
Public Service, or the Company	Public Service Company of Colorado

<u>Acronym/Defined Term</u>	<u>Meaning</u>
SAIDI	System Average Interruption Duration Index
SIP	Supplemental Incentive Program
STEM	Science, Technology, Engineering and Math skills
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.

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DIRECT TESTIMONY AND ATTACHMENTS OF MICHAEL T. KNOLL

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

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

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

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

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

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

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

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

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

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

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

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

- 1 • Describes the structure of the Company's Annual Incentive Program
2 ("AIP") and quantifies the AIP expense that Public Service asks the
3 Commission to approve;

- 4 • Describes the structure of the Wholesale Marketing and Trading
5 Supplemental Incentive Program ("SIP") and quantifies the amount of SIP
6 expense the Company is asking the Commission to approve;

- 7 • Describes the structure of the Long-Term Incentive ("LTI") compensation
8 program and quantifies the LTI costs that the Company is asking the
9 Commission to approve;

- 10 • Describes the Recognition Program and quantifies the expense requested
11 in connection with that program;

- 12 • Describes the health, welfare, and retirement benefits offered to Xcel
13 Energy employees and the initiatives undertaken by Xcel Energy to limit
14 increases in these costs; and

- 15 • Explains that the benefits offered in connection with the Total Rewards
16 Program are reasonable and necessary.

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

19 A. Yes. I recommend that the Commission approve the amounts of compensation
20 and recognition included in the cost of service study for the Historical Test Year
21 ("HTY"), with known and measurable adjustments as set forth in Table MTK-D-1
22 below:

1

Table MTK-D-1

Compensation Type	Amount
Bargaining wage	\$35,476,182
Non-Bargaining base pay	\$141,092,496
Annual incentive (AIP) 2019 target	\$9,801,101
Supplemental incentive (SIP)	\$603,985
Long-term incentive (LTI)	\$4,784,674
Recognition awards	\$489,632

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

4 A. Yes, I am sponsoring four attachments:

- 5 • CONFIDENTIAL Attachment MTK-1, which is the 2018 Willis Towers Watson
6 Competitive Total Direct Compensation Analysis;
- 7 • CONFIDENTIAL Attachment MTK-2, which is the 2019 Xcel Energy Non-
8 Bargaining, Exempt Employee Annual Incentive Program;
- 9 • Attachment MTK-3, which provides Operation and Maintenance (“O&M”)
10 expense by cost element; and
- 11 • Attachment MTK-4, which provides O&M expense by Federal Energy
12 Regulatory Commission (“FERC”) account.

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

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

- 1 • Richard R. Schrubbe supports the Company's request for active health
2 and welfare expense, pension and other post-employment benefit
3 expense, workers' compensation expense, and other benefit-related costs;
4 and

- 5 • Deborah A. Blair's Cost of Service Study includes the known and
6 measurable costs for bargaining employee wages, non-bargaining
7 employee base pay, AIP, and LTI. The study also includes current
8 pension and benefit-related expense, and it reflects the prepaid pension
9 asset and prepaid retiree medical asset amounts that the Company seeks
10 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 incentive compensation;
 - 9 ○ SIP incentive compensation;
 - 10 ○ LTI incentive compensation; and
 - 11 ○ Recognition awards;
- 12 • Retirement benefits in the form of:
 - 13 ○ Qualified pension benefits;
 - 14 ○ Non-qualified pension benefits; and
 - 15 ○ Retiree medical benefits;
- 16 • Active health care benefits;
- 17 • Workers’ compensation benefits;
- 18 • Long-term disability benefits;
- 19 • 401(k) matches; and
- 20 • Other miscellaneous benefits.

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

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

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

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

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

17 A. No. Public Service relies on a combination of its own employees and XES
18 employees to provide safe, reliable electric service. To avoid the need to
19 distinguish between Public Service and XES employees, I will refer generally to
20 the employees who provide service to Public Service as being Public Service
21 employees, except when necessary to identify XES specifically. In addition, my

1 testimony sometimes refers to Xcel Energy as a whole because my group takes
2 a corporate-wide view of certain issues, such as attrition levels.

3 **Q. WHEN YOU REFER TO THE “MARKET” IN WHICH PUBLIC SERVICE**
4 **COMPETES FOR EMPLOYEES, WHAT TYPES OF ENTITIES ARE YOU**
5 **REFERRING TO?**

6 A. Public Service principally competes with utility-sector employers for employees,
7 but it often competes with non-utility sector employers as well. Utility-sector
8 competition generally takes place for jobs specific to utility operations and the
9 delivery of utility services, such as control center operators, engineers, plant
10 operators, technicians, welders, and machinists. Public Service also competes
11 with other utilities for corporate employees such as transmission system
12 operators and plant technical specialists.

13 In the non-utility sector, Public Service competes with: (1) construction,
14 mechanical and electrical firms for engineers, project managers, and
15 experienced leadership; and (2) non-utility employers for jobs that are not
16 specific to utilities, but are nonetheless critical for providing utility services, such
17 as finance and accounting analysts, marketing analysts, designers, information
18 technology specialists, cybersecurity analysts, and customer service
19 representatives.

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

3 A. Yes. Many of our skilled trade crafts, such as linemen, welders, mechanics, and
4 plant operators, require not only strong Science, Technology, Engineering and
5 Math (“STEM”) skills, but also four years of apprenticeship training after being
6 hired. Thus, these well-trained individuals are in high demand by contracting
7 firms, utilities, and other sectors of the energy industry.

8 In addition, Public Service continues to see an imbalance in the supply
9 and demand of engineers and information technology professionals. As a result,
10 there is a limited pool of experienced and qualified candidates for many jobs, and
11 Public Service must compete for these candidates on a local, regional, and even
12 national basis.

13 **Q. DOES PUBLIC SERVICE’S LOCATION IN COLORADO AFFECT THE**
14 **CHALLENGES FOR RECRUITING AND RETAINING EMPLOYEES?**

15 A. Yes. According to the Bureau of Labor Statistics,¹ Colorado had an
16 unemployment rate of 2.7 percent in June 2018, as compared to the national
17 average of 4.0 percent. By the end of 2018, the state and national
18 unemployment rates had converged to some extent (3.5 percent and 3.9 percent,
19 respectively), but the pressure to attract new candidates and retain current
20 employees remains a challenge, particularly for employees with STEM skills.

¹ <https://www.bls.gov/eag/eag.co.htm> and <https://www.bls.gov/eag/eag.us.htm>

1 The relatively low unemployment rate allows existing and potential employees to
2 choose other opportunities if the Total Rewards Program package provided by
3 Public Service is not market-competitive.

