

DOCKET NO. _____

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

DIRECT TESTIMONY
of
MICHAEL T. KNOLL

on behalf of

SOUTHWESTERN PUBLIC SERVICE COMPANY

(Filename: KnollRRDirect.doc)

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GLOSSARY OF ACRONYMS AND DEFINED TERMS

<u>Acronym/Defined Term</u>	<u>Meaning</u>
2018 Willis Towers Watson Study	2018 Willis Towers Watson Competitive Total Direct Compensation Analysis
A&G	Administrative and General
AIP	Annual Incentive Program
CBA	Collective Bargaining Agreement
Commission	Public Utility Commission of Texas
EEO	Equal Employment Opportunity
EPS	Earnings Per Share
FERC	Federal Energy Regulatory Commission
FLSA	Fair Labor Standards Act
FMCP	Family Medical Care Plan
HDHP	High Deductible Health Plan
HR	Human Resources
HSA	Health Savings Account
IBEW	International Brotherhood of Electrical Workers
KPI	Key Performance Indicator
Local 602	Local Union No. 602
LTI	Long-Term Incentive Plan
O&M	Operation and maintenance
Operating Companies	Northern States Power Company, a Minnesota corporation; Northern States Power Company, a Wisconsin corporation; Public Service Company of Colorado, a Colorado corporation; and SPS

<u>Acronym/Defined Term</u>	<u>Meaning</u>
Operating Company	One of the Operating Companies
PAF	Personnel Action Form
RFP	Rate Filing Package
SAIDI	System Average Interruption Duration Index
SIP	Wholesale Energy Marketing and Trading Supplemental Incentive Program
SPS	Southwestern Public Service Company, a New Mexico corporation
SS	Shared Services
Test Year	April 1, 2018 through March 31, 2019
Total Company	Total SPS (before jurisdictional allocation)
TSR	Total Shareholder Return
Update Period	April 1, 2019 through June 30, 2019
Updated Test Year	July 1, 2018 through June 30, 2019
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.

LIST OF ATTACHMENTS

<u>Attachment</u>	<u>Description</u>
MTK-RR-1	Summary of Compensation Costs (<i>Filename: MTK-RR-1.xlsx</i>)
MTK-RR-2(CONF)	Competitive Total Direct Compensation Analysis (2018 Willis Towers Watson Study) (<i>Non-native format</i>)
MTK-RR-3(CONF)	2018 Xcel Energy Non-Bargaining, Exempt Employee Annual Incentive Program Booklet (<i>Non-native format</i>)
MTK-RR-4	Organization Chart - Human Resources and Benefits Related (<i>Non-native format</i>)
MTK-RR-A (Updated Test Year)	Summary of XES Expenses to SPS by Affiliate Class and Allocation method (<i>Filename: MTK-RR-ABCD.xlsx</i>)
MTK-RR-B(CD) (Updated Test Year)	XES Expenses by Affiliate Class, Activity, Allocation method and FERC Account (<i>Filename: MTK-RR-ABCD.xlsx</i>)
MTK-RR-C (Updated Test Year)	Exclusions from XES Expenses to SPS by Affiliate Class and FERC Account (<i>Filename: MTK-RR-ABCD.xlsx</i>)
MTK-RR-D (Updated Test Year)	Pro Forma Adjustments to XES Expenses by Affiliate Class and FERC Account (<i>Filename: MTK-RR-ABCD.xlsx</i>)

**DIRECT TESTIMONY
OF
MICHAEL T. KNOLL**

1 **I. WITNESS IDENTIFICATION AND QUALIFICATIONS**

2 **Q. Please state your name and business address.**

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

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

6 A. I am filing testimony on behalf of Southwestern Public Service Company, a New
7 Mexico corporation (“SPS”) and wholly-owned electric utility subsidiary of Xcel
8 Energy Inc. (“Xcel Energy”).

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

10 A. I am employed by Xcel Energy Services Inc. (“XES”), the service company
11 subsidiary of Xcel Energy, as Director, Compensation.

12 **Q. Please briefly outline your responsibilities as Director of Compensation.**

13 A. My responsibilities include designing, developing, and implementing broad-based
14 compensation programs, which include base pay and incentive strategy and
15 administration, as well as managing the employee recognition programs. The
16 goals of these programs are to attract, retain, and motivate talented employees at
17 all levels throughout the organization. In my broader role as a member of the
18 human resources management team, I am also responsible for supporting our
19 regulatory process related to human resource matters for rate cases, including
20 providing testimony describing our total rewards programs.

1 **Q. Please describe your educational background.**

2 A. I received my Bachelor of Arts degree in Business Administration and Economics
3 from Northland College, Ashland, Wisconsin and my Masters of Business
4 Administration in Finance from The University of St. Thomas, St. Paul,
5 Minnesota. Throughout the last 15 years of my corporate career, I have stayed
6 educated on current market trends, human resource best-practices and workforce
7 challenges facing employers, as well as presented materials regarding trending
8 compensation topics.

9 **Q. Please describe your professional experience.**

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

17 **Q. Have you attended or taken any special courses or seminars?**

18 A. Yes. I have attended various seminars related to human resources topics,
19 maintained insights by reading industry publications and have completed
20 Certified Compensation Professional certification courses from the World at
21 Work Society of Compensation Professionals

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

2 A. Yes. I provided pre-filed direct testimony in a Public Service of Colorado electric
3 rate case before the Colorado Public Service Commission, as well as direct
4 testimony for SPS before the New Mexico Public Regulation Commission.

1 **II. ASSIGNMENT AND SUMMARY OF TESTIMONY AND**
2 **RECOMMENDATIONS**

3 **Q. What is your assignment in this proceeding?**

4 A. SPS's proposed revenue requirement includes compensation and benefits costs for
5 SPS's employees and the XES and Operating Company employees who charge
6 time to SPS for the necessary services they provide to SPS. I demonstrate that the
7 costs SPS seeks to recover for the Total Rewards Program provided to SPS and
8 XES employees are reasonable and necessary for the provision of utility service.

9 In particular, I discuss:

- 10 • The base pay costs incurred during the Test Year (April 1, 2018
11 through March 31, 2019); how the base pay costs were calculated; and
12 how the base pay increases budgeted for Xcel Energy non-bargaining
13 employees are competitive with the market and, therefore, reasonable;
- 14 • The structure for Xcel Energy's Annual Incentive Program ("AIP"),
15 and those related costs for the Test Year;
- 16 • The structure of Xcel Energy's Long-Term Incentive Program ("LTI")
17 for executive and senior exempt employees, and those related costs for
18 the Test Year;
- 19 • The structure of Xcel Energy's Wholesale Marketing and Trading
20 Supplemental Incentive Program ("SIP") and those related costs for
21 the Test Year;
- 22 • Xcel Energy's Recognition Program and what those costs were for the
23 Test Year; and
- 24 • The benefits offered to Xcel Energy employees, the initiatives
25 undertaken by Xcel Energy to mitigate increases in these costs, and
26 how the benefits costs are necessary and reasonable Test Year costs.

1 I also support the Updated Test Year (July 1, 2018 through June 30,
2 2019)¹ operation and maintenance (“O&M”) expenses and administrative and
3 general (“A&G”) expenses for the Human Resources and Shared Services (“SS”) Company Benefits classes of affiliate services. In support of SPS’s request to
4 recover costs for these affiliate classes, in my testimony I:
5

- 6 • describe the services included in each of the two affiliate classes;
- 7 • explain that those services are reasonable and necessary for SPS’s
8 operation;
- 9 • explain that the costs for those services are reasonable and necessary;
- 10 • explain that these services do not duplicate services that SPS provides
11 to itself through its own employees or that are provided from any other
12 source; and
- 13 • explain that XES charges to SPS for those services are no higher than
14 the charges to SPS affiliates for the same or similar services.

15 In addition, I sponsor Rate Filing Package (“RFP”) Schedules G-1.1
16 through G-1.6, which provide detailed payroll information, and co-sponsor
17 Schedule G-2, which provides general employee benefit information, with SPS
18 witness Richard R. Schrubbe. The RFP instructions require these schedules be
19 updated 45 days after the original date of filing to include all information
20 subsequent to the Test Year end and available, but not previously provided in the
21 RFP. I also sponsor the portions of the Executive Summary related to the
22 information contained in these schedules.

¹ The Test Year in this case is April 1, 2018 through March 31, 2019, and the Update Period is April 1, 2019 through June 30, 2019. The Updated Test Year consists of the last nine months of the Test Year and the three months in the Update Period. In addition to supporting the Updated Test Year costs, I have also reviewed the costs for the first three months of the Test Year for the classes I support and find those costs to be reasonable.

1 **Q. Please summarize your testimony and recommendations.**

2 A. Xcel Energy's objective is to provide market-competitive compensation and
3 benefits, which make up an employee's Total Rewards, which are designed and
4 valued to attract, retain and motivate the skilled workforce SPS needs to provide
5 safe and reliable electric service to its customers. The pay and benefit levels are
6 based on market compensation studies and are comparable to the market median,
7 which indicates they are at or near the middle of pay and benefit offerings of
8 similarly situated utility companies. The components of the Total Rewards
9 Program are regularly evaluated to ensure competitiveness with the market, as
10 well as innovative and market-based design features to maximize employee
11 engagement. The Total Rewards Programs include limits regarding the minimum
12 performance levels and maximum payout levels. There are also strict eligibility
13 requirements built into the programs to eliminate excessive or unnecessary
14 expenses. The non-bargaining Total Rewards Program is administered
15 consistently across Xcel Energy to ensure customers are the focal point of
16 employees' actions and decisions. In all, the Total Rewards Program follows the
17 best practices in the market-place, the costs associated with the program are
18 reasonable to operate a large, national utility company, and the Commission
19 should authorize recovery of the amounts related to these programs, as outlined in
20 the request for recovery.

21 Xcel Energy undertakes a comprehensive approach to ensure the
22 compensation provided to SPS non-bargaining employees is comparable to what
23 the market is offering. Third-party studies confirm that Xcel Energy non-
24 bargaining employees' compensation levels are comparable to what employees
25 receive within the job market.

1 In addition to compensation, the benefit programs SPS employees receive
2 are also comparable to the market and necessary to attract and retain a qualified,
3 skilled workforce. For these reasons, I recommend that the Public Utility
4 Commission of Texas (“Commission”) approve the amounts of compensation and
5 recognition as well as benefits costs included in the Cost of Service Study for the
6 Test Year with known and measurable adjustments as set forth in Table MTK-
7 RR-1 below:

8 **Table MTK-RR-1**

Compensation Type	SPS Total Company
Bargaining wages	\$29,809,836
Non-Bargaining base pay	\$86,221,578
Annual incentive (AIP) 2019 year-end target	\$6,090,779
Long-term incentive (LTI)	\$3,201,060
Recognition awards	\$332,958

9 Finally, my testimony also supports the recovery of SPS’s reasonable and
10 necessary affiliate costs incurred for services provided by Human Resources and
11 SS Company Benefits.

12 **Q. Do any other Company witnesses address issues related to compensation and**
13 **benefits?**

14 A. Yes. Two other Company witnesses address compensation and benefit issues in
15 their direct testimonies:

- 1 • Mr. Schrubbe supports SPS’s request for active health and welfare
2 expense, pension and other post-employment benefit expense, workers’
3 compensation expense, and other benefit-related costs; and
- 4 • SPS witness Arthur P. Freitas supports the Cost of Service Study including
5 the known and measurable adjustments for bargaining employee wages,
6 non-bargaining employee base pay, AIP and LTI. The study also includes
7 current pension and benefit-related expense, and it reflects the prepaid
8 pension asset and prepaid retiree medical asset amounts that SPS seeks to
9 include in rate base.

10 **Q. You mention that certain costs you present in your testimony are estimates.**
11 **Please explain why this is the case and what items are estimates.**

12 A. As explained by SPS witness William A. Grant, SPS will be using an Updated
13 Test Year in this case. SPS’s initial filing presents actual expenses for the Test
14 Year (April 1, 2018 through March 31, 2019) and estimated information for the
15 time period of April 1, 2019 through June 30, 2019, which is the Update Period.
16 Accordingly, the first nine months of SPS’s Updated Test Year (i.e., July 2018
17 through March 2019) consist of actual cost information, and the last three months
18 (i.e., April through June 2019) contain estimated cost information. For this
19 reason, certain SPS witnesses refer to the Updated Test Year in direct testimony
20 as the “estimated Updated Test Year.”

21 Regarding the Human Resources and SS Company Benefits affiliate costs
22 I support, as explained by SPS witness Melissa L. Schmidt, actual figures for
23 April and May 2019 have been provided and June 2019 figures have been
24 estimated based on the forecasted budget. However, these expenses have not
25 gone through the full pro forma adjustment review process.

1 **Q. Will your testimony be updated to replace the estimated costs that you**
2 **present and support with actual costs?**

3 A. Yes. SPS will file an update 45 days after SPS files this application. The update
4 will provide actual costs incurred to replace the estimates provided in the
5 application for the Update Period. As part of that process, my Attachments MTK-
6 RR-A through D will be updated to remove estimates of Human Resources and
7 SS Company Benefits affiliate O&M and A&G expenses incurred by SPS during
8 the Updated Test Year and then replace those estimates with actual expenses,
9 which will be used to establish SPS's base rates in this case.

10 **Q. Were Attachments MTK-RR-1 through MTK-RR-4, and MTK-RR-A**
11 **through MTK-RR-D, prepared by you or under your direct supervision and**
12 **control?**

13 A. Yes, as to Attachments MTK-RR-3(CONF) and MTK-RR-4. Attachments
14 MTK-RR-1 was prepared by Mr. Freitas and his staff and is based on the Cost of
15 Service Study. My staff and I have reviewed this attachment and I believe it to be
16 accurate. Attachment MTK-RR-2(CONF) was prepared by Willis Towers
17 Watson.

18 Attachments MTK-RR-A through MTK-RR-D were prepared by Ms.
19 Schmidt and her staff. My staff and I have reviewed these attachments and I
20 believe them to be accurate. Although the information I have described is also
21 present in these other witnesses' attachments, I have presented this information in
22 the attachments to my testimony for the convenience of those reviewing my
23 testimony.

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

2 **Q. Please briefly explain the issues and related costs you will address in this**
3 **section of your testimony.**

4 A. My testimony supports the recovery of SPS's requested compensation and
5 benefits costs, which are reasonable and necessary. Specifically, Xcel Energy's
6 Total Rewards Program objective is to provide market-competitive compensation
7 and benefits to its employees to attract, retain, and motivate the skilled labor force
8 SPS needs to provide safe, reliable electric service to its customers. Market
9 studies show that Xcel Energy employees' compensation levels are comparable to
10 what employees of other utilities receive. In addition to compensation, the benefit
11 programs SPS employees receive are comparable to the market and necessary to
12 attract and retain a qualified, skilled workforce. Therefore, the Commission
13 should allow full recovery of the compensation and benefit costs included in
14 SPS's requested revenue requirement, and as set forth in Attachment MTK-RR-1.

15 The reasonableness of the compensation and benefits SPS employees
16 receive also supports recovery of the capitalized labor costs that are a part of the
17 capital additions that SPS seeks to include in rate base, as described in greater
18 detail by other SPS witnesses. In particular, a percentage of the costs associated
19 with the capital additions relate to labor. Although other witnesses describe and
20 support the capital additions, the labor costs related to those capital additions are
21 reasonable for the reasons discussed in my testimony.

1 In this section of my testimony, I also address the following issues related
2 to the compensation and benefits provided to SPS and XES employees:²

- 3 • the importance of allowing SPS to meet its compensation and benefits
4 goals to ensure safe and reliable electric service is provided to SPS
5 customers;
- 6 • the reasonableness of the compensation provided during the Test Year
7 to SPS employees, including base pay increases and incentive
8 compensation;
- 9 • the reasonableness of the compensation provided during the Update
10 Period to SPS employees, including base pay increases and incentive
11 compensation;
- 12 • the changes in incentive compensation design that is effective for 2019
13 and prospectively;
- 14 • the comparability of the compensation provided to SPS employees to
15 the compensation provided by the market; and
- 16 • the health and retirement benefits provided to SPS employees and the
17 actions SPS has undertaken to help mitigate cost increases.

18 **Q. What is Xcel Energy's Total Rewards Program?**

19 A. The term "Total Rewards Program" refers collectively to all of the elements of
20 compensation and benefits that Xcel Energy offers SPS and XES employees.

21 Those elements are:

- 22 • Compensation in the form of:
 - 23 ○ Base pay;
 - 24 ○ AIP incentive compensation;
 - 25 ○ SIP incentive compensation;
 - 26 ○ LTI incentive compensation; and
 - 27 ○ Recognition awards;
- 28 • Retirement benefits in the form of:
 - 29 ○ Qualified pension benefits;
 - 30

² Unless otherwise specified, for ease of reference, I will refer to both groups of employees as SPS employees in my testimony.

- 1 ○ Non-qualified pension benefits; and
- 2 ○ Retiree medical benefits;
- 3
- 4 • Active health care benefits;
- 5 • Workers' compensation benefits;
- 6 • Long-term disability benefits;
- 7 • 401(k) matches; and
- 8 • Other miscellaneous benefits.

9 **Q. Does SPS rely solely on its own employees to provide safe and reliable**
10 **service?**

11 A. No. SPS relies on a combination of its own employees and XES employees to
12 provide safe, reliable electric service. To avoid the need to distinguish between
13 SPS and XES employees in my testimony, I will refer generally to the employees
14 who provide services to SPS as being SPS employees, except when necessary to
15 identify XES specifically. In addition, my testimony sometimes refers to Xcel
16 Energy as a whole because my group takes a corporate-wide view of certain
17 issues, such as attrition levels.

18 **Q. What are Xcel Energy's compensation goals?**

19 A. The goal of Xcel Energy's compensation programs is to attract, retain, and
20 motivate the talented employees necessary to provide safe, reliable electric
21 service to customers, such as SPS's Texas customers, at a reasonable cost. The
22 achievement of this goal requires that Xcel Energy provide its employees with
23 compensation, through the use of base pay, annual incentive compensation,
24 recognition, and long-term incentive compensation plans that are competitive with

1 what is provided by employers with whom Xcel Energy competes for talent (i.e.,
2 the market).

3 **Q. Do the compensation and benefits costs in the Test Year include amounts for**
4 **“bargaining” and “non-bargaining” employees?**

5 A. Yes. Bargaining employees are members of International Brotherhood of
6 Electrical Workers (“IBEW”) Local Union No. 602 (“Local 602”). Through
7 Local 602, those employees engage in collective bargaining with SPS over base
8 wages and benefits. All other SPS employees are considered to be non-
9 bargaining employees whose compensation and benefits are established outside of
10 the collective bargaining process.

11 **Q. Are the bargaining and non-bargaining employees eligible for the same**
12 **elements of compensation?**

13 A. No. Bargaining employees are eligible for the hourly wage amounts agreed to as
14 part of the collective bargaining amounts, including the amounts negotiated for
15 overtime work.

16 In contrast, non-bargaining employees are eligible for base pay and may be
17 eligible for one or more of the following types of incentive compensation:

- 18 • AIP;
- 19 • the Wholesale Energy Marketing and Trading SIP compensation;
- 20 • LTI compensation; and
- 21 • 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 all (100 percent) of the market-based compensation, on-average,
4 relative to his or her job.

5 **Q. Please explain what you mean when you state that the compensation**
6 **components for non-bargaining employees vary by employee based on**
7 **eligibility.**

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

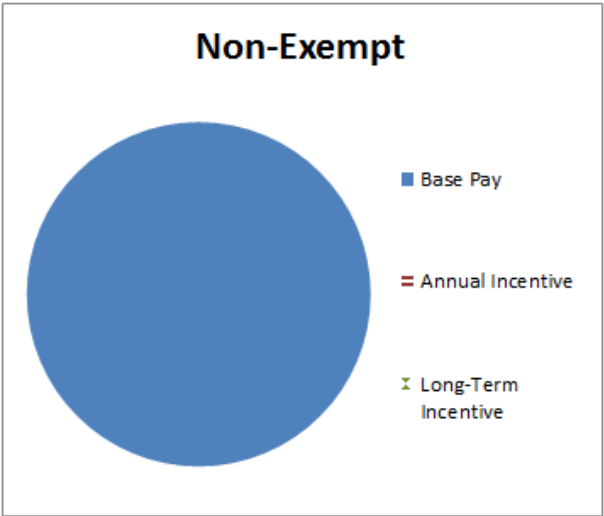
16 **Q. Are the compensation packages structured the same for all exempt non-**
17 **bargaining employees?**

18 A. No. As shown in Charts MTK-RR-1, MTK-RR-2, and MTK-RR-3, the
19 combinations and values of each component of compensation (base pay, annual
20 incentive and long-term incentive) differ by job and individual employee. For
21 example, Chart MTK-3 shows that senior exempt 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 SPS competes for employees structure their compensation elements, and it also reflects an intentional decision to align compensation opportunities with an employee's level of responsibility and influence on the Company's operations.

The compensation structure for all non-bargaining employees is designed to provide a total compensation package based on the market-competitive compensation levels and types necessary to attract, retain and motivate employees at varying levels.

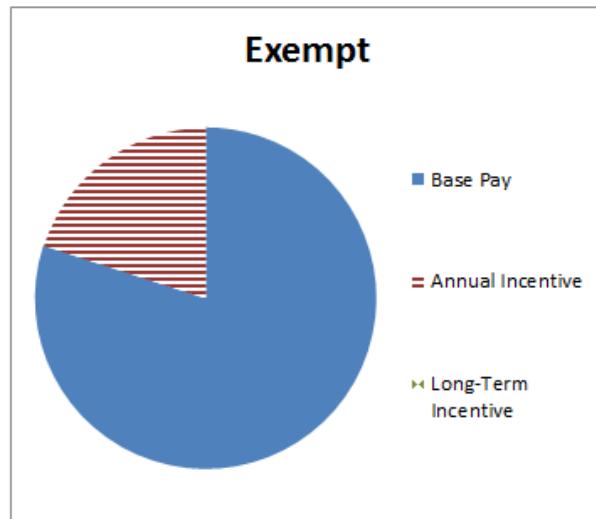
Chart MTK-RR-1



Base pay only = Total Compensation

1

Chart MTK-RR-2



2

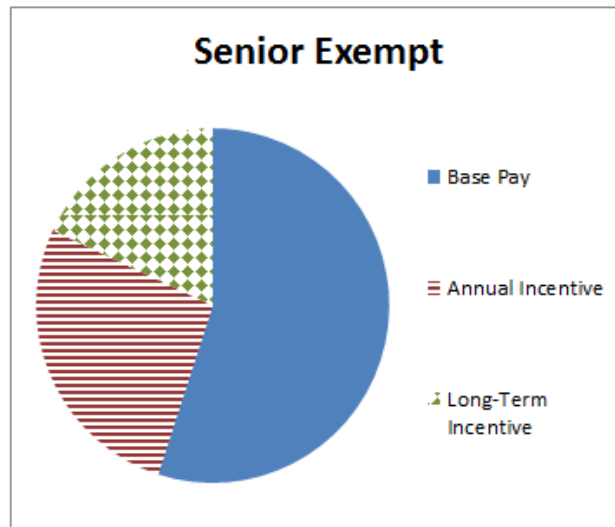
3

Base pay + AIP = Total Compensation

4

Chart MTK-RR-3

5



6

7

Base pay + AIP + LTI = Total Compensation

8

Q. Is SPS seeking recovery of all Test Year costs associated with its compensation components?

9

10

A. No. As I will explain in more detail later in my testimony, SPS has not included the SIP or the LTI costs associated with relative total shareholder return (TSR")

11

1 (relative TSR) as a part of its requested compensation expense in this electric rate
2 case. In addition, SPS is limiting its requested recovery of AIP costs to “target”
3 levels of an employee’s base pay based on 2018 budgeted levels.³ Mr. Freitas
4 presents an adjustment to remove those costs. Thus, in this rate case, SPS is
5 seeking recovery of the compensation costs related to base pay, the AIP at target,
6 environmental component and time-based components of long-term incentive
7 compensation and the Recognition Program. However, all of the expenses of
8 SPS’s compensation programs are necessary and reasonable costs of attracting,
9 retaining and motivating the employees needed to provide safe and reliable
10 electric service. For this reason, SPS reserves the right to request full AIP and
11 LTI expense recovery in future base rate cases.

12 **Q. When considering SPS’s request to recover costs related to the Total**
13 **Rewards Program, are there any issues that are relevant to consider?**

14 **A.** Yes. As of June 15, 2019, there is a new law in Texas that deems the costs of
15 base salaries, wages, incentive compensation, and benefits to be reasonable and
16 necessary costs for a gas utility if the costs are consistent with market
17 compensation studies. Certain costs are excluded from the presumption such as
18 pension costs and financially-based incentive compensation costs for certain
19 executives. Even though this law applies to gas utilities, it reflects public policy
20 support for the type of market-based compensation approach Xcel Energy uses to

³ I explain in the next section of my testimony what is meant by a “target” level of incentive compensation.

1 determine base pay, annual pay increases, incentive compensation programs and
2 benefits.

3 **A. Base Wages and Base Pay**

4 *1. Bargaining Employee Base Wage*

5 **Q. How are the base wage amounts for bargaining employees determined?**

6 A. Bargaining employee base wage amounts, including the hourly wage increases,
7 are based on the collective bargaining agreement (“CBA”) between SPS and
8 Local 602.

9 **Q. What is the status of the current collective bargaining agreement?**

10 A. The current collective bargaining agreement is effective through October 31,
11 2019. Under that agreement, SPS bargaining employees received a base wage
12 increase of 2.5 percent effective November 1, 2017 and another base wage
13 increase of 2.5 percent took effect on November 1, 2018. Costs for these
14 increases are included in the Test Year. A tentative agreement has been reached
15 between SPS and Local 602 that would extend the current CBA conditions
16 regarding annual base wage increases with an effective date of November 1, 2019.

17 **Q. What has been the recent trend in the CBA related to SPS bargaining wage**
18 **increases?**

19 A. Table MTK-RR-2 (next page) shows the base wage increases for bargaining
20 employees in recent years under the CBA through October 31, 2019.

Table MTK-RR-2
Recent base wage increases for SPS bargaining employees

Year	Base Wage Increase
2013	2.90%
2014	2.50%
2015	2.50%
2016	2.50%
2017	2.50%
2018	2.50%

1 **Q. What amount is the Company asking the Commission to approve for**
2 **bargaining wage expense?**

3 A. SPS asks the Commission to approve \$29,809,836 of base wages for bargaining
4 employees.

5 **Q. Is the Company's requested base wage amount for bargaining employees**
6 **reasonable?**

7 A. Yes. The base wage amount for bargaining employees was negotiated as part of a
8 collective bargaining agreement between SPS and Local 602.

9 **Q. Is there other support for the Company's request to recover base wages for**
10 **bargaining employees?**

11 A. Yes. Section 14.006 of the Public Utility Regulatory Act contains a presumption
12 of reasonableness for bargaining employee wages that are the product of a
13 collective bargaining agreement like the one SPS has with Local 602.