4 **Q. DO PUBLIC SERVICE'S RECRUITING CHALLENGES HIGHLIGHT THE NEED**
5 **TO PROVIDE MARKET-COMPETITIVE COMPENSATION AND BENEFITS?**

6 A. Yes. Due to the limited talent pool in the electric utility industry for these jobs, as
7 well as the robust labor market in Colorado, it is critical for Public Service to offer
8 a market-competitive Total Rewards Program package to attract, retain, and
9 motivate employees at all levels of its workforce.

10 **Q. IN ADDITION TO THE RECRUITING CHALLENGES, WHAT OTHER**
11 **WORKFORCE CHALLENGES IS PUBLIC SERVICE FACING?**

12 A. In addition to the competition Public Service faces for employees, Xcel Energy
13 projects that approximately 41 percent of its current workforce will be eligible to
14 retire in the next 10 years. Many of those Xcel Energy employees provide
15 support to Public Service utility operations.

16 **Q. WHAT LEVELS OF ATTRITION HAS PUBLIC SERVICE EXPERIENCED IN**
17 **RECENT YEARS?**

18 A. Table MTK-D-2 provides attrition rates over the past six years. As the table
19 shows, Xcel Energy continues to experience challenging levels of attrition,
20 despite efforts to offer a market-competitive Total Rewards Program package for
21 its employee groups.

Table MTK-D-2

Attrition by Year

	2013	2014	2015	2016	2017	2018	2019 Forecast*
PSC**	5.1%	6.9%	6.6%	8.2%	10.8%	7.8%	8.6%
XES	9.5%	14.9%	14.1%	13.4%	14.1%	15.3%	13.4%

*2019 forecast based on first quarter actual attrition

**Includes bargaining and non-bargaining data

Q. HOW DO THE ATTRITION DATA AND RETIREMENT OUTLOOK RELATE TO THE NECESSITY TO PROVIDE MARKET-COMPETITIVE COMPENSATION AND BENEFITS?

A. As I have explained, Xcel Energy is experiencing steady attrition and increasing competition for skilled employees at the same time that 41 percent of its employees will become eligible to retire in the next 10 years. Because skilled employees are critical to the Company's duty to provide safe and reliable electric service, Public Service, the Commission, and Public Service's customers have a shared interest in ensuring that compensation and benefit levels are set at a level that will allow Public Service to attract, retain and motivate those skilled employees.

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. PLEASE EXPLAIN WHAT YOU MEAN WHEN YOU REFER TO**
7 **"BARGAINING" AND "NON-BARGAINING" EMPLOYEES.**

8 A. Bargaining employees are those Public Service employees who are members of
9 International Brotherhood of Electrical Workers ("IBEW") Local Union No. 111.
10 Through IBEW Local Union No. 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
18 for overtime work. In contrast, non-bargaining employees are eligible for base
19 pay and may be eligible for one or more of the following types of incentive
20 compensation:

- 21 • Base pay;
- 22 • Annual incentive compensation (i.e., AIP);
- 23 • the Wholesale Energy Marketing and Trading SIP compensation;

- 1 • LTI compensation; and
- 2 • Recognition awards

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

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

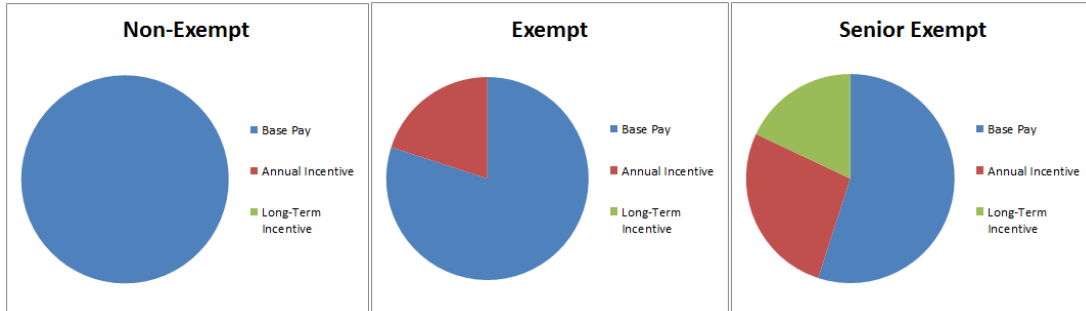
10 A. The eligibility for particular components of compensation varies depending on
11 whether a non-bargaining employee is considered to be an “exempt” employee
12 or “non-exempt” employee under the Fair Labor Standards Act (“FLSA”). Non-
13 exempt employees, which are defined in the FLSA as those employees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

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

20 A. No. As shown in Table MTK-D-3, senior exempt employees receive a greater
21 percentage of their compensation in the form of incentive compensation than
22 more junior exempt employees do. This is similar to how other employers with

1 whom Public Service competes for employees structure their compensation
2 elements.

3 **Table MTK-D-3**



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

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

12 A. No. As I will explain in more detail later in my Direct Testimony, Public Service
13 has not included the LTI costs associated with relative total shareholder return as
14 a part of its requested compensation expense in this electric rate review. In
15 addition, Public Service is limiting recovery of AIP costs to “target” levels of an

1 employee's base pay based on 2019 budgeted levels.² However, all of the
2 expenses of the Company's compensation programs are necessary and
3 reasonable costs of attracting, retaining and motivating, the employees needed
4 to provide safe and reliable electric service, and therefore Public Service
5 reserves the right to request full recovery of those costs in future base rate
6 proceedings.

² I explain in the next section of my testimony what is meant by a "target" level of incentive compensation.

1 **IV. REQUESTED ELEMENTS OF COMPENSATION**

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

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

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

10 **1. Bargaining Employee Base Wage**

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

13 **A.** Bargaining employee base wage amounts, including the 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 was retroactively effective on
19 June 1, 2017 and will remain in effect through May 31, 2020. Under that
20 agreement, a base wage increase of 2.8 percent took effect on June 1, 2017 and
21 another base wage increase of 2.8 percent took effect on June 1, 2018. An
22 increase of 2.8 percent is scheduled for June 1, 2019.

1 **Q. HAS THE COMPANY INCLUDED THE 2018 BASE WAGE INCREASE FOR**
2 **BARGAINING EMPLOYEES AS A PART OF ITS COST OF SERVICE?**

3 A. Yes. The June 2018 increase occurred during the HTY, which was calendar year
4 2018, so the HTY amount for bargaining labor expense includes the 2.8 percent
5 increase reflected in the collective bargaining agreement.

6 **Q. HAS THE COMPANY INCLUDED THE BASE WAGE INCREASE SCHEDULED**
7 **FOR JUNE 2019 AS A PART OF ITS COST OF SERVICE?**

8 A. Yes. The rates established in this case will go into effect after June 1, 2019, and
9 the bargaining wage increase occurring on that date is known and measurable.
10 Therefore, it is appropriate to include the 2019 increase in the base wage amount
11 approved for bargaining employees.

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

14 A. Public Service asks the Commission to approve \$35,476,182 of base wages for
15 bargaining employees.

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

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

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

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

4 A. On behalf of Public Service and its other subsidiaries, Xcel Energy undertakes a
5 comprehensive evaluation process for each non-bargaining position using
6 external market data obtained from independent third-party compensation
7 surveys to ensure its non-bargaining employee compensation levels are
8 comparable to the market. To develop an apples-to-apples comparison, Xcel
9 Energy must first match the job responsibilities of the Public Service positions to
10 the job responsibilities of the positions within other companies that compete with
11 Xcel Energy for employees. After that, Xcel Energy considers data from a variety
12 of surveys, including data for both utility and non-utility companies.³ The 50th
13 percentile (that is, the median) is then used to determine the appropriate pay
14 range for a position. After an appropriate pay range is determined, the
15 components of the compensation package are broken up among base pay, AIP,
16 SIP, and LTI, as applicable. By approaching compensation in this manner, Xcel
17 Energy is able to ensure that its total compensation levels are comparable to the
18 market and, thus, that those costs are set a reasonable level.

³ 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. CAN NON-BARGAINING EMPLOYEES EARN BASE PAY INCREASES?**

2 A. Yes. Although base pay is considered to be a fixed component of cash
3 compensation, managers are allowed to award base pay increases based on
4 employees' performance, their position in the pay range (an indicator of relative
5 market position), and internal equity between employees. Base pay increases
6 tend to be higher for employees who have high levels of performance and who
7 are currently at the low end of the pay range. On the other hand, average
8 performers who are at the higher end of the pay range for their job classification
9 may only receive a small base pay increase, and a poor performer generally
10 receives no base pay increase.

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

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

17 **Q. HOW DOES THE COMPANY DETERMINE THE ANNUAL BUDGET FOR**
18 **BASE PAY INCREASES?**

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

- 21 • A review of external market surveys regarding base pay increases;
- 22 • Economic conditions;
- 23 • Company performance; and

- 1 • A comparison to potential or negotiated wage increases for bargaining
2 employees.

3 **Q. WHAT BASE PAY INCREASE DID NON-BARGAINING EMPLOYEES EARN**
4 **IN 2018?**

5 A. Effective March 2018, eligible Public Service non-bargaining employees earned,
6 on average, a 3.0 percent base pay increase. To earn a base pay increase, a
7 non-bargaining employee had to be eligible based on job performance and had
8 to be employed by Public Service on the effective date of the base pay increase.

9 **Q. WHAT AMOUNT OF BASE PAY INCREASE HAS PUBLIC SERVICE**
10 **BUDGETED FOR 2019?**

11 A. For 2019, the Company has budgeted a base pay increase of 3.0 percent for
12 non-bargaining employees.

13 **Q. IS PUBLIC SERVICE SEEKING TO INCLUDE THE BUDGETED 3.0 PERCENT**
14 **INCREASE FOR 2019 IN THE COST OF SERVICE IN THIS CASE?**

15 A. Yes. The 3.0 percent base pay increase was effective in March 2019, which is
16 prior to the time the rates established in this case go into effect, and the amount
17 of the increase is known and measurable. Moreover, independent third-party
18 surveys demonstrate that the budgeted 3.0 percent increase is comparable to the
19 projected increases by other employers with whom Public Service competes for
20 employees.

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

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

16 **Q. CAN YOU DEMONSTRATE THAT THE 3.0 PERCENT BASE PAY**
17 **INCREASES EARNED BY NON-BARGAINING EMPLOYEES IN 2018 AND**
18 **BUDGETED FOR 2019 ARE REASONABLE?**

19 A. Yes. The independent third-party surveys that I described above demonstrate
20 that for 2018, the 3.0 percent base pay increase for Public Service employees
21 was competitive with the market as a whole. In particular, five different survey
22 sources reported the following base pay increase ranges:

- 3.0 percent to 3.2 percent for all utilities on a national basis; and
- 2.9 percent to 3.3 percent for all companies on a national basis.⁴

As these independent surveys show, the 3.0 percent base pay increase for Public Service's non-bargaining employees was reasonable, and perhaps even conservative, when compared to the market in 2018.

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

A. Yes. Table MTK-D-4 identifies the projected and actual non-bargaining base pay increase percentages available from 2014 through the 2019 projected increase, using the survey methodology described above:

Table MTK-D-4

Year	Projected Increase	Actual Increase
2014	2.8% - 3.0%	2.8% - 3.0%
2015	2.8% - 3.1%	2.8% - 3.0%
2016	2.9% - 3.0%	2.7% - 3.0%
2017	2.9% - 3.2%	2.8% - 3.0%
2018	2.9% - 3.1%	2.9% - 3.3%
2019	3.0% - 3.3%	TBD

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

A. I conclude that the 2018 and 2019 base pay increases for non-bargaining employees are reasonable and should be included in the Company's cost of

⁴ WorldatWork "2018-2019 Salary Budget Survey"; The Conference Board "2019 Salary Increase Budget Survey Results"; Willis Towers Watson, "2018 General Industry Salary Budget Survey"; Mercer "2018/2019 US Compensation Planning Survey Report"; and Aon Hewitt "U.S. Salary Increase Survey 2018-2019."

1 service. Accordingly, Public Service requests that the Commission approve
2 \$141,092,496 for non-bargaining base pay.

3 **B. Annual Incentive Compensation**

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

6 A. I discuss three topics related to the Company's Annual Incentive Program, which
7 is sometimes referred to by the acronym "AIP." First, I explain that the
8 Company's use of incentive compensation benefits customers, as compared to a
9 compensation system that would provide all of a non-bargaining employee's
10 compensation through base pay. Second, I describe the structure of Xcel
11 Energy's incentive compensation program and quantify the amount of incentive
12 compensation that Public Service asks the Commission to approve. Third, I
13 describe the changes that Xcel Energy has made to its AIP in recent years to
14 incentivize employee behavior that leads to customer benefits.

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

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

18 A. Like most employers, Public Service has the option of offering cash
19 compensation to employees solely through base pay, or offering cash
20 compensation through a combination of base pay and incentive compensation.
21 Public Service has chosen to offer its non-bargaining employees a combination
22 of base pay and incentive compensation because that compensation structure

1 produces a number of well-recognized benefits: (1) it promotes superior
2 employee performance; and (2) it reduces fixed labor costs; and (3) it provides a
3 comparable, market-based compensation design similar to other employers with
4 whom Public Service competes for employees.