14 2. *Non-Bargaining Employee Base Pay*

15 **Q. How are base pay amounts established for non-bargaining employees?**

16 A. On behalf of SPS and its other Operating Companies, Xcel Energy undertakes a
17 comprehensive evaluation process for each non-bargaining position using external

1 market data obtained from independent third-party compensation surveys to
2 ensure its non-bargaining employee compensation levels are comparable to the
3 market. To develop an apples-to-apples comparison, Xcel Energy must first
4 match the job responsibilities of the SPS positions to the job responsibilities of the
5 positions within other companies that compete with Xcel Energy for employees.
6 After that, Xcel Energy considers data from a variety of surveys, including data
7 for both utility and non-utility companies.⁴ The 50th percentile or median is then
8 used to determine the appropriate pay range for a position. After an appropriate
9 pay range is determined, the components of the compensation package are divided
10 among base pay, AIP, SIP, and LTI, as applicable to an individual employee. By
11 approaching compensation in this manner, Xcel Energy is able to ensure that its
12 total compensation levels are comparable to the market and, thus, that those costs
13 are set at a reasonable level.

14 **Q. Can non-bargaining employees earn base pay increases?**

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

⁴ If the SPS position is unique to the utility industry, Xcel Energy may restrict its comparison to only the utility-specific data in the surveys.

1 receive a small base pay increase, and a poor performer generally receives no base
2 pay increase. Base pay increases are generally effective in March each year.

3 **Q. Are the base pay increases earned by non-bargaining employees the same as**
4 **cost-of-living increases?**

5 A. No. An employee must earn a base pay increase based upon performance, among
6 other factors. This is distinct from cost-of-living increases in base pay, which are
7 typically provided to all employees of a company, regardless of performance.
8 Xcel Energy does not provide cost-of-living increases.

9 **Q. How does Xcel Energy determine the annual budget for base pay increases?**

10 A. For non-bargaining employees, a number of factors are considered to arrive at
11 budgeted base pay increases. The factors include:

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

17 **Q. What base pay increase did non-bargaining employees earn in 2018?**

18 A. Effective March 2018, eligible non-bargaining employees earned, on average, a
19 3.0 percent base pay increase. To earn a base pay increase, a non-bargaining
20 employee had to be eligible based on job performance and had to be employed by
21 SPS on the effective date of the base pay increase.

1 **Q. Why does Xcel Energy rely on independent third-party surveys as a**
2 **reference to set base pay amounts and to evaluate base pay increase**
3 **amounts?**

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

15 **Q. Was the 3.0 percent base pay increase earned by non-bargaining employees**
16 **in 2018 reasonable?**

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

- 21 • 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.⁵

As these independent surveys show, the 3.0 percent base pay increase for SPS'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 for non-bargaining employees?

A. Yes. Table MTK-RR-3 identifies the survey results for projected and actual non-bargaining base pay increase percentages available from 2014 through the 2019 projected increase:

Table MTK-RR-3

Year	Survey Data: Projected Increase	Survey Data: 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 Xcel Energy's base pay increases for non-bargaining employees and the amount included in SPSs rate request?

A. The 2018 and 2019 base pay increases for non-bargaining employees are reasonable and should be included in the SPS cost of service in this case.

⁵ 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 Accordingly, SPS requests that the Commission approve recovery of \$86,221,578
2 non-bargaining base pay.

3 **B. Benefits of Annual Incentive Compensation Programs**

4 **Q. What topics do you discuss in this subsection of your testimony?**

5 A. I discuss three topics related to SPS's AIP. First, I explain that the use of
6 incentive compensation benefits customers, as compared to a compensation
7 system that would provide all of a non-bargaining employee's compensation
8 through base pay only. Second, I describe the structure of the incentive
9 compensation program and quantify the amount of incentive compensation that
10 SPS asks the Commission to approve. Third, I briefly describe the changes made
11 to the AIP in recent years to incentivize employee behavior that leads to customer
12 benefits.

13 **Q. Why does Xcel Energy include annual incentive compensation as part of its**
14 **overall compensation plan?**

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

1 **Q. Please explain how offering incentive compensation promotes superior**
2 **employee performance.**

3 A. A well-designed incentive compensation plan motivates employees to focus on
4 activities that benefit customers, such as improving customer service response
5 times, enhancing reliability, and achieving environmental goals. In addition, a
6 compensation structure that includes incentive compensation strengthens the link
7 between pay and performance because the employee must meet the performance
8 standards to earn the full compensation amount. Using base pay alone to offer an
9 employee compensation consistent with the 50th percentile of the market would
10 allow the employee to receive the payment regardless of performance. Thus, the
11 use of incentive compensation helps Xcel Energy motivate and reward its
12 employees for delivering superior performance.

13 **Q. How does incentive compensation reduce fixed labor costs?**

14 A. The use of incentive compensation reduces labor costs by lowering the base pay
15 amount to which any annual percentage wage increase is applied. For example, if
16 a non-bargaining employee's total compensation was \$100 in year one and all of
17 the compensation was in the form of base pay, a 3.0 percent base pay increase
18 would lead to a base pay increase of \$3 in year two and a new base pay of \$103.

19 In contrast, if the compensation was structured as 70 percent base pay and
20 30 percent incentive compensation, the 3.0 percent base pay increase would lead
21 to an increase of only \$2.10 in year two ($\$70 \times .03 = \2.10) and a new base pay of
22 \$72.10, with the remainder needing to be earned through incentive elements.
23 Thus, by moving a portion of each employee's pay from base pay to incentive

1 pay, SPS reduces overall fixed labor costs by avoiding the compounding effect of
2 annual base pay increases.

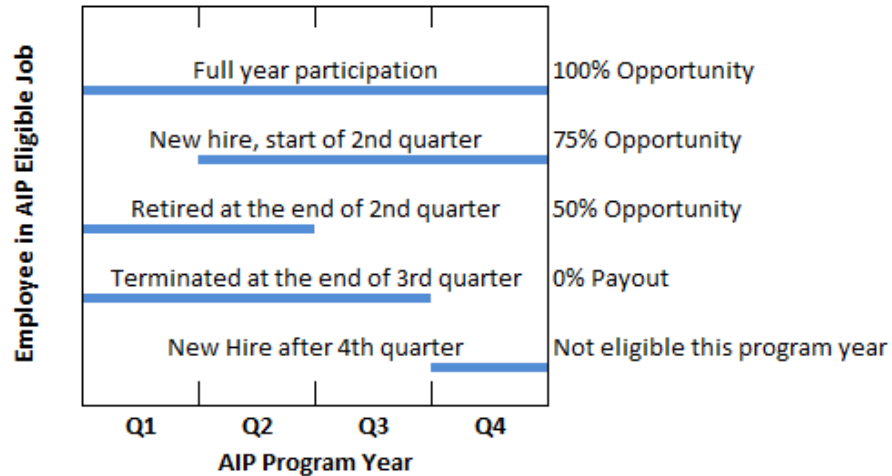
3 Furthermore, fixed costs associated with base pay affect a variety of
4 benefit-related expenses, such as 401(k) match, life insurance premiums,
5 long-term disability premiums, short-term disability expenses, among others. If
6 total compensation was provided through only base pay, the additional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

12 Finally, incentive compensation is paid only to those employed at the time
13 of payout in most circumstances. An example of an exception to this
14 circumstance would be eligible employees who retire during the AIP performance
15 year. The incentive compensation calculation also prorates the payout of
16 incentive compensation to new or transferring participants based on the dates
17 those employees were in an eligible position during the program year. By
18 avoiding payouts to departing employees and prorating payouts of arriving
19 employees, SPS pays less in incentive compensation than it would have paid
20 those employees if all of their compensation had been in the form of base pay.

21 Chart MTK-RR-4 illustrates a few simple examples of how and when
22 employees in AIP-eligible jobs may or may not have full or pro-rated AIP
23 opportunities in relation to the year-end AIP award.

1

Chart MTK-4



2

3 **Q. Is it common practice for large companies such as utilities to use annual**
 4 **incentive compensation as part of their compensation packages?**

5 A. Yes. The use of incentive compensation by employers is a prevalent practice
 6 throughout the United States. In fact, performance-based award programs, in
 7 which a portion of compensation must be earned each year, remained very high,
 8 with more than 90 percent of employers shifting their compensation practices to
 9 this type of program, according to a 2015 Aon Hewitt survey of 1,214 U.S.
 10 companies.⁶ According to the 2018 Willis Towers Watson Compensation Study,
 11 100 percent of energy companies in the national sample maintain an annual
 12 incentive plan, and 100 percent of energy companies comparable to Xcel Energy
 13 in terms of revenue maintain an annual incentive plan.

⁶ <http://aon.mediaroom.com/2015-08-26-U-S-Organizations-Report-Highest-Compensation-Spend-in-39-Years>, accessed on 1/9/2019.

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

2 **Q. Please summarize the AIP.**

3 A. The AIP is the mechanism through which Xcel Energy and SPS tie part of an
4 eligible employee's compensation to the achievement of defined performance
5 objectives called Key Performance Indicators ("KPI"). SPS uses the AIP to align
6 employees' goals with Xcel Energy's corporate and business goals and to
7 recognize and reward employees for results that contribute to the achievement of
8 reliability, customer satisfaction, and safety goals. When combined with base
9 pay, the AIP compensation component is designed to produce a market-
10 competitive total cash compensation package.

11 **Q. What performance objectives are reflected in the 2019 AIP?**

12 A. Performance goals in the AIP are set at the Individual and Corporate levels as
13 follows in Table MTK-RR-4:

14 **Table MTK-RR-4**
15 **2019 AIP Performance Goals**

Performance Component	Types of Goals within Component	Purpose of Goals within Component
Individual	The individual component is based on an employee's performance results for specific goals identified by the employee and his or her manager.	Goals are tied specifically to the employee's job functions and competencies and are developed in alignment with business area and corporate objectives.
Corporate	The corporate component consists of goals and KPI focused on operational, environmental, and safety measures.	Goals represent customer and employee interests.

1 **Q. Which employees are eligible to participate in AIP?**

2 A. The AIP applies to exempt, non-bargaining employees. An eligible employee
3 must be employed by October 1 of a particular year to be eligible for a prorated
4 year-end portion of the AIP compensation for that program year. With limited
5 exceptions, a person must also be actively employed by the Company on the date
6 that the year-end award payments are made in order to receive an incentive
7 award.⁷

8 **Q. In the previous answer, you refer to the “year-end portion of the AIP**
9 **compensation.” Are employees able to earn incentive compensation at times**
10 **other than year-end under the AIP?**

11 A. Yes. In addition to the year-end portion of their AIP, which is based on
12 achievement of Corporate KPIs and individual performance results, employees
13 are eligible to earn a portion of their individual component throughout the course
14 of the year. The AIP provides leaders with the opportunity to recognize
15 employees and reinforce positive behavior in a timely manner. This portion of the
16 AIP can be received during the program’s prescribed intervals (monthly or
17 quarterly) during the performance year.

18 **Q. In connection with the year-end AIP awards, you referred to Corporate KPIs**
19 **and individual performance results. Please describe the Corporate KPIs.**

20 A. Each year, Xcel Energy develops a Corporate Scorecard that identifies certain
21 priorities for the year. In 2019, for example, the Corporate KPIs are focused on
22 three priorities: (1) enhancing the customer experience; (2) keeping bills low; and

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

(3) promoting safety and reliability. As shown in Table MTK-RR-5, those three priorities resulted in five Corporate KPIs for the year:

Table MTK-RR-5

Priority	Key Performance Indicator	Threshold (50%)	Target (100%)	Maximum (150%)	KPI Weight
Enhance Customer Experience	Customer Satisfaction (Residential raw score)	726	737	759	20%
Keep Bills Low	O&M Growth (Over 2017)	2.0%	0%	(1.0%)	20%
Safety and Reliability	Employee Safety (DART)	0.61	0.49	0.45	20%
	Public Safety	85%	89%	94%	20%
	Electric System Reliability (SAIDI)	100	92	84	20%

While I specifically address customer benefits related to incentive compensation in my testimony, the KPIs are designed to address all stakeholders the Company serves. In addition to customers, that also includes employees themselves and shareholders. The KPIs provide employees with tangible ways to focus their behavior and performance to operate in a safe, cost-effective and reliable manner. All of SPS's stakeholders benefit when the Corporate KPIs are met.

Q. Table MTK-RR-5 uses the terms “threshold,” “target,” and “maximum” for the Corporate Scorecard. Can you explain what those terms mean?

A. Yes. As shown in Table MTK-RR-5, Xcel Energy establishes quantitative measures to evaluate whether the Corporate Scorecard KPIs have been met. The “threshold” amount represents the minimum level of performance that must be achieved before an incentive payment can be earned for the particular KPI (50

percent). Performance below the threshold results in no incentive being earned for that KPI. The “target” represents the level of performance that must be achieved to receive a target payout for that KPI (100 percent payout). The “maximum” represents the level of performance that must be achieved to receive the maximum payout possible for a particular KPI (150 percent) of results for purposes of establishing the maximum amount of incentive compensation for that Corporate KPI. As shown in Table MTK-RR-6, 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-RR-6

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%

* mathematical calculation used to determine values between two points

Q. Do the 2019 Corporate performance goals benefit customers?

A. Yes. The Customer Satisfaction goal was focused on improving our residential customer experience compared to the prior year. The Public Safety goal focused on response times to limit exposure to potentially dangerous situations and maintain service reliability. The O&M Cost Management goal was designed to

1 maintain, reduce and eliminate the Company's expenses through a variety of cost
2 saving measures and stream-lining processes to keep customer bills low. The
3 System Average Interruption Duration Index ("SAIDI") goal focused on
4 providing customers reliable energy services. Finally, the Employee Priority
5 component of the 2019 Corporate Scorecard focuses exclusively on Employee
6 Safety. Employee Safety Days Away, Restricted or Transferred ("DART") is a
7 key priority of Xcel Energy. Stressing a culture of safety results in a more
8 productive working environment for our employees and more reliable service for
9 our customers.