5 **Q. PLEASE EXPLAIN HOW INCENTIVE COMPENSATION PROMOTES**
6 **SUPERIOR EMPLOYEE PERFORMANCE.**

7 A. A well-designed incentive compensation plan motivates employees to focus on
8 activities that benefit customers, such as improving customer service response
9 times, enhancing reliability, and achieving environmental goals. In addition, a
10 compensation structure that includes incentive compensation strengthens the link
11 between pay and performance, because the employee must meet the
12 performance standards to earn the full compensation amount. Using base pay
13 alone to meet the necessary total compensation levels would allow the employee
14 to receive the payment regardless of performance. Thus, the use of incentive
15 compensation helps Public Service motivate and reward its employees for
16 delivering superior performance.

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

18 A. The use of incentive compensation reduces labor costs by lowering the base
19 amount to which annual escalation rates are applied. For example, if a non-
20 bargaining employee's total compensation was \$100 in year one and all of the
21 compensation was in the form of base pay, a 3.0 percent base pay increase
22 would lead to a base pay increase of \$3 in year two and a new base pay of

1 \$103. In contrast, if the compensation was structured as 70 percent base pay
2 and 30 percent incentive compensation, the 3.0 percent base pay increase would
3 lead to an increase of only \$2.10 in year two ($\$70 \times .03 = \2.10) and a new base
4 pay of \$72.10, with the remainder needing to be earned through incentive
5 elements. Thus, by moving a portion of each employee's pay from base pay to
6 incentive pay, Public Service reduces overall fixed labor costs by avoiding the
7 compounding effect of annual base pay increases.

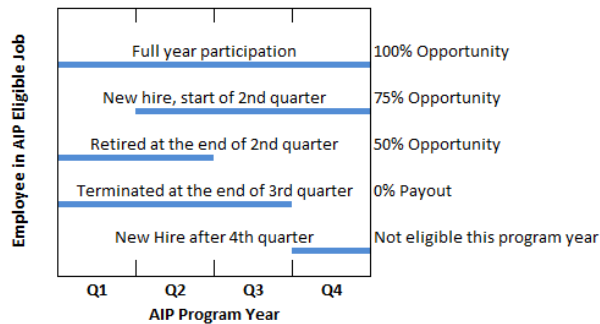
8 Furthermore, fixed costs associated with base pay affect a variety of
9 benefit-related expenses, such as 401(k) match, life insurance premiums, long-
10 term disability premiums, short-term disability expenses, etc. If total
11 compensation was provided through base pay at 100 percent, the additional fixed
12 costs would correspondingly increase benefit-related expenses. In contrast,
13 variable pay expenses associated with incentive compensation do not affect all
14 benefit expenses, and they may fluctuate from year to year. This is another
15 example of cost savings for customers that results from designing a
16 compensation program with both base pay and incentive components.

17 Finally, incentive compensation is paid only to those employed at the time
18 of payout in most circumstances. The incentive compensation calculation also
19 prorates the payout of new or transferring participants based on dates in an
20 eligible position during the program year. By avoiding payouts to departing
21 employees and prorating payouts of arriving employees, Public Service pays less

1 in incentive compensation than it would have paid those employees if all of their
2 compensation had been in the form of base pay.

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

6 **Table MTK-D-5**



7 **Q. IS IT COMMON PRACTICE FOR LARGE COMPANIES SUCH AS UTILITIES**
8 **TO USE ANNUAL INCENTIVE COMPENSATION AS PART OF THEIR**
9 **COMPENSATION PACKAGES?**

10 A. Yes. The use of incentive compensation by employers is a prevalent practice
11 throughout the United States. In fact, performance-based award programs, in
12 which a portion of compensation must be re-earned each year, remained very
13 high, with more than 90 percent of employers shifting their compensation
14 spending to this type of program, according to a 2015 Aon Hewitt survey of 1,214

1 U.S. companies.⁵ According to the 2018 Willis Towers Watson Compensation
2 Study (Confidential Attachment MTK-1), 100 percent of energy companies in the
3 national sample maintain an annual incentive plan, and 100 percent of energy
4 companies in the revenue-based sample maintain an annual incentive plan.

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

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

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

15 **Q. WHICH EMPLOYEES ARE ELIGIBLE TO PARTICIPATE IN THE ANNUAL**
16 **INCENTIVE PROGRAM?**

17 A. The AIP applies to exempt, non-bargaining employees. An eligible employee
18 must be employed by October 1 of a particular year to be eligible for a prorated
19 year-end portion of the AIP compensation for that program year. With limited
20 exceptions, a person must also be actively employed by the Company on the

⁵ <http://aon.mediaroom.com/2015-08-26-U-S-Organizations-Report-Highest-Compensation-Spend-in-39-Years>,
accessed on 1/9/2019.

1 date that the year-end award payments are made in order to receive an incentive
2 award.⁶

3 **Q. IN THE PREVIOUS ANSWER YOU REFER TO THE “YEAR-END PORTION**
4 **OF THE AIP COMPENSATION.” ARE EMPLOYEES ABLE TO EARN**
5 **INCENTIVE COMPENSATION AT TIMES OTHER THAN YEAR-END UNDER**
6 **THE AIP?**

7 A. Yes. In addition to the year-end portion of their AIP, which is based on
8 achievement of Corporate KPIs and individual performance results, employees
9 are eligible to earn a portion of their individual component throughout the course
10 of the year.

11 **Q. IN CONNECTION WITH THE YEAR-END AIP AWARDS, YOU REFERRED TO**
12 **CORPORATE KPIs AND INDIVIDUAL PERFORMANCE RESULTS. PLEASE**
13 **DESCRIBE THE CORPORATE KPIs.**

14 A. Each year, Xcel Energy develops a Corporate scorecard that identifies certain
15 priorities for the year. In 2019, for example, the Corporate KPIs are focused on
16 three priorities: (1) enhancing the customer experience; (2) keeping bills low; and
17 (3) promoting safety and reliability. As shown in Table MTK-D-6, those three
18 priorities resulted in five Corporate KPIs for the year:

⁶ The exceptions are involuntary termination with severance, retirement, death, disability, or qualified leave of absence.

1

Table MTK-D-6

Priority	KPI	Threshold (50%)	Target (100%)	Maximum (150%)	KPI Weight
Enhance Customer Experience	Customer Satisfaction (Residential)	726	737	759	20%
Keep Bills Low	O&M Growth (Over 2017)	2.0%	0.0%	(1.0%)	20%
Safety and Reliability	Employee Safety ⁷	0.61	0.49	0.45	20%
	Public safety	85%	89%	94%	20%
	Electric system reliability (SAIDI)	100	92	84	20%

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

⁷ Calculated using the DART (Days Away, Restricted or Transferred) rate.