10 **Q. Is the AIP Corporate Scorecard for 2019 representative of the scorecards**
11 **Xcel Energy expects to use on a prospective basis?**

12 A. Yes. Xcel Energy will continue to be customer focused by driving operational
13 and cost efficiencies to deliver safe and reliable service to our customers.
14 Although the specific KPIs and measures may change slightly to reflect specific
15 objectives from year to year, our commitment to our customers and the safety of
16 the communities SPS serves and our employees will be high priorities.

17 **Q. Do you consider all Corporate KPIs to be Operational goals?**

18 A. Yes. The KPIs in the 2019 Corporate Scorecard shown above in Table MTK-RR-
19 5 were 100 percent operational goals designed to focus employee performance on
20 positive outcomes for customers. Each of the goals is designed to influence
21 employee activity, and each goal has some type of cost element, whether through
22 labor hours to complete the work or equipment and material needs to safely and
23 effectively complete the job. The combination of KPIs drives the company to

1 work in a safe and efficient manner and decreases the amount we would need to
2 include in future rates. Operating in a safe, reliable, cost-efficient manner,
3 benefits customers receiving utility service by delaying the need for rate
4 increases.

5 Xcel Energy is investing in infrastructure and renewable generation to
6 continue providing safe, reliable energy to our customers and reduce carbon
7 emissions. The O&M growth measure exists to drive focus on keeping customer
8 bills low, specifically controlling our costs while Xcel Energy and the Company
9 execute necessary projects and programs. Therefore, while measured in dollars,
10 the O&M growth goal is designed to deliver results to benefit customers by
11 driving employees to work within their means to manage existing costs.

12 **Q. Please turn now to the individual component and explain how that is**
13 **evaluated.**

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

19 **Q. Who establishes the individual goals?**

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

1 discretion to determine the year-end individual component award within a range
2 of 0 to 150 percent based on the employee's contributions and performance
3 during the year.⁸ Note, however, that the budget for overall payouts for all
4 employees is based on 100 percent of all employees' target opportunities. This
5 means that for every employee who receives a payout above the target level,
6 another employee's payout must be below target level.

7 **Q. Are the Corporate and Individual KPIs weighted equally when assessing the**
8 **performance of an employee?**

9 A. No. The importance of the Corporate KPIs for year-end AIP payout varies based
10 upon the employee's position and level of responsibility. The weightings of
11 Corporate versus Individual KPIs are designed such that an employee's goals are
12 more strongly linked to objectives that he or she has the greatest potential to affect
13 (line of sight). For example, the weighting for employees with a greater focus on
14 day-to-day activities and responsibilities tied to customer satisfaction, safety, and
15 reliability. Therefore, the AIP weightings are based more heavily at the
16 individual level. In contrast, as an employee's position has the ability to affect
17 Xcel Energy at a higher level, the weighting for that position focuses on broader
18 corporate goals, though it will continue to require accountability for individual
19 performance. Table MTK-RR-7 shows the weightings of these different
20 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-RR-7**

2 **Weightings of AIP by Employee Position**

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

3
4 **Q. Do the category weightings change the total amount of target incentive**
5 **compensation that can be earned?**

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

11 **Q. Do all eligible non-bargaining employees receive the same percentage of their**
12 **overall compensation as incentive compensation?**

13 A. No. As I explained earlier, the percentage of total compensation paid as incentive
14 compensation is determined by the non-bargaining employee's position or level
15 within the organization. Thus, for example, an employee at a 10 percent target
16 opportunity level with a base salary of \$50,000 will receive \$5,000 in incentive
17 compensation, assuming achievement of 100 percent of the Corporate KPIs and
18 Individual goals. Target opportunities will vary based on market competitive

1 incentive and design levels. As such, the more senior the non-bargaining
2 employee, the more of his or her total compensation is paid as incentive
3 compensation.

4 **Q. Is the amount of an employee's incentive compensation earned always at the**
5 **incentive target amount?**

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

19 **Q. What amount of incentive compensation expense is SPS seeking to recover**
20 **through rates in this case?**

21 A. The entire SPS 2018 AIP expense was \$6,972,608, which is a reasonable and
22 necessary component of overall cash compensation, and is based on achievement
23 of KPIs and other goals above target levels. Nevertheless, SPS is requesting

1 recovery of the year-end 2019 AIP target-level expense, which is known and
2 measurable, in the amount of \$6,090,779 at a Total Company level. This amounts
3 reflects AIP awarded at the 100 percent target level and does not include any
4 amounts for payouts above the 100 percent target level. Thus, customers are not
5 being asked to pay any amounts above what Xcel Energy has identified as the
6 incentive target opportunity.

7 *2. Recent Changes in AIP Structure*

8 **Q. Does Xcel Energy monitor its AIP design to determine whether**
9 **improvements can be made to maintain the competitiveness of the AIP**
10 **opportunities as well as to continue to motivate employees?**

11 A. Yes. Xcel Energy regularly examines its compensation programs to determine
12 whether improvements can be made and whether the programs are effectively
13 motivating employees.

14 **Q. Did Xcel Energy make AIP design changes in recent years?**

15 A. Yes. Xcel Energy implemented changes to the AIP with the goals of: (1) further
16 strengthening the connection between individual employees' work and customer
17 benefits; and (2) further promoting superior employee performance.

18 **Q. Can you provide some additional details about the plan design changes?**

19 A. Yes. Prior to 2017, the AIP had three performance components included in year-
20 end incentive payouts – Corporate, Business Area, and Individual. To strengthen
21 the connection between individual employees' work and customer benefits, Xcel
22 Energy redesigned the program so that only the Corporate and Individual

1 performance components now exist. As a result, the weighting of the Individual
2 performance component has increased.

3 The design changes resulted in the majority of eligible employees having
4 the highest AIP weightings for the Individual performance component. This
5 means that most employees earn the majority of their incentive compensation
6 based on the successful completion of individual goals that are designed to benefit
7 customers. This change creates a clearer “line of sight” between the employees’
8 accomplishments and receiving AIP compensation.

9 In addition to the performance component change, the program provides
10 eligible employees the opportunity to earn a portion of their AIP individual
11 component in a more timely fashion during the program year, which allows an
12 employee to be rewarded for positive performance at the time it occurs rather than
13 waiting until the year-end payout. This can be accomplished by delivering greater
14 than expected results that impact at a team or department level and are linked to
15 supporting Xcel Energy’s strategy and priorities. Examples of that type of
16 activity include: reducing time and labor costs related to a process whether at an
17 operational site or support location. It can also be accomplished through the
18 implementation of innovative, high-impact solutions or processes that deliver
19 significant benefits at a company-wide level such as testing and evaluating a
20 stored piece of equipment at one plant location to replace a costly item at another
21 plant to safely and effectively meet customer needs. These AIP payments can be
22 made throughout the program year and are separate from the year-end incentive
23 compensation payouts.

1 **Q. Is an employee’s annual incentive compensation target opportunity still**
2 **expressed as a percentage of base pay?**

3 A. Yes. The employee’s incentive target opportunity continues to be a percentage of
4 base pay. The target opportunity levels are designed to provide eligible
5 employees with 100 percent or all of their market-competitive total cash
6 compensation when base pay and incentive are combined.

7 **Q. Did the target-level AIP costs change in light of the AIP design changes?**

8 A. No. The target-level AIP costs continue to be calculated using the individual
9 target opportunity levels of incentive pay in the market, so the AIP budgeting
10 process used to determine the AIP target-level expense has not changed. Thus,
11 from a rate-making perspective, the level of costs that SPS seeks to recover in
12 rates will remain consistent under the design changes. In other words, the AIP
13 design changes will not increase the target amount of AIP expense in comparison
14 to the target amounts in prior years under the prior AIP design.

15 Also, as confirmed by Willis Towers Watson, the target opportunity level
16 of AIP will allow the total cash compensation to be competitive with the market
17 and, thus, is a reasonable and necessary cost of providing electric service to SPS’s
18 customers.

19 **Q. In the past, the AIP included an earnings per share (“EPS”) affordability**
20 **trigger. What is the purpose of an affordability trigger?**

21 A. An affordability trigger helps ensure that Xcel Energy is in a financially healthy
22 position and is able to fund the incentive program before an incentive can payout
23 on its performance metrics. Payouts related to performance metrics without the

1 ability to afford them would not be good for the business or customers, therefore
2 funding the program must happen first. Including this type of affordability trigger
3 encourages responsible fiscal decisions throughout the Company.

4 **Q. Please explain how EPS is determined generally.**

5 A. EPS is the company's net income divided by the number of company shares
6 outstanding.

$$\begin{array}{l} 7 \qquad \qquad \qquad \text{EPS} = \frac{\text{Net Income}}{\text{\# Common Shares Outstanding}} \\ 8 \end{array}$$

9 **Q. Because the EPS trigger determines whether the end-of-year AIP payout**
10 **occurs, does this mean it is a financial performance objective for employees**
11 **who are eligible for AIP?**

12 A. No. The performance objectives are outlined on the annual Corporate Scorecard.
13 These specific KPIs are the focus of the employees who participate in the AIP.
14 The KPIs can be directly influenced by employees as they work directly with
15 customers, create operational efficiencies, eliminate waste when possible and
16 work safely to provide electric service to customers.

17 **Q. Does having an EPS trigger on the plan benefit customers?**

18 A. Yes, the EPS trigger ensures that Xcel Energy has achieved a certain level of
19 earnings to meet its financial obligations before the incentive payments are made
20 to employees. These earnings are used to fund the day-to-day operations of the
21 Company for other activities such as customer service and safe operations. This
22 approach benefits customers because they depend on SPS to provide safe and
23 reliable service. In order to do just that, SPS must manage costs responsibly and
24 ensure that it remains financially healthy and fiscally responsible.

1 **Q. Is an affordability trigger a common component of an annual incentive plan?**

2 A. Yes, affordability triggers (also known as funding gates, circuit breakers, or
3 qualifiers) are a common and reasonable compensation design feature for
4 incentive plans. In 2016, an FW Cook study indicated 83 percent of the top 250
5 Standard and Poor's 500 Index companies use at least one specific financial
6 measure to determine annual incentive payouts with 75 percent of these
7 companies using two or more financial measures. The "plan-within-a-plan"
8 approach used by Xcel Energy was also used by 42 percent of the 250 top
9 companies in this study. Each used a version of this incentive funding
10 methodology (funding trigger) for their AIP.

11 **Q. Do you have any other comments related to the affordability trigger that**
12 **Xcel Energy uses to ensure incentive payouts are prudent?**

13 A. Yes. I am aware that in prior cases, some parties have been opposed to the use of
14 an affordability trigger in an incentive plan. That opposition seems to be based on
15 some notion that it is unfair for utility companies to request recovery for
16 reasonable incentive compensation related to operating a business in a financially
17 secure manner. At the same time, the manner in which utilities operate is dictated
18 by the outcomes and requirements set forth by these types of proceedings. In
19 effect, the utility is penalized for including an affordability trigger in an incentive
20 plan even though its purpose is to promote responsible financial decisions. Yet,
21 the utility would be equally (or more) scrutinized if it was struggling financially
22 and paid incentive compensation to employees based strictly on operational goals.
23 Poor financial performance can be the result of decisions that could impact

1 customers in a negative manner, such as having poor customer service, delaying
2 system enhancements or not having enough qualified employees to operate safely.

3 There are several requirements designed into the Xcel Energy incentive
4 programs that follow sound market-based compensation design practices.
5 Referring back to Charts MTK-RR-1 through 3, these design elements require a
6 level of performance by Xcel Energy and the individual employee in order for an
7 employee to receive market-level compensation. Without Xcel Energy's
8 incentive compensation program design and the performance requirements linked
9 to corporate and individual goals, there would be a disconnect between company
10 and individual performance and incentive payouts.

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

12 **Q. Please explain Xcel Energy's Supplemental Incentive Program.**

13 A. The Xcel Energy SIP is designed to provide certain eligible employees who work
14 in wholesale energy trading activities with compensation opportunities that are
15 competitive with compensation practices in the wholesale energy trading sector.
16 The SIP is designed to reward employees for achievement of the wholesale
17 energy trading profit margins. The program is a supplement to the AIP and is part
18 of the total cash compensation offered only to Xcel Energy wholesale energy
19 trading employees. Taken together, a wholesale energy trading employee's base
20 pay, AIP and SIP are designed to compensate an employee at the median of the
21 market.

1 **Q. Is it reasonable for the Company to recover the cost of the SIP from retail**
2 **customers?**

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

8 **Q. How are energy trading margins shared with customers?**

9 A. Margin dollars that are generated through the energy trading process are shared
10 based on the established jurisdictional fuel clauses. In 2018, customers across
11 Xcel Energy received over \$97 million of the nearly \$124 million in margins
12 generated by Xcel Energy's Trading group. This established sharing program
13 provides an exceptional benefit, as the great majority of the value is provided
14 directly to customers.

15 **Q. Why is it reasonable and necessary to include SIP recovery in rate base?**

16 A. As described above, the resulting margins generated by the Energy Trading group
17 provide substantial benefit to customers. Across Xcel Energy, over 78 percent of
18 the value from trading activities was returned directly to customers. This effort
19 helps keep customer bills low, while the requested rate recovery is very
20 reasonable, as it is less than 1.5 percent of the overall margins generated. The
21 recovery is necessary as this SIP supplements the base pay and annual incentive
22 offered to this team of Energy Traders to make their targeted level of
23 compensation competitive with traders found in the job market. The program

1 offers a competitive incentive for generating higher margins, but also requires the
2 Energy Traders to operate efficiently and effectively to limit commodity and
3 credit risk.