1 of incentive compensation an employee is eligible to receive under the Corporate
2 scorecard depends on the degree of success that the corporation as a whole
3 achieves for the Corporate KPIs:

4 **Table MTK-D-7**

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

5 The 2019 AIP program document, Confidential Attachment MTK-2, provides
6 additional details and specifics about the program.

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

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

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

15 A. The individual component is based on the individual performance results of
16 specific goals identified by the employee and his or her manager. Goals are tied
17 specifically to the employee's job functions and competencies, and are

1 developed in alignment with business area and corporate objectives. Each
2 manager has discretion to determine the year-end individual component award
3 within a range of 0 to 150 percent based on the employee's contributions and
4 performance during the year.⁸

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

7 A. No. The importance of the Corporate KPIS for year-end AIP payout varies based
8 upon the employee's position and level of responsibility. The weightings of
9 Corporate versus Individual KPIS are designed such that an employee's goals
10 are more strongly linked to objectives that he or she has the greatest potential to
11 affect. For example, the weighting for non-supervisory employees focuses on
12 the job of the individual to have day-to-day interactions tied to customer
13 satisfaction, safety, and reliability. In contrast, the weighting for more senior level
14 positions focuses on broader corporate goals. Table MTK-D-8 shows the
15 weightings of these different categories for the 2019 AIP:

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

1

Table MTK-D-8

2019 AIP Weights (Exempt, Non-Bargaining Employees)		
Salary Tiers/Grades	Corporate	Individual
Exempt N, O Engineer A, B	10%	90%
Exempt P, Q Engineer C	20%	80%
Management R-T Engineer D, E	30%	70%
Management U-X	40%	60%

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
6 groupings, but they do not change the target opportunity levels for employees. In
7 other words, a market-based target opportunity of 10 percent would remain 10
8 percent, even if the mix of Corporate versus Individual 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
13 incentive compensation is determined by the non-bargaining employee's position
14 or level within the organization. Thus, for example, an employee at a 10 percent

1 target opportunity level with a base salary of \$50,000 will receive \$5,000 in
2 incentive compensation, assuming achievement of 100 percent of the Corporate
3 and Individual KPIs. Target opportunities will vary based on market competitive
4 incentive and design levels. As such, the more senior the non-bargaining
5 employee, the more of his or her total compensation is paid as 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
19 incentive compensation for the associated goal. Overall, an employee's final
20 year-end payout may range from 0 to 150 percent of the Individual incentive
21 target opportunity.

1 **Q. DOES PAYMENT OF INCENTIVE COMPENSATION DEPEND ON ANY**
2 **FACTORS OTHER THAN SATISFYING THE INDIVIDUAL AND CORPORATE**
3 **KPI COMPONENTS?**

4 A. Yes. To ensure that it can afford to pay incentive compensation, Xcel Energy
5 conditions payment of the year-end incentive compensation upon the
6 achievement of a certain earnings per share (“EPS”) level for the year.⁹ If Xcel
7 Energy does not achieve that EPS level, the program does not pay any year-end
8 incentive compensation. The EPS level for 2019 is \$2.55 per share.

9 **Q. WHAT AMOUNT OF 2019 INCENTIVE COMPENSATION EXPENSE IS**
10 **PUBLIC SERVICE ASKING THE COMMISSION TO APPROVE IN THIS**
11 **CASE?**

12 A. Public Services is requesting the 2019 AIP target-level expense of \$9,801,101.

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

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

⁹ There is no EPS requirement for the “I Deliver Award” or the “Innovator Award.”

1 **3. Recent Changes in AIP Structure**

2 **Q. DOES XCEL ENERGY MONITOR ITS AIP DESIGN TO DETERMINE**
3 **WHETHER IMPROVEMENTS CAN BE MADE?**

4 A. Yes. Public Service periodically examines its compensation programs to
5 determine whether improvements can be made and whether the programs are
6 effectively motivating employees.

7 **Q. DID PUBLIC SERVICE MAKE AIP DESIGN CHANGES IN RECENT YEARS?**

8 A. Yes. As I describe below, Public Service implemented changes to the AIP with
9 the goals of: (1) further strengthening the connection between individual
10 employees' work and customer benefits; and (2) further promoting superior
11 employee performance.

12 **Q. CAN YOU PROVIDE SOME ADDITIONAL DETAILS ABOUT THE PLAN**
13 **DESIGN CHANGES?**

14 A. Yes. Prior to 2017, the AIP had three performance components – Corporate,
15 Business Area, and Individual. To strengthen the connection between individual
16 employees' work and customer benefits, Public Service has redesigned the
17 program so that only the Corporate and Individual performance components now
18 exist. The prior weighting for the Business Area performance component has
19 been moved to the Individual performance component.

20 The design changes result in the majority of eligible employees having the
21 highest AIP weightings for the Individual performance component. This means
22 that most employees earn the majority of their incentive compensation based on

1 the successful completion of individual goals that are designed to benefit
2 customers. This change creates a clearer “line of sight” between the employees’
3 accomplishments and receiving AIP compensation.

4 In addition to the performance component change, the program provides
5 eligible employees the opportunity to earn a portion of their AIP individual
6 component in a more timely fashion – during the program year. This can be
7 accomplished by delivering greater than expected results that impact at a team
8 or department level and is linked to supporting Xcel Energy’s strategy and
9 priorities. It can also be accomplished through the implementation of innovative,
10 high-impact solutions or processes that deliver significant benefits at a company-
11 wide level. These AIP payments can be made throughout the program year, and
12 are separate from the year-end incentive compensation payouts and EPS
13 requirements.

14 **Q. IS AN EMPLOYEE’S ANNUAL INCENTIVE COMPENSATION TARGET**
15 **OPPORTUNITY STILL EXPRESSED AS A PERCENTAGE OF BASE PAY?**

16 A. Yes. The employee’s incentive target opportunity continues to be a percentage
17 of base pay. The target opportunity levels are designed to provide eligible
18 employees with 100 percent of their market-competitive total cash compensation
19 when base pay and incentive are combined.

1 **Q. DID THE TARGET-LEVEL AIP COSTS CHANGE IN LIGHT OF THE AIP**
2 **DESIGN CHANGES?**

3 A. No. The target-level AIP costs continue to be calculated using the individual
4 target opportunity levels of incentive pay in the market, so the AIP budgeting
5 process used to determine the AIP target-level expense has not changed. Thus,
6 from a ratemaking perspective, the level of costs that Public Service asks to
7 recover in rates will remain consistent under the design changes. In other words,
8 the AIP design changes will not increase the target amount of AIP expense in
9 comparison to the target amounts in prior years under the prior AIP design.