4 **D. Long-Term Incentive Compensation (“LTI”)**

5 **Q. Please describe Xcel Energy’s long-term incentive program.**

6 A. Like the other Xcel Energy compensation programs, the LTI program is intended
7 to attract, retain, and motivate employees. LTI differs from AIP and other types
8 of compensation in that it is offered only to executives, senior management
9 employees, and senior exempt employees, as determined by market competitive
10 compensation designs. Like all other compensation components, LTI is necessary
11 to ensure that those employees’ compensation levels and the mix of compensation
12 are competitive.

13 **Q. Are long-term incentive programs commonly used in the utility industry?**

14 A. Yes. Long-term incentive programs are widely used compensation vehicles for
15 executives and certain non-executive employees, according to Willis Towers
16 Watson. Ninety-eight percent of the companies in the Willis Towers Watson
17 study provided LTI as a component of pay for their executives. These types of
18 programs create an incentive for eligible employees to engage in high-level
19 planning that will lead to benefits over the long-term. It also encourages those
20 employees to remain with Xcel Energy and to follow through on longer-term
21 decisions and projects, rather than only short-term windfalls.

1 **Q. Is SPS seeking recovery of all of the long-term incentive compensation paid**
2 **to eligible employees?**

3 A. No. SPS is not seeking recovery for the relative total shareholder return portion
4 of LTI, which is 50 percent of the executive LTI program.⁹ SPS is, however,
5 requesting recovery of the performance-based component of LTI related to Xcel
6 Energy’s environmental activities for executives, which I refer to as the
7 “environmental component” of the LTI. SPS also seeks recovery of the time-
8 based component of LTI related to executives and senior exempt participants.

9 **Q. Please generally describe the environmental component of the LTI program.**

10 A. Some of the performance-based shares granted to executives relate to the
11 environmental component of the LTI program, which ensures strong
12 environmental stewardship. The measurement for the environmental portion of
13 the performance shares is the three-year average percent reduction in carbon
14 emissions. The types of activities that affect the results are implementing
15 renewable energy resources, promoting energy efficiency programs, and
16 improving plant operations to reduce carbon output, among others. Because the
17 majority of Xcel Energy’s LTI for executives is performance-based, payout of
18 compensation occurs only when pre-defined performance goals are achieved. The
19 performance shares are granted in the first year, and the average performance is
20 measured at the end of the third year to determine the level of achievement.

⁹ Mr. Freitas has removed more than \$4.9 million from the Test Year cost of service related to LTI costs for Relative TSR for SPS total company.

1 **Q. Is it reasonable to grant rate recovery of LTI costs related to the**
2 **environmental component?**

3 A. Yes. The achievement of the environmental component directly benefits
4 customers and the public through prudently reducing air emissions and their
5 impact on the environment. Reducing carbon emissions is a reasonable and
6 accepted practice, including to reduce and mitigate risk associated with future
7 environmental regulation. It is also consistent with Xcel Energy’s goals to reduce
8 customer costs, as evidenced by the Commission’s recent approval of savings-
9 based renewable wind energy projects, such as the Hale Wind Farm (operational
10 in June 2019), that also enable Xcel Energy to achieve its long-term goals to
11 reduce and eliminate carbon-based energy production.

12 **Q. Please generally describe the time-based LTI for executives and senior**
13 **exempt employees.**

14 A. The time-based LTI is used to attract, retain and motivate eligible employees for
15 the reasons I discussed earlier — it ensures that those employees engage in long-
16 term planning for the benefit of the Company and that they remain with Xcel
17 Energy long enough to implement those long-term plans. Xcel Energy
18 accomplishes that goal by requiring a three-year vesting period for the LTI
19 payment. Employees who do not remain with Xcel Energy, with few exceptions,
20 forfeit the value of their LTI grants, and therefore a portion of their market-based
21 total compensation. The vesting period of LTI acts as an employee retention tool
22 for Xcel Energy.

1 Less than five percent of the non-bargaining employee population is
2 eligible for the LTI program. These employees are hired into hard-to-fill
3 positions that can be expensive and time consuming to fill. In the last ten years,
4 employees receiving LTI have a lower resignation rate than those not receiving
5 LTI (3.05 percent vs. 4.21 percent).

6 Retaining these experienced employees is also critical. This group of
7 employees has a significant impact on the direction, leadership and decision-
8 making within Xcel Energy and SPS, therefore, it is imperative that the
9 compensation value and design for these employees are comparable to the options
10 available in the market. The study conducted by Willis Towers Watson indicated
11 98 percent of the companies included in the results offered LTI as a component of
12 their compensation design.

13 **Q. Is it reasonable to grant rate recovery of LTI costs related to the time-based**
14 **executive and non-executive employees?**

15 A. Yes. The time-based component of LTI ensures that employees are making long-
16 term plans that align with strategic priorities and embarking on multi-year
17 projects that create stability for SPS's operations. Because payment of related
18 LTI compensation is contingent on the employee remaining with Xcel Energy for
19 an extended period of time, it requires employee commitment beyond a single
20 year. While this piece of the employee's compensation pie makes the employee
21 whole each year, the actual compensation is not realized until after the three-year
22 vesting period. As described above, employees forfeit this portion of their total

1 compensation, if they do not remain with Xcel Energy through this period. In
2 addition, the LTI costs for meeting the time-based component of the LTI program
3 are a reasonable and necessary cost of providing electric service to SPS's
4 customers.

5 **Q. How does the three-year performance period affect the accrual of LTI**
6 **expense for the cost of service?**

7 A. Accrual of LTI expense occurs ratably over a three-year period and, therefore,
8 reflects LTI plans in effect during each of the three years. Because the majority
9 (nine months) of the Test Year is 2018, costs for the 2016, 2017, and 2018 LTI
10 years are included in the Test Year cost of service.

11 **Q. What amounts for the LTI program were accrued for the 2018 Test Year**
12 **and included in SPS's cost recovery request?**

13 A. The respective accrual amounts are as follows in Table MTK-RR-8:

14 **Table MTK-RR-8**

LTI Component	SPS Total Company
Executive Environmental	\$1,459,025
Executive & Senior Exempt Time-based	\$1,742,035
Total	\$3,201,060

1 **Q. Although SPS is not requesting recovery for LTI expense associated with**
2 **Relative Total Shareholder Return (TSR), please explain Relative TSR and**
3 **the expense for the Test Year.**

4 A. Relative TSR is a measure of creating shareholder value compared to the utility
5 industry peer group. This portion of LTI is 50 percent of the LTI component for
6 executive-level leaders. The total SPS Test Year expense for this component was
7 \$4,942,447. This amount has been excluded from the request for recovery in this
8 case, however this is a reasonable and necessary expense.

9 **E. Recognition Programs**

10 **Q. Please summarize Xcel Energy's recognition programs.**

11 A. The recognition programs include a years-of-contribution program, a corporate
12 recognition program, and the Spot-On Award program. The years-of-contribution
13 program recognizes employee loyalty and cumulative career effort every five
14 years. The corporate recognition program provides thank-you cards, nominal gift
15 cards, small gifts, or items with the Xcel Energy logo to recognize individuals and
16 groups of employees for extraordinary performance. The Spot-On Award
17 program was created as a tool for managers to reward outstanding performance
18 for non-exempt, non-bargaining employees, who are generally not eligible to
19 receive AIP.

20 **Q. Are AIP-eligible employees also eligible for the Spot-On Award Recognition**
21 **Program?**

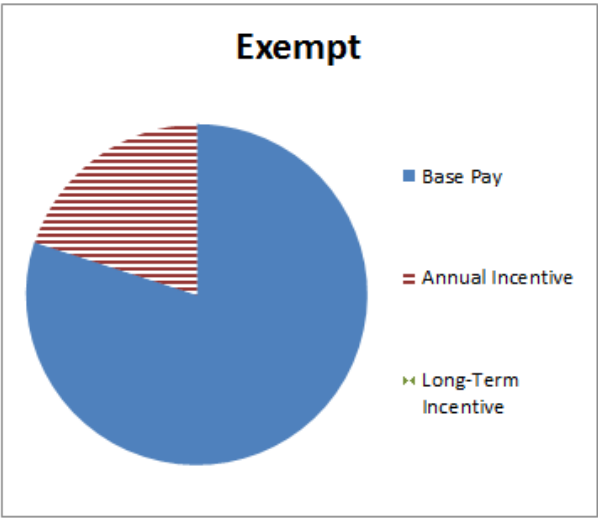
22 A. No. Employees eligible for the AIP are not eligible for awards under the Spot-On
23 Award Program.

1 which I discuss below. The analysis included compensation information related
2 to exempt and executive employees. This study has been submitted as
3 Confidential Attachment MTK-RR-2.

4 **Q. In the previous response, you used the phrases “total cash compensation”**
5 **and “total direct compensation.” What is the difference between those**
6 **concepts?**

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

13 **Chart MTK-RR-5**

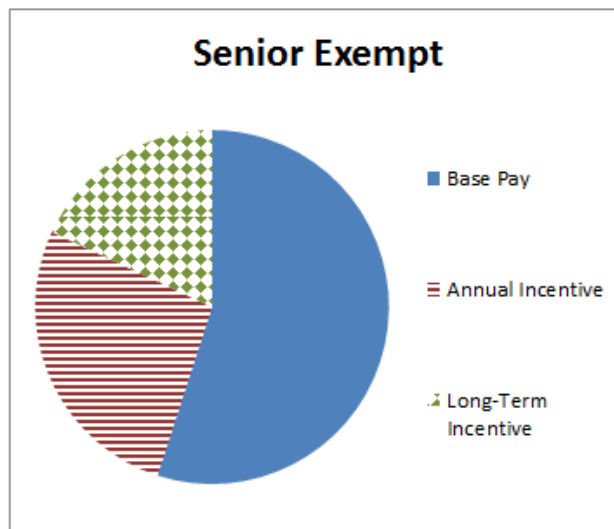


14 For illustrative purposes only

15
16 Total direct compensation is used to describe the compensation package
17 offered to highly specialized or senior-level talent and leadership employees who

1 are eligible for LTI. Total direct compensation includes base pay plus short-term
2 incentive compensation (AIP) and long-term incentive (LTI) (Chart MTK-RR-6).
3 This third element of compensation, LTI, provides Xcel Energy with a market-
4 based attraction and retention compensation vehicle, as the long-term incentive
5 offered requires a three-year vesting period before payment in most
6 circumstances. These three elements make up all (100 percent) of the
7 compensation for this group of eligible employees.

8 **Chart MTK-RR-6**



9
10 For illustrative purposes only

11 **Q. Please describe the specific elements of the 2018 Willis Towers Watson**
12 **compensation study.**

13 A. The 2018 Willis Towers Watson Compensation Study compared Xcel Energy's
14 level of compensation to the median and average levels of compensation paid by
15 the comparison groups. The 2018 Willis Towers Watson Compensation Study
16 includes the following elements:

- 1 • Xcel Energy’s total cash compensation levels, which are base salary plus
2 target annual incentive compensation, were compared with competitive
3 market target total cash compensation levels;
- 4 • Xcel Energy’s total direct compensation levels, which are base salary plus
5 target annual incentive plus long-term incentive compensation, were
6 compared with total target compensation levels offered in the market;
- 7 • Xcel Energy’s base salary levels were compared with competitive market
8 total base salary levels;
- 9 • Xcel Energy’s annual incentive targets were compared with market annual
10 incentive targets; and
- 11 • Xcel Energy’s long-term incentive targets were compared with the market
12 long-term incentive targets.

13 **Q. What comparison groups were used in the 2018 Willis Towers Watson**
14 **compensation study?**

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

21 **Q. What were the results of the 2018 Willis Towers Watson compensation**
22 **study?**

23 A. As shown on Table MTK-RR-10, the 2018 Willis Towers Watson Compensation
24 Study finds that with the inclusion of AIP, Xcel Energy’s median total cash
25 compensation levels are generally in line with other utilities, although they fall
26 below market. Without the target-level AIP, the median total cash compensation
27 provided would be well below the overall utility market, which shows that not

offering AIP would put Xcel Energy at a material disadvantage in the competition for employees.

Similarly, Xcel Energy's compensation would be at an unacceptably low level with regard to total direct compensation for certain employee groups if it did not provide a competitive LTI package for its executive and senior exempt talent and leadership. Long-term incentives are a significant portion of the compensation package offered to attract, retain and motivate this group of employees to design, organize, lead and manage one of the most forward-looking utilities in the country.

Table MTK-RR-10

Components of Xcel Energy Compensation	Compared to Base Salaries and Incentives of U.S. Utilities (National Sample)	Compared to Base Salaries and Incentives of U.S. Utilities with Similar Revenues (Revenue Sample)
Base Salary Only (excludes Target AIP)	Below Market by 11.8%	Below Market by 15.3%
Target Total Cash Compensation (Base Salary + Target AIP)	Above Market by 3.1%	Below Market by 1.0%
Base Salary Only (excludes Target AIP and Target LTI*)	Below Market by 19.0%	Below Market by 22.8%
Base Salary + Target AIP (excludes Target LTI*)	Below Market by 5.3%	Below Market by 9.7%
Target Total Direct Compensation (Base + Target AIP + Target LTI*)	Above Market by 8.5%	Above Market by 2.9%

* Includes those eligible for LTI

1 **Q. Of the two columns in Table MTK-RR-10, which group does Xcel Energy**
2 **consider to be a better comparator group for analyzing the reasonableness of**
3 **Xcel Energy’s compensation components?**

4 A. While both the National Sample and Revenue Sample provide good points of
5 comparison, references to utilities with revenues comparable to Xcel Energy are
6 more informative than comparisons to an array of utilities throughout the United
7 States. The Revenue Sample is more informative because it is more
8 representative of the total compensation package design for large utilities. The
9 National Sample includes many smaller regional utilities that may not have the
10 same total compensation design structure as Xcel Energy, as some may not
11 include LTI when they are not publicly traded companies or they reduce the total
12 compensation package based on the overall size of their company.

13 **Q. What may be driving the Above Market results shown in Table MTK-RR-**
14 **10?**

15 A. While reviewing both samples of data, those data representing a value of plus or
16 minus ten percent are typically considered to be within market tolerances. When
17 reviewing the Total Target Direct comparison to the National Sample, which is
18 also within this tolerance, the LTI component of pay may not be offered by
19 smaller regional utilities, as described above. For this reason, it does not provide
20 an entirely comparable point of comparison for Xcel Energy.

21 **Q. What do you conclude from the 2018 Willis Towers Watson Compensation**
22 **Study?**

23 A. The study illustrates that Xcel Energy’s compensation structure (i.e., both base
24 salary and the AIP) provides a market level of compensation, which confirms that

1 the Company's requested compensation expense in the Test Year is appropriate
2 and reasonable. The study also confirms that the target level annual incentives
3 provided to employees through the AIP are aligned with those for similar
4 positions in the competitive market. Without the AIP, however, Xcel Energy's
5 total cash compensation would significantly lag behind the market by 15.3 percent
6 (compared to utilities with similar revenues), which would put Xcel Energy at a
7 material disadvantage when competing for skilled employees. For example, if the
8 Company were authorized to recover only base pay and not also AIP costs, it
9 would be collecting only 85percent of the reasonable and necessary costs it incurs
10 to compensate employees.

11 Additionally, the study confirms that the level of LTI offered to eligible
12 employees is both in-line with the market and a necessary component of pay for
13 executives, other senior management and senior specialized employees to fully
14 reach their market-based level of compensation. Similarly, the study confirms
15 that without offering LTI, Xcel Energy's total direct compensation for those
16 employees would lag behind the market by 9.7 percent compared to utilities with
17 similar revenues.

18 In total, not offering AIP and LTI would significantly hamper Xcel Energy
19 from attracting, retaining and motivating eligible employees because the study
20 shows the levels of compensation would be 22.8 percent below market
21 competitive levels compared to utilities with similar revenues.

1 **Q. Are Xcel Energy’s compensation programs and related costs necessary and**
2 **reasonable?**

3 A. Yes. SPS and Xcel Energy must provide a market-competitive level of total cash
4 compensation to attract and retain the employees who provide safe and reliable
5 electric service to the Company’s customers. Furthermore, base pay coupled with
6 the AIP is an appropriate method of providing market competitive total cash
7 compensation because it includes some form of fixed base pay in addition to an
8 incentive opportunity that requires an individual employee to perform at expected
9 levels in order to be compensated in a competitive way.

10 In order to have a competitive compensation program design, a
11 combination of base pay and incentive opportunities is necessary to attract and
12 retain employees at higher levels within SPS and Xcel Energy. This can only be
13 done with the inclusion of LTI. The design of the LTI program and the levels of
14 LTI offered to select groups of employees are market-based and require a greater
15 level of commitment from these employees before this form of compensation is
16 realized. Without this element of compensation, employees in these eligible
17 positions would not have access to a competitively designed compensation
18 package, and Xcel Energy would be at a great risk of not being able to attract or
19 retain employees in these positions. Without LTI, Xcel Energy would be
20 misaligned with market best practices regarding compensation plan design.
21 However, Xcel Energy would still be required to provide competitive
22 compensation in another manner to attract, retain and motivate these groups of
23 critical employees. Offering all (100 percent) compensation through base pay

1 would result in higher fixed costs for SPS. Xcel Energy would also lose the
2 motivational tool incentive pay provides and would not have the ability to vary
3 employee compensation based on performance of the company or the employee.

4 **Q. Do SPS's Texas retail customers benefit from Xcel Energy's ability to**
5 **provide market-competitive compensation?**

6 A. Yes. Providing market-competitive compensation is necessary to attract, retain,
7 and motivate experienced and talented employees, and these employees perform
8 the work necessary to provide quality electric service to SPS's customers. For
9 example, Xcel Energy's ability to attract and retain qualified engineers, plant
10 managers, and other professional positions would be adversely affected if Xcel
11 Energy did not offer market competitive compensation.

12 Market competitive compensation is important in attracting employees
13 with the specialized knowledge and skills necessary to provide safe and reliable
14 electric service. Without competitive compensation, SPS would likely lose these
15 skilled employees, resulting in added costs associated with recruitment and
16 training, as well as a loss in productivity.

17 **Q. Do you have any further comments regarding the reasonableness and**
18 **necessity of Xcel Energy's compensation programs?**

19 A. Yes. Xcel Energy is operating a large business in a competitive market place.
20 The ability to provide customers with safe and reliable electric service all day,
21 every day, requires an array of employees with a variety of skills and experience.
22 Xcel Energy is required to pay these employees a competitive compensation
23 package, which makes the levels of compensation I address above a necessity.

1 The reasonableness of the compensation levels compared to the market in which
2 the Company and Xcel Energy compete is shown above in Table MTK-RR-10.

3 **Q. Are you aware of the way in which any other commission or commission staff**
4 **have viewed these issues?**

5 A. Yes. While not affiliated with this proceeding, Kim Davis from the Commission
6 Staff in Arkansas testified, “compensation practices, costs and the mix of pay and
7 benefits plans, as well as industry trends and economic conditions are materially
8 different today than existed in the early 1990s. These facts alone warrant
9 reconsideration by the Commission of how compensation, including incentive
10 compensation, is treated for rate-making purposes.”¹⁰

11 Additionally, a 2012 article in Public Utility Fortnightly explained that,
12 “[s]ome U.S. regulatory commissions have explicitly acknowledged that utilities’
13 employee compensation strategies are developed to attract, retain, and motivate
14 employees, and that the proper concern of regulators is whether a utility can
15 demonstrate that the overall level of employee compensation expenses is
16 reasonable. These regulators have established criteria, including labor market
17 rates, for evaluating reasonable compensation levels, but they recognize that the
18 allocation of the package over its various components, including incentive
19 compensation, is a matter best left to management.”¹¹

¹⁰ http://www.apscservices.info/pdf/15/15-098-U_127_1.pdf (page 12-13)

¹¹ <https://www.fortnightly.com/fortnightly/2012/03/labor-costs-and-rate-case>

1 **Q. Earlier you defined the employment and compensation market. With whom**
2 **does Xcel Energy compete for employees?**

3 A. Xcel Energy principally competes for employees with utility-sector employers,
4 but also competes with non-utility sector employers. Utility-sector competition
5 generally takes place for jobs specific to utility operations and the delivery of
6 utility services, such as control center operators, engineers, plant operators,
7 technicians, welders, and machinists. Xcel Energy also competes with other
8 utilities for corporate employees such as regulatory accountants and load
9 forecasters who skills sets are uniquely suited for utility work. In addition, Xcel
10 Energy competes with non-utility employers for jobs that are not specific to
11 utilities, such as finance and accounting analysts, marketing analysts, designers,
12 information technology specialists, customer service representatives, and
13 leadership in various areas.

14 **Q. Although Xcel Energy strives to provide market-competitive compensation to**
15 **non-bargaining employees, do SPS and XES still experience challenging**
16 **levels of attrition?**

17 A. Yes. Both XES and SPS are experiencing challenging attrition rates for
18 non-bargaining employees, as depicted in Table MTK-RR-11 below:

19 **Table MTK-RR-11**

20 **Attrition by Year (non-bargaining employees)**

	2013	2014	2015	2016	2017	2018	2019 (Full Year Projected)*
SPS	7.8%	7.6%	10.6%	8.0%	9.9%	8.8%	9.8%
XES	9.5%	14.8%	14.1%	11.2%	14.0%	15.3%	13.4%

21 *Projections based on 2019 first quarter actuals

1 **Q. To what do you attribute the challenging levels of attrition?**

2 A. The attrition levels are the result of: (1) the market’s need for the types of skills
3 and training that SPS and XES employees possess, for example, engineers, safety
4 consultants, designers, technical instructors, load forecasters, and environmental
5 analysts; (2) the competition for similar talent and experience due to strong Texas
6 job growth;¹² and (3) retirement of our seasoned workforce.

7 **Q. Please describe the circumstances SPS faces in Texas in terms of competing**
8 **for employees.**

9 A. Regarding the operations in SPS service territory, there is a labor shortage. As
10 noted in a 2018 Houston Chronicle article, “nearly all of the workers who want
11 jobs in the Permian’s 17 counties are employed, according to the Planning
12 Commission.”¹³ The Bureau of Labor Statistics indicated the Texas
13 unemployment rate in April 2019 was 3.7 percent. During that same period, the
14 Amarillo unemployed rate was 2.1 percent. For these reasons, Xcel Energy and
15 SPS must be diligent in working to retain existing employees, as well as try to
16 attract new employees.

17 **Q. Do you have concerns regarding the attrition levels that SPS and XES are**
18 **experiencing for non-bargaining employees?**

19 A. Yes. On a going-forward basis, Xcel Energy projects that attrition will remain at
20 the same level or rise; particularly as many members of Xcel Energy’s seasoned

¹² <https://texaslmi.com/EconomicProfiles/MSAProfiles> and
https://lmci.state.tx.us/shared/PDFs/Report_on_Texas_Growth_Occupations_2018.pdf

¹³ <https://www.houstonchronicle.com/business/article/Labor-shortages-in-West-Texas-getting-worse-12790619.php>

1 workforce retire. In fact, 41% of Xcel Energy's workforce will be eligible to
2 retire in the next 10 years. SPS will have approximately 33 percent of their
3 employees eligible to retire in the next 10 years. Thus, SPS expects to replace a
4 large portion of its workforce, including many employees with specialized
5 knowledge and significant experience.

6 **Q. Does SPS experience competition in recruiting and retaining employees?**

7 A. Yes. Prospective employees with the skills and training required for the utility
8 industry are in high demand. Many of the SPS and XES jobs require strong
9 science, technology, engineering, and math skills. Contracting firms, utilities, and
10 other sectors of both the energy and non-energy industries need these employees,
11 too. Thus, SPS experiences steep competition in attracting and retaining these
12 employees.

13 In addition, SPS continues to see an imbalance in the supply and demand
14 of engineers across a broad spectrum of production industries. There is a limited
15 pool of candidates for many engineering jobs within SPS, and SPS competes for
16 qualified candidates on a national and regional level as well.

17 **Q. Please provide examples of SPS's and Xcel Energy's recruiting challenges.**

18 A. As noted above, SPS competes with other utilities and consulting firms, which
19 generally offer significantly higher pay and benefits according to feedback
20 received from job candidates. Twenty-five percent of the 200 plus SPS-specific
21 jobs filled during the Test Year were Science, Technology, Engineering and
22 Mathematics (STEM) jobs. Many of the jobs are specific to engineering at
23 various experience levels, information technology support and analysis, and

1 operational leadership. Xcel Energy employs people in each of these positions,
2 and we experience the additional challenge of trying to recruit these specialties in
3 rural locations and employee relocation situations.

4 **Q. What do the recruiting challenges, the attrition data, and retirement outlook**
5 **mean regarding the necessity to provide market-competitive compensation?**

6 A. Given the current environment in which attrition and competition for employees
7 is steadily increasing, and while at the same time 41percent of Xcel Energy's
8 workforce, including 33 percent of employees within SPS, will be eligible to
9 retire in the next 10 years, it is imperative that SPS continue to provide market-
10 competitive compensation to employees who provide safe, reliable electric service
11 to SPS's customers. Thus, the Commission, SPS, and SPS's customers should be
12 aligned in supporting SPS's request to recover its reasonable and necessary
13 compensation expenses that are incurred to compensate employees consistent
14 with the compensation offered in the market by other employers.

15 **G. Benefits**

16 **Q. What benefits does Xcel Energy provide to employees?**

17 A. Xcel Energy provides a comprehensive benefit program to all of its benefit-
18 eligible employees, including employees of SPS and its affiliates. These
19 programs include coverage for medical, dental, vision, life insurance, short-and
20 long-term disability, employee assistance programs, adoption assistance, tuition
21 assistance, pre-tax reimbursement accounts, paid time off, 401(k) savings plans,
22 pension, and other post-retirement benefits.

1 **Q. Please briefly summarize the features of Xcel Energy’s retirement programs.**

2 A. Xcel Energy’s pension or defined benefit programs are non-contributory
3 programs (i.e., programs to which employees do not contribute), which provide
4 retirement benefits to eligible employees. The 401(k) savings plan encourages
5 employees to save regularly for their retirement through pre-tax and after-tax
6 employee deferrals and provides an employer matching contribution. The amount
7 of the employer contribution is 50percent of employee contributions up to
8 8percent of pay, which results in a maximum employer contribution of 4percent
9 of eligible pay.

10 **Q. Has Xcel Energy taken any steps to manage costs related to retirement**
11 **programs?**

12 A. Yes. Effective January 1, 2012, bargaining and non-bargaining new hires and
13 rehired employees are no longer eligible for legacy pension plan formulas, which
14 provided a higher level of benefit. Instead, these employees participate in a 5
15 percent Cash Balance Plan formula without pension supplements (i.e., Retirement
16 Savings Account or Social Security Supplement) or retiree medical subsidies.
17 Mr. Schrubbe addresses how the retiree medical plan design changes have
18 assisted in lowering the overall level of retiree medical expense that SPS seeks to
19 recover in its requested revenue requirement.

20 Effective January 1, 2018, the annual Retirement Spending Account
21 credits were eliminated on a go-forward basis for all non-bargaining employees,
22 and the Social Security Supplement was eliminated for all non-bargaining
23 employees who will not meet retirement eligibility by December 31, 2022.