10 Also, as confirmed by the Willis Towers Watson Compensation Study, the
11 target opportunity level of AIP will allow the total cash compensation to be
12 competitive with the market and, thus, is a reasonable cost of providing electric
13 service to Public Service's customers.

14 **Q. DO YOU EXPECT FUTURE AIP CORPORATE SCORECARD GOALS TO**
15 **FOCUS ON PRIORITIES SUCH AS RELIABILITY, CUSTOMER**
16 **SATISFACTION, AND EMPLOYEE SAFETY?**

17 A. Yes. The goals may be modified from time to time, but I expect the AIP
18 corporate scorecard goals to remain focused on providing direct benefits to
19 customers through superior employee performance.

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

2 **Q. PLEASE SUMMARIZE XCEL ENERGY’S SUPPLEMENTAL INCENTIVE**
3 **PROGRAM.**

4 A. The Xcel Energy SIP is designed to provide certain eligible employees who work
5 in wholesale energy trading activities with compensation opportunities that are
6 competitive with compensation practices in the wholesale energy trading sector.
7 The program is a supplement to the AIP and is part of the total cash
8 compensation offered only to Xcel Energy wholesale energy trading employees.
9 The incentives are based on the wholesale energy trading profit margins.

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

12 A. Public Service requests recovery of \$603,985 for the SIP.

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

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

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

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

3 A. Like the other Xcel Energy compensation programs, the LTI program is intended
4 to attract, retain, and motivate employees. LTI differs from AIP and other types
5 of compensation in that is offered only to executives, senior management
6 employees, and senior exempt employees, as determined by market-competitive
7 compensation designs. The LTI is necessary, however, to ensure that those
8 employees' compensation levels and mix of compensation are competitive.

9 **Q. ARE LONG-TERM INCENTIVE PROGRAMS COMMONLY USED IN THE**
10 **UTILITY INDUSTRY?**

11 A. Yes. Long-term incentive programs are widely used compensation vehicles for
12 executives and certain non-executive employees, as shown in the 2018 Willis
13 Towers Watson Study. These types of programs create an incentive for eligible
14 employees to engage in high-level planning that will lead to benefits over the
15 long-term. It also encourages those employees to remain with the Company and
16 to follow through on longer-term decisions and projects.

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.¹⁰ Public Service is, however, requesting recovery of the
5 performance-based component of LTI related to Xcel Energy's environmental
6 activities for executives, which I refer to as the "environmental component" of the
7 LTI. Public Service also seeks recovery of the time-based component of LTI
8 related to executives and senior exempt participants.

9 **Q. PLEASE GENERALLY DESCRIBE THE ENVIRONMENTAL COMPONENT OF**
10 **THE LTI PROGRAM.**

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

¹⁰ Company witness Ms. Blair has removed more than \$3.8 million from the HTY cost of service related to LTI costs for Relative Total Shareholder Return.

1 are granted in the first year, and performance is measured at the end of the third
2 year.

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

5 A. Yes. The achievement of the environmental component directly benefits
6 customers and the public through prudently reducing air emissions and their
7 impact on the environment. This component of LTI expense has been approved
8 by the Commission in previous cases, most recently in Proceeding No. 14AL-
9 0660E.

10 **Q. PLEASE GENERALLY DESCRIBE THE TIME-BASED LTI FOR EXECUTIVES**
11 **AND SENIOR EXEMPT EMPLOYEES.**

12 A. The time-based LTI is used to attract, retain, and motivate eligible employees for
13 the reasons I discussed earlier — it ensures that those employees engage in
14 long-term planning for the benefit of the Company and that they remain with Xcel
15 Energy long enough to implement those long-term plans. Xcel Energy
16 accomplishes that goal by requiring a three-year vesting period for the LTI
17 payment.

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

20 A. Yes. The time-based component of LTI ensures that employees are making
21 long-term plans that align with strategic priorities and embarking on multi-year
22 projects that create stability for Public Service's operations. Because payment of

1 related LTI compensation is contingent on the employee remaining with the
2 Company for an extended period of time, it requires employee commitment
3 beyond a single year. This form of compensation is considered deferred. While
4 this piece of the employee's compensation pie makes the employee whole each
5 year, the actual compensation is not realized until after the three-year vesting
6 period.

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

9 A. Accrual of LTI expense occurs ratably over a three-year period and, therefore,
10 reflects LTI plans in effect during each of the three years. Since the HTY is
11 2018, the 2016, 2017, and 2018 LTI years are included in the cost of service.

12 **Q. WHAT AMOUNT OF THE LTI PROGRAM WAS ACCRUED FOR THE 2018**
13 **HTY?**

14 A. The respective accrual amounts are set forth in Table MTK-D-9:

15 **Table MTK-D-9**

LTI Component	Accrual Amount
Executive Environmental	\$2,386,383
Executive & Senior Exempt Time-based	\$2,398,289
Total	\$4,784,672

1 **Q. WHAT AMOUNT IS PUBLIC SERVICE ASKING THE COMMISSION TO**
2 **APPROVE FOR THE RECOGNITION PROGRAMS?**

3 A. Public Service is requesting recovery of \$489,632 for its Recognition Programs.

4 **Q. CAN YOU PROVIDE DETAILS REGARDING THE COMPENSATION**
5 **PROGRAM EXPENSES AS DESCRIBED ABOVE?**

6 A. Yes. I have provided Attachments MTK-3 and MTK-4 to show the detail
7 associated with the O&M cost elements and O&M FERC accounts related to
8 these expenses.

9 **F. Reasonableness of Public Service's Compensation Programs**

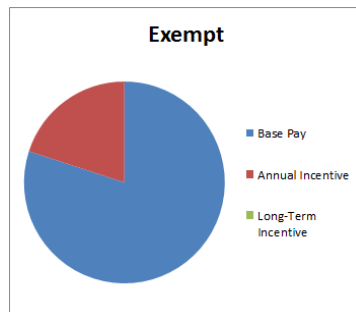
10 **Q. HAS XCEL ENERGY COMPARED ITS TOTAL CASH COMPENSATION AND**
11 **TOTAL DIRECT COMPENSATION LEVELS TO THE COMPETITIVE MARKET,**
12 **INCLUDING OTHER UTILITIES?**

13 A. Yes. Public Service uses the median of market survey data to ensure that its
14 total cash compensation and total direct compensation levels are consistent with
15 the market. Public Service also engaged Willis Towers Watson to perform an
16 analysis of how Xcel Energy's 2018 target total cash compensation and total
17 direct compensation compare with the compensation of other utility companies.
18 A copy of the 2018 Willis Towers Watson Compensation Study is provided as
19 Confidential Attachment MTK-1. That study includes compensation information
20 related to exempt and executive employees.