1 **Q. Please explain the Cash Balance Plan formula.**

2 A. Through the Cash Balance Plan formula, each year participants earn a 5 percent
3 benefit on eligible wages, which has interest credited annually. This interest
4 bearing account will provide a monetary benefit to the employee upon retirement
5 or leaving the company. The interest is based on the 30-year treasury rate based
6 on November from the prior year and has no minimum guarantees. This plan acts
7 similarly to a savings account or a 401(k) plan and will reduce Xcel Energy's
8 pension obligations prospectively compared to the legacy employee benefits
9 programs.

10 **Q. Please briefly summarize the features of Xcel Energy's health benefits**
11 **programs.**

12 A. In the health care arena, Xcel Energy offers employees one medical plan option,
13 the High Deductible Health Plan ("HDHP") with a Health Savings Account
14 ("HSA"). Non-bargaining employees and their eligible dependents are
15 responsible for an upfront annual deductible of \$2,400 per individual or \$4,800
16 per family (in-network). After the deductible is satisfied, the plan covers 80
17 percent of costs, with employees or their dependents contributing 20 percent of
18 costs until they reach an annual out-of-pocket maximum, which is \$3,500 per
19 individual or \$7,000 per family. After the out-of-pocket maximum is met, the
20 plan covers the remaining eligible medical and pharmacy expenses for the
21 calendar year. The HSA is a tax-advantaged medical savings account that Xcel
22 Energy offers to employees to provide a vehicle for them to save for their out-of-
23 pocket costs under the plan.

1 Effective May 1, 2017, as part of Union negotiations, SPS bargaining
2 employees asked to move from the HDHP to a multi-employer union plan, called
3 the Family Medical Care Plan (“FMCP”). This plan is managed outside of Xcel
4 Energy, and I explain some of the details of the FMCP below.

5 **Q. Has Xcel Energy undertaken any initiatives to slow the rate of growth in**
6 **health and welfare related benefit costs?**

7 A. Yes. Over the past several years, Xcel Energy has made several design changes
8 and undertaken an array of initiatives to help mitigate health care costs. These
9 initiatives include:

- 10 • Xcel Energy offers a HDHP medical plan with a focus on individual
11 consumerism and wellness to encourage healthier lifestyle choices;
- 12 • Xcel Energy’s pharmacy coverage mandates generic prescriptions be used
13 when available to help mitigate pharmacy costs, unless there is a specific
14 medical need dictating a name-brand prescription;
- 15 • SPS bargaining employees hired after January 1, 2012 no longer receive
16 post-retirement medical benefits. This change will reduce Xcel Energy’s
17 future Other Post Employment Benefit costs prospectively;
- 18 • Vendor contracts are continually monitored and renegotiated with benefit
19 vendors on an ongoing basis. These negotiations focus on administrative
20 fee reductions, better performance guarantees and rebates, and improved
21 discounts on provider networks. All contribute to our ability to minimize
22 rising healthcare costs and benefit administration costs charged by third
23 parties;
- 24 • Effective January 2017, Xcel Energy introduced a monthly premium
25 surcharge for non-bargaining employees for coverage of a spouse when
26 the spouse’s employer offers medical coverage;
- 27 • Effective April 2017, Xcel Energy has outsourced the Family Medical
28 Leave Act administration, resulting in greater efficiencies, as well as cost
29 savings;
- 30 • Effective May 1, 2017, as part of Union negotiations, SPS bargaining
31 employees asked to move from the HDHP to a union plan, called the

1 FMCP. SPS agreed because the change provided an opportunity to
2 mitigate costs and risk through this insured plan, especially as the FMCP
3 agreed to include zero premium increase in 2018 and cap financial risk for
4 2019 at the same trend experienced with the current HDHP (i.e., 6
5 percent);¹⁴ and

- 6 • Effective January 2018, Xcel Energy introduced a monthly premium for
7 non-bargaining employees and spouses who are enrolled in the medical
8 plan and are tobacco users.

9 **Q. Are Xcel Energy's benefits programs and their costs necessary and**
10 **reasonable?**

11 A. Yes. Xcel Energy provides competitive benefit programs that are necessary to
12 attract and retain a qualified, skilled workforce. Based upon my experience
13 designing, implementing, and administering benefits plans, and my familiarity
14 with corporate benefits practices, Xcel Energy's benefit plans are reasonable,
15 appropriate, and competitive. For these reasons, SPS should be authorized to
16 recover its Test Year benefits costs.

¹⁴ As discussed earlier, there is an existing CBA, which expires in 2019.

1 **IV. AFFILIATE CLASSES SPONSORED**

2 **Q. Earlier in your testimony, you referred to “affiliate classes.” What do you**
3 **mean by the terms “affiliate classes” or “affiliate classes of services”?**

4 A. A portion of SPS’s costs reflects charges for services provided by a supplying
5 affiliate, specifically XES or one of the Operating Companies. These charges
6 have been grouped into various affiliate classes, or aggregations of charges, based
7 upon the business area, organization or department that provided the service or, in
8 a few instances, the accounts that captured certain costs. In her direct testimony,
9 Ms. Schmidt provides a detailed explanation of how the affiliate classes were
10 developed and are organized for this case.

11 **Q. Which affiliate classes do you sponsor?**

12 A. I sponsor costs for the Human Resources and SS Company Benefits classes of
13 affiliate services.

14 **Q. Please briefly explain the issues and related costs you will address in this**
15 **section of your testimony.**

16 A. The estimated Updated Test Year costs¹⁵ that SPS seeks to recover for the
17 services of the Human Resources and SS Company Benefits affiliate classes are
18 reasonable and necessary because they support SPS’s ability to provide electric
19 service to its Texas retail customers. Specifically, SPS seeks to recover
20 \$2,401,800.80 (total SPS before jurisdictional allocation, or “Total Company”)
21 for the services of the Human Resources affiliate class and \$2,530,917.57 (Total

¹⁵ This amounts listed below reflect nine months of actual costs and three months of estimated costs.

1 Company) for the services of the SS Company Benefits affiliate class. In
2 addition, my testimony below shows for each of these affiliate classes of services:

- 3 • The costs are for services that are necessary to manage the large
4 workforce needed for SPS's operations, including: recruiting,
5 hiring, and retaining employees; training and developing
6 employees; implementing employee compensation and benefit
7 programs; addressing day-to-day personnel and workplace
8 practices; and providing oversight, management, and planning
9 services related to labor and employee issues.
- 10 • The costs are reasonable because they are shared with other
11 affiliates, consist primarily of reasonable personnel costs, and are
12 subjected to rigorous budgeting and cost control processes.
- 13 • SPS does not provide these services for itself, and the services do
14 not duplicate services provided by others.
- 15 • Each charge from SPS's affiliates for these services is billed at cost
16 and is no higher than the charge by those affiliates to any other
17 entity for the same or similar service.

1 **V. AFFILIATE EXPENSES FOR THE HUMAN RESOURCES**
2 **CLASS OF SERVICES**

3 **A. Summary of Affiliate Expenses for the Human Resources Class of**
4 **Services**

5 **Q. Where does the Human Resources affiliate class fit into the overall affiliate**
6 **structure?**

7 A. Attachment MLS-RR-6 to Ms. Schmidt's direct testimony provides a list and a
8 pictorial display of all affiliate classes, dollar amounts for those classes, and
9 sponsoring witness for each class. As seen on that attachment, the Human
10 Resources affiliate class was part of the Utilities & Corporate Services business
11 area during the Updated Test Year. Attachment MTK-RR-4 to my testimony is
12 an organization chart showing the Human Resources ("HR") and Benefits Related
13 organization.

14 **Q. What services are grouped into the Human Resources affiliate class?**

15 A. The services that are grouped into the Human Resources affiliate class consist of
16 four areas: Workforce Strategy and Consulting; Talent Management (Staffing,
17 Recruiting, equal employment opportunity ("EEO") and Employee Relations, and
18 Learning and Development); Total Rewards (Employee Benefits for Retirement
19 and Health and Welfare, Compensation, Payroll, and HR Operations); and HR
20 Strategy and Performance (Strategy, Workforce Planning, and Analytics).

21 **Q. What is the dollar amount of the Updated Test Year XES charges that SPS**
22 **requests, on a Total Company basis, for the Human Resources affiliate class?**

23 A. Table MTK-RR-9 summarizes the estimated dollar amount of the Updated Test
24 Year XES charges for the Human Resources affiliate class. I will update the table

below as part of SPS’s 45-day case update filing to reflect the actual Updated Test Year costs for the Human Resources affiliate class.

Table MTK-RR-9

		Requested Amount of XES Class Expenses Billed to SPS (Total Company)		
Class of Services	Total XES Class Expenses	Requested Amount	% Direct Billed	% Allocated
Human Resources	\$17,848,879	\$2,401,800	5.01%	94.99%

Total XES Class Expenses

Dollar amount of total Updated Test Year expenses that XES charged to all Xcel Energy companies for the services provided by this affiliate class. This is the amount from Column E in Attachment MTK-RR-A.

Requested Amount of XES Class Expenses Billed to SPS (Total Company)

Requested dollar amount of XES expenses to SPS (total company) for this affiliate class after exclusions and pro forma adjustments. This is the amount from Column K in Attachment MTK-RR-A.

% Direct Billed

The percentage of SPS’s requested XES expenses (total company) for this class that were billed 100% to SPS.

% Allocated

The percentage of SPS’s requested XES expenses (total company) for this class that were allocated to SPS.

Q. Please describe the attachments that support the information provided on Table MTK-RR-9.

A. There are four attachments to my testimony that present information about the requested SPS affiliate expenses for the Human Resources affiliate class.

1 **Attachment MTK-RR-A:** Provides a summary of the affiliate expenses
2 for this class during the Updated Test Year. The portion of the summary
3 specifically to billings to SPS starts with the total of the XES expenses to SPS for
4 the services provided by this affiliate class and ends with the requested dollar
5 amount of XES expenses to SPS (total company) for this affiliate class after
6 exclusions and pro forma adjustments. The columns on this attachment provide
7 the following information.

Column A —	Line No.	Lists the Attachment line numbers.
Column B —	Affiliate Class	Lists the affiliate class.
Column C —	Billing Method (Cost Center) ¹⁶	Shows the billing method that XES uses to charge the expenses to the affiliates, and the billing method short title. In her direct testimony, Ms. Schmidt explains the billing methods and defines the codes.
Column D —	Allocation Method	Shows the allocation method applicable to the billing method (cost center).
Column E —	Total XES Billings for Class to all Legal Entities (FERC Acct. 400-935)	Shows XES billings to all legal entities for the affiliate class.
Column F —	XES Billings for Class to all Legal Entities Except for SPS (FERC 400-935)	Shows XES billings to all legal entities except SPS for the affiliate class.

¹⁶ For convenience, SPS is using the term “cost center” in this column heading to refer to both cost centers and cost centers. As discussed by Ms. Schmidt, cost centers are used for allocated charges and cost centers are used for direct charges.

Column G —	XES Billings for Class to SPS (Total Company) (FERC Acct. 400-935)	Shows XES billings to SPS (total company) for the affiliate class.
Column H —	Exclusions	Shows the total dollars to be excluded from Column G. Exclusions reflect expenses not requested, such as expenses not allowed or other expenses from the cost of service.
Column I —	Per Book	Shows XES billings to SPS (total company), for the affiliate class, after the exclusions shown in Column H. The dollar amount in Column I is Column G plus Column H.
Column J —	Pro Formas	Shows the total dollar amount of pro forma adjustments to the dollar amount in Column I. Pro forma adjustments reflect revisions for known and measurable changes to the Updated Test Year expenses.
Column K —	Requested Amount (Total Company)	Shows the requested amount (total company) for the affiliate class. The dollar amount in Column K is Column I plus Column J.
Column L —	% of Class Charges	Shows the percentage of affiliate class charges billed using the cost center.

1 In her direct testimony, Ms. Schmidt provides a consolidated summary of
2 affiliate expenses billed to SPS for all classes during the Test Year and Updated
3 Test Year.

4 **Attachment MTK-RR-B(CD):** Provides the detail of the XES expenses
5 for the Human Resources affiliate class that are summarized on Attachment
6 MTK-RR-A. The detail shows the XES expenses billed to SPS for the Human
7 Resources affiliate class, itemized by the amount, with each expense listed by

1 individual activity and billing method (cost center). When summed, these
2 amounts tie to the amounts shown on Attachment MTK-RR-A, and the detail
3 regarding the expenses is organized to support that attachment. Specifically, the
4 columns on this attachment provide the following information.

Column A —	Line No.	Lists the Attachment line numbers.
Column B —	Legal Entity Receiving XES Expenses	Shows the legal entity (Xcel Energy or one of its subsidiaries) that received the XES expense.
Column C —	Affiliate Class	Lists the affiliate class.
Column D —	Cost Element	Provides the cost element number.
Column E —	Activity	Provides a short title for the activity.
Column F —	Billing Method (Cost Center)	Identifies the billing method and short title. In her direct testimony, Ms. Schmidt explains the billing methods and defines the codes.
Column G —	FERC Account	Shows the FERC Account in which the expense was recorded for the operating companies.
Column H —	Total XES Billings for Class to all Legal Entities (FERC Acct. 400-935)	Shows the itemized amount of the listed XES expense that was billed to all legal entities for the affiliate class.
Column I —	XES Billings for Class to all Legal Entities Except SPS (FERC Acct. 400- 935)	Shows the itemized amount of the listed XES expense that was billed to all legal entities except SPS for the affiliate class.