1 **Q. IN THE PREVIOUS RESPONSE, YOU USED THE PHRASES “TOTAL CASH**
2 **COMPENSATION” AND “TOTAL DIRECT COMPENSATION.” WHAT IS THE**
3 **DIFFERENCE BETWEEN THOSE CONCEPTS?**

4 A. Total cash compensation is the combination of base pay plus short-term
5 incentive compensation (AIP) elements, as applicable (Table MTK-D-11). These
6 two compensation elements apply to all non-bargaining, exempt employees, and
7 are the main components of the compensation package offered to a majority of
8 these non-bargaining, exempt employees to make up 100 percent of market-
9 based compensation.

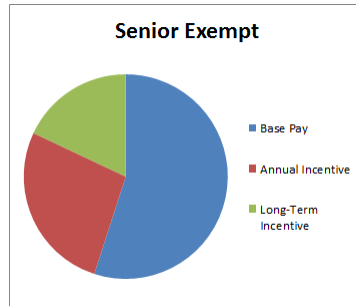
10 **Table MTK-D-11**



11 Total direct compensation is used to describe the compensation package
12 offered to highly specialized or senior-level talent and leadership employees.
13 Total direct compensation includes base pay plus short-term incentive
14 compensation (AIP) plus long-term incentive (LTI) (Table MTK-D-12). This third
15 element of compensation, long-term incentive, provides Public Service with a
16 market-based attraction and retention compensation vehicle, as the long-term
17 incentive offered requires a three-year vesting period before payment in most

1 circumstances. These three elements make up 100 percent of the compensation
2 for this group of eligible employees.

3 **Table MTK-D-12**



4 **Q. PLEASE DESCRIBE THE SPECIFIC ELEMENTS OF THE 2018 WILLIS**
5 **TOWERS WATSON COMPENSATION STUDY.**

6 A. The 2018 Willis Towers Watson Compensation Study consists of the following
7 elements:

- 8 • Xcel Energy's total cash compensation levels (total cash compensation is
9 defined as base salary plus target annual incentive compensation) were
10 compared with competitive market target total cash compensation levels;
- 11 • Xcel Energy's total direct compensation levels (total direct compensation
12 is defined as base salary plus target annual incentive plus long-term
13 incentive compensation) were compared with competitive market target
14 total direct compensation levels;
- 15 • Xcel Energy's base salary levels were compared with competitive market
16 total cash compensation levels;
- 17 • Xcel Energy's annual incentive targets were compared with market annual
18 incentive targets; and
- 19 • Xcel Energy's long-term incentive targets were compared with the market
20 long-term incentive targets.

1 The 2018 Willis Towers Watson Compensation Study compared Xcel Energy's
2 level of compensation to the median and average levels of compensation paid by
3 the comparison groups.

4 **Q. WHAT COMPARISON GROUPS DID THE 2018 WILLIS TOWERS WATSON**
5 **COMPENSATION STUDY USE?**

6 A. Compensation levels were compared with two sets of data. The first set of data
7 compared Xcel Energy's compensation programs to the programs of a large
8 number of investor-owned utilities across the nation, including those both smaller
9 and larger than Xcel Energy. The second set of data compared Xcel Energy's
10 compensation programs to those of investor-owned utilities similar in size to Xcel
11 Energy.

12 **Q. WHAT WERE THE RESULTS OF THE 2018 WILLIS TOWERS WATSON**
13 **COMPENSATION STUDY?**

14 A. As shown on Table MTK-D-13, the 2018 Willis Towers Watson Compensation
15 Study finds that with the inclusion of AIP, Public Service's median total cash
16 compensation levels are generally in line with other utilities. Without the target-
17 level AIP, however, the median total cash compensation provided would be well
18 below the overall utility market and would put Public Service at a material
19 disadvantage in the competition for employees.

20 Similarly, Public Service's compensation would be at an unacceptable
21 level with regard to total direct compensation for certain employee groups if it did
22 not provide a competitive LTI package for its executive and senior exempt talent

1 and leadership. Long-term incentive can be a significant portion of compensation
 2 package offered to attract, retain and motivate this group of employees to design,
 3 organize, lead and manage one of the most forward-looking utilities in the
 4 country.

Table MTK-D-13

Components of Xcel Energy Compensation	Compared to Base Salaries and Incentives of Utilities with Similar Revenues (Revenue Sample) *	Compared to Base Salaries and Incentives of Utilities Across the Nation (National Sample)
Base Salary Only (excludes Target AIP)	Below Market by 15.3%	Below Market by 11.8%
Target Total Cash Compensation (Base Salary + Target AIP)	Below Market by 1.0%	Above Market by 3.1%
Target Total Direct Compensation (Base Salary + Target AIP + Target LTI)	Above Market by 2.9%	Above Market by 8.5%

* Primary comparison group using median pay components

6

7 **Q. WHAT DO YOU CONCLUDE FROM THE 2018 WILLIS TOWERS WATSON**
 8 **COMPENSATION STUDY?**

9 A. The 2018 Willis Towers Watson Compensation Study illustrates that Xcel
 10 Energy’s compensation structure (i.e., both base salary and the AIP) provides a
 11 market level of compensation, which confirms that Public Service’s requested

1 compensation expense in the HTY is appropriate and reasonable. The study
2 also confirms that the target level annual incentives provided to employees
3 through the AIP are aligned with those for similar positions in the competitive
4 market. Without the AIP, however, Public Service's total cash compensation
5 would lag the market by 15.3 percent (compared to utilities with similar
6 revenues), which would put Public Service at a material disadvantage when
7 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, other senior management, and senior specialized employees to
11 reach their market-based level of compensation at 100 percent. Without the LTI,
12 however, Public Service's total direct compensation would lag the market by 9.7
13 percent compared to utilities with similar revenues.

14 In total, excluding these two forms of compensation (AIP and LTI) would
15 significantly hamper Public Service from attracting, retaining and motivating
16 eligible employees, because the levels of compensation would be 22.8 percent
17 below 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 electric service to Public Service's customers. Furthermore,

1 base pay coupled with the AIP is an appropriate method of providing market
2 competitive 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 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 this 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.

1 by employees, which has allowed Xcel Energy to better manage overall health
2 care costs and the rate at which costs increase. These initiatives include:

- 3 • Between 2009-2013, the Company:
 - 4 ○ consolidated non-bargaining medical plans into a single High
5 Deductible Health Plan (“HDHP”) and re-introduced monthly
6 premiums;
 - 7 ○ eliminated adult orthodontia coverage;
 - 8 ○ reduced the Short-Term Disability income replacement ratio;
 - 9 ○ shifted excessive pharmacy costs to employees when lower cost
10 options were available;
 - 11 ○ transitioned Medicare-eligible non-bargaining retirees and
12 dependent medical and prescription coverage to the individual
13 market; and
 - 14 ○ introduced a new wellness program to encourage healthier lifestyle
15 choices.
- 16 • Contracts with benefit vendors are monitored and renegotiated on an
17 ongoing basis. These negotiations focus on administrative fee reductions,
18 better performance guarantees and rebates, and improved discounts on
19 provider networks. All of these efforts contribute to Xcel Energy’s ability to
20 minimize rising healthcare costs and benefit administration costs charged
21 by third parties.
- 22 • Effective January 2016, Public Service negotiated with IBEW Local Union
23 No. 111 to transition bargaining employees to a HDHP, so now all
24 bargaining and non-bargaining employees across Public Service and Xcel
25 Energy are on HDHPs.
- 26 • Effective January 2017, Xcel Energy introduced a monthly premium
27 surcharge for coverage of a spouse when the spouse’s employer offers
28 medical coverage.
- 29 • Effective April 2017, Xcel Energy outsourced the FMLA administration,
30 which was previously administered internally.

- 1 • Effective January 2018, Xcel Energy implemented a monthly premium for
2 non-bargaining employees and spouses who are enrolled in the medical
3 plan and are tobacco users.

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

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

1 **VI. 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) matching. 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. IS IT COMMON IN THE UTILITY INDUSTRY TO HAVE A DEFINED BENEFIT**
12 **PLAN?**

13 A. Yes. Of the 49 utilities in the Fortune 1000, 26 (53 percent) continue to provide
14 defined benefit pension benefits to all employees, 18 (37 percent) provide
15 defined benefit pension benefits to all employees except those hired after a
16 certain date, and only five have fully or partially discontinued the defined benefit
17 pension benefit for employees.¹¹

¹¹ Information gathered from annual reports for the Fortune 1000 utilities.

1 **Q. HAS THE COMPANY UNDERTAKEN ANY INITIATIVES TO REDUCE THE**
2 **COSTS OF ITS DEFINED BENEFIT PENSION EXPENSE?**

3 A. Yes. Effective January 1, 2012, non-bargaining new hires and rehired
4 employees are no longer eligible for the 10 percent Pension Equity Plan.
5 Instead, these employees participate in a five percent Cash Balance Plan
6 formula without pension supplements (i.e., Retirement Savings Account or Social
7 Security Supplement).

8 Effective January 1, 2018, the annual Retirement Spending Account
9 credits were eliminated on a going-forward basis for all non-bargaining
10 employees, and the Social Security Supplement was eliminated for all non-
11 bargaining employees who did not meet retirement eligibility by December 31,
12 2022.

13 Xcel Energy has previously implemented benefit-level reductions for
14 Public Service bargaining unit employees by reducing the multiplier for newly
15 hired employees effective in 2010, and by changing the final average
16 compensation definition from 36 months to 48 months, effective January 1, 2012
17 for all bargaining unit employees.

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

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

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

11 **B. Defined Contribution Plan**

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

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

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

3 A. Yes. Providing a 401(k) match for employees is a common practice and is a
4 benefit to employees. The employer contribution encourages employees to plan
5 for their retirement and reach higher personal contribution levels to allow for a
6 graduated Company match. The more the employee saves, the higher the
7 Company contribution, up to the Company maximum amount.

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

9 **Q. IS IT NECESSARY TO CONSIDER BOTH THE DEFINED BENEFIT PLAN**
10 **(PENSION) AND THE DEFINED CONTRIBUTION PLAN (401(K)) WHEN THE**
11 **COMMISSION CONSIDERS THE REASONABLENESS OF THE COMPANY'S**
12 **RETIREMENT PROGRAM AS A WHOLE?**

13 A. Yes. It is important to compare programs holistically because the competitive
14 market offers varying combinations of retirement programs, including a
15 combination of pension and 401(k) plans. Public Service offers a cost-effective
16 program by maintaining a pension benefit, which provides employees the stability
17 of maintaining a portion of their income after retirement, while also offering a
18 401(k), which allows employees to increase their overall retirement savings.

Statement of Qualifications

Michael T. Knoll

I am employed by Xcel Energy Services Inc., 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 XES in February 2014. 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 in 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

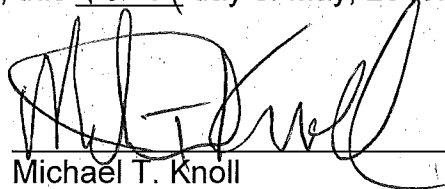
* * * *

RE: IN THE MATTER OF ADVICE)
NO. 1797-ELECTRIC OF PUBLIC)
SERVICE COMPANY OF)
COLORADO TO REVISE ITS) PROCEEDING NO. 19AL-____E
COLORADO P.U.C. NO. 8-)
ELECTRIC TARIFF TO IMPLEMENT)
RATE CHANGES EFFECTIVE ON)
THIRTY-DAYS' NOTICE.)

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

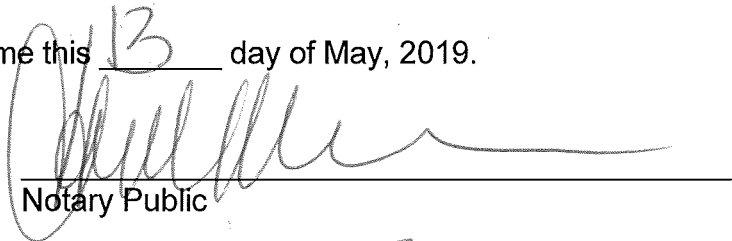
I, Michael T. Knoll, being duly sworn, state that the Direct Testimony and attachments were prepared by me or under my supervision, control, and direction; that the Direct Testimony and attachments are true and correct to the best of my information, knowledge and belief; and that I would give the same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

Dated at Minneapolis, Minnesota, this 13th day of May, 2019.

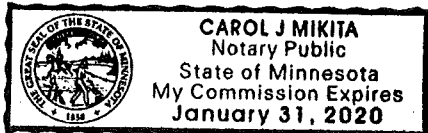


Michael T. Knoll
Director, Compensation

Subscribed and sworn to before me this 13 day of May, 2019.



Notary Public



My Commission expires January 31, 2020