Column J —	XES Billings for Class to SPS (Total Company) (FERC Acct. 400-935)	Shows the itemized amount of the listed XES expense that was billed to SPS for the affiliate class. Therefore, the sum of this column provides total billings to SPS and ties to the total dollar amount for the affiliate class in Column G of Attachment MTK-RR-A.
Column K —	Exclusions	Shows the total dollars excluded from Column J. The total dollar amount for the affiliate class in Column K ties to the total dollar amount for the affiliate class in Column H of Attachment MTK-RR-A.
Column L —	Per Book	Shows XES billings to SPS (total company) for the affiliate class after the exclusions shown in Column K. The dollar amount in Column L is Column J plus Column K. The total dollar amount for the affiliate class in Column L ties to the total dollar amount for the affiliate class in Column I of Attachment MTK-RR-A.
Column M —	Pro Formas	Shows the dollar amount of pro forma adjustments to the dollar amount in Column L. The total dollar amount for the affiliate class in Column M ties to the total dollar amount for the affiliate class in Column J of Attachment MTK-RR-A.
Column N —	Requested Amount (Total Company)	Shows the requested amount (total company) for the affiliate class. The dollar amount in Column N is Column L plus Column M. The total dollar amount for the affiliate class in Column N ties to the total dollar amount for the affiliate class in Column K of Attachment MTK-RR-A.

1 Ms. Schmidt also provides a consolidated summary of this information for
2 all affiliate classes during the Test Year and the Updated Test Year.

1 **Attachment MTK-RR-C:** Both Attachments MTK-RR-A and
2 MTK-RR-B(CD) show exclusions to the XES expenses billed to SPS for the
3 Human Resources affiliate class (Attachment MTK-RR-A, Column H;
4 Attachment MTK-RR-B(CD), Column K). Attachment MTK-RR-C provides
5 detail about those exclusions listed on Attachments MTK-RR-A and
6 MTK-RR-B(CD). The columns on Attachment MTK-RR-C provide the
7 following information.

Column A —	Line No.	Lists the Attachment line numbers.
Column B —	Affiliate Class	Lists the affiliate class.
Column C —	FERC Account	Identifies the FERC Account and FERC Account description for the expense that has been excluded.
Column D —	Explanations for Exclusions	Provides a brief rationale for the exclusion.
Column E —	Exclusions (Total Company)	Shows the dollar amount of the exclusion.

8 In her direct testimony, Ms. Schmidt describes the calculations underlying
9 the exclusions.

10 **Attachment MTK-RR-D:** Both Attachments MTK-RR-A and
11 MTK-RR-B(CD) show pro forma adjustments to SPS's per book expenses for the
12 Business Systems affiliate class (Attachment MTK-RR-A, Column J; Attachment
13 MTK-RR-B(CD), Column M). Attachment MTK-RR-D provides information
14 about those pro forma adjustments shown on Attachments MTK-RR-A and
15 MTK-RR-B(CD). The columns on Attachment MTK-RR-D provide the
16 following information.

Column A —	Line No.	Lists the Attachment line numbers.
Column B —	Affiliate Class	Lists the affiliate class.
Column C —	FERC Account	Identifies the FERC Account and FERC Account description affected by the pro forma adjustment.
Column D —	Explanations for Pro Formas	Provides a brief rationale for the pro forma adjustment.
Column E —	Sponsor	Identifies the witness or witnesses who sponsor the pro forma adjustment.
Column F —	Pro Formas (Total Company)	Shows the dollar amount of the pro forma adjustment.

1 **Q. Does XES bill its expenses for the Human Resources affiliate class to SPS in**
2 **the same manner as it bills other affiliates for those expenses?**

3 A. Yes. As discussed by Ms. Schmidt, XES uses the same method for billing and
4 allocating cost to affiliates other than SPS that it uses to bill and allocate those
5 costs to SPS.

6 **Q. Are there any exclusions to the XES billings to SPS for the Human Resources**
7 **affiliate class?**

8 A. Yes. As I mentioned earlier, exclusions reflect expenses not requested, such as
9 expenses not allowed or other below-the-line items. Exclusions are shown on
10 Attachment MTK-RR-A, Column H, and on Attachment MTK-RR-B(CD),
11 Column K. The details for the exclusions are provided in Attachment
12 MTK-RR-C. Ms. Schmidt describes how the exclusions were calculated. In
13 SPS's 45-day case update, I will present an updated Attachment MTK-RR-C that
14 will provide actual exclusions to replace any estimated exclusions included in my
15 original attachment.

- 1 **Q. Are there any pro forma adjustments to SPS's per book expenses for the**
2 **Human Resources affiliate class?**
- 3 A. Yes. As I mentioned earlier, pro forma adjustments are revisions to Updated Test
4 Year expenses for known and measurable changes. Pro forma adjustments are
5 shown on Attachment MTK-RR-A, Column J, and on Attachment
6 MTK-RR-B(CD), Column M. The details for the pro forma adjustments,
7 including the witness or witnesses who sponsor each pro forma adjustment, are
8 provided in Attachment MTK-RR-D. Given the time of SPS's initial filing, only
9 the first nine months of the Updated Test Year have completed the full pro forma
10 adjustment review process. In SPS's 45-day case update, I will present an
11 updated Attachment MTK-RR-D that will complete the full pro forma adjustment
12 review process for the last three months of the Updated Test Year.
- 13 **Q. Attachment MTK-RR-D shows that you sponsor pro forma adjustments for**
14 **expenses for the Human Resources affiliate class during the first nine months**
15 **of the Updated Test Year that result in a net increase for the Human**
16 **Resources affiliate class of \$9,273 (total company). Please explain the**
17 **adjustments.**
- 18 A. The major pro forma adjustments I sponsor relate to the following wage and
19 incentive compensation adjustments: (1) a decrease of \$27,237.33 to ensure that
20 the amount of AIP included in the Test Year does not exceed the 2019 target
21 level; (2) a decrease of \$74.09 to remove costs that were allocated to the Human
22 Resources affiliate class in error; and (3) an increase of \$36,586.19 to reflect the
23 base salary increases for SPS employees that will be effective following the
24 Updated Test Year.

1 **B. The Human Resources Class of Services are Necessary Services**

2 **Q. Are the services that are grouped in the Human Resources affiliate class**
3 **necessary for SPS's operations?**

4 A. Yes. All large businesses, such as SPS, XES, and Xcel Energy, need the services
5 provided by an HR department to manage employee hiring and retention
6 activities, to address day-to-day personnel and workplace practices, and to handle
7 and implement employee compensation and benefit policies and programs. They
8 are functions required by all utilities and without which SPS would not be able to
9 provide electric service to its customers.

10 **Q. What are the specific services that are provided to SPS by the Human**
11 **Resources affiliate class?**

12 A. The services that are provided to SPS by the Human Resources Affiliate class
13 are:

- 14 • Workforce Strategy and Consulting - this area is responsible for
15 providing a broad range of strategic and tactical consulting services
16 across all HR functional areas for the business areas;
- 17 • Talent Management - this area is responsible for staffing, recruiting,
18 EEO and employee relations, and learning and development programs;
- 19 • Total Rewards - this area is responsible for design, implementation,
20 and administration of Xcel Energy's compensation and benefit
21 programs including retirement and health and welfare benefits,
22 compensation, payroll, and HR operations; and
- 23 • HR Strategy and Performance - this area is responsible for monitoring
24 the O&M budget, leveraging technology and reporting to identify,
25 develop, and deliver meaningful metrics on performance, and supports
26 workforce strategy organization as subject matter experts on workforce
27 risks and trends in order to develop long-term labor planning.

1 **Q. Are any of the Human Resources class of services that are provided to SPS**
2 **duplicated elsewhere in XES or in any other Xcel Energy subsidiary such as**
3 **SPS itself?**

4 A. No. Within XES, none of the services grouped in the Human Resources affiliate
5 class are duplicated elsewhere. No other Xcel Energy subsidiary performs these
6 services for the Operating Companies. In addition, SPS does not perform these
7 services for itself.

8 **Q. Do SPS's Texas retail customers benefit from the services that are part of the**
9 **Human Resources affiliate class of services?**

10 A. Yes. The services of the Human Resources affiliate class benefit SPS customers
11 in many ways. For example SPS, through the services provided by the HR
12 organization, maintains the ability to attract and retain the employees necessary to
13 provide services to SPS customers.

14 **C. The Human Resources Affiliate Class of Services are Provided at**
15 **a Reasonable Cost**

16 **Q. Are the costs of the Human Resources affiliate class of services reasonable?**

17 A. Yes. The costs of the Human Resources affiliate class of services are reasonable.
18 Centralizing HR services in a shared services provider such as XES reduces
19 overall management and administrative costs by not having duplicate HR costs in
20 SPS and the other Xcel Energy subsidiaries.

1 *1. Additional Evidence*

2 **Q. Is there additional support for a portion of the expenses that you present in**
3 **this testimony?**

4 A. Yes. Of the estimated Updated Test Year costs in the Human Resources affiliate
5 class, 81percent consist of compensation and benefit costs of XES personnel. As
6 I discussed earlier in my testimony, Xcel Energy's compensation and benefit costs
7 are a reasonable and necessary expense. Mr. Schrubbe also establishes that the
8 compensation and benefit costs are a reasonable and necessary expense.

9 *2. Budget Planning*

10 **Q. Is a budget planning process applicable to the Human Resources class of**
11 **affiliate costs?**

12 A. Yes. Annual O&M budgets are created using guidelines developed at the
13 corporate level. The HR department carefully reviews historical spend
14 information, identifies changes that will be coming in the future, and analyzes the
15 costs associated with those changes prior to submitting a proposed budget. The
16 budgeting process is discussed in more detail by SPS witness Adam R.
17 Dietenberger.

18 **Q. During the fiscal year, does the HR department monitor its actual**
19 **expenditures versus its budget?**

20 A. Yes. Actual versus expected expenditures are monitored on a monthly basis.
21 Deviations are evaluated each month to ensure that costs are appropriate. In
22 addition, action plans are developed to mitigate variations in actual to budgeted
23 expenditures. These mitigation plans may either reduce or delay other

expenditures so that the revised budget supports the authorized budget. If authorized budget adjustments are required, they are identified and approved at an appropriate level of management.

Q. Are employees within the HR department held accountable for deviations from the budget?

A. Yes. Embedded within the expectations and responsibilities of all management employees in the HR department is accountability to manage their department expenses to the budget. Any proposed deviations from the budget are evaluated at the appropriate level of management as outlined in the previous answer. In addition, all HR department management employees are required to manage their expenses to support the budgetary goals established by their manager. Failure to meet these expectations may affect their performance evaluation and overall compensation.

3. Cost Trends

Q. Please state the dollar amounts of the actual per book charges from XES to SPS for the Human Resources affiliate class of services for the three fiscal years preceding the end of the Updated Test Year and the estimated per book charges for the estimated Updated Test Year.

A. The following table shows, for the fiscal years 2016, 2017, and 2018 (calendar years) and for the Updated Test Year, the actual per book affiliate charges (Column I on Attachment MTK-RR-A) from XES to SPS for the services grouped in the Human Resources affiliate class:

1

Table MTK-RR-10

	(Per Book) Charges Over Time			
Class of Services	2016	2017	2018	Updated Test Year (Estimated)
Human Resources	\$2,641,581	\$2,579,223	\$2,491,797	\$2,441,052

2 **Q. What are the reasons for this trend?**

3 A. The decrease between 2016 and 2017 was primarily related to decreased labor
 4 costs resulting from addition of three new departments under the Human
 5 Resources affiliate class: HR Strategy and Performance; Strategic Workforce
 6 Planning; and HR Program Office, creating operational efficiencies. The increase
 7 between 2017 and 2018 reflects a full year of the labor costs associated with the
 8 three new departments. The slight decrease between 2018 and the Test Year was
 9 due to lower labor costs due to open positions.

10 *4. Staffing Trends*

11 **Q. Please provide the staffing levels for the Human Resources class of services**
 12 **for the three fiscal years preceding the end of the Updated Test Year and the**
 13 **Updated Test Year.**

14 A. The following table shows, for the fiscal years 2016, 2017, and 2018 (calendar
 15 years) and for the Updated Test Year, the average of the end of month staffing
 16 levels for the Human Resources class of services.

1

Table MTK-RR-11

	Average End of Month # of Staff			
Class of Services	2016	2017	2018	Updated Test Year (Estimated)
Human Resources	132	131	129	129

2 **Q. What are the reasons for this trend?**

3 A. The decrease between 2016 and 2017 was due to an open position(s). Similarly,
4 the decrease between 2017 and 2018 was due to open positions.

5 *5. Cost Control and Process Improvement Initiatives*

6 **Q. Separate from the budget planning process, does the Human Resources**
7 **affiliate class take any steps to control its costs or to improve its services?**

8 A. Yes. The HR department continually reviews its plans, initiatives, and staffing to
9 ensure they are appropriate and to identify and implement improvements. For
10 example, the personnel action form (“PAF”) system and process created
11 efficiencies to routine personnel changes, as well as the hiring process for new
12 employees. This streamlined method pre-populates data fields for leaders on the
13 PAF form, and eliminates the need for manual data entry in HR Operations. This
14 service improvement created significant time savings, reduced data entry errors,
15 and improved internal customer service response times.

1 **D. The Costs for the Human Resources Affiliate Class of Services are**
2 **Priced in a Fair Manner**

3 **Q. For those costs that XES charges (either directly or through use of an**
4 **allocation) to SPS for the Human Resources affiliate class of services, does**
5 **SPS pay any more for the same or similar service than does any other Xcel**
6 **Energy affiliate?**

7 A. No. The XES charges to SPS for any particular service are no higher than the
8 XES charges to any other Xcel Energy affiliate. The costs charged for particular
9 services are the actual costs that XES incurred in providing those services to SPS.
10 A single, specific allocation method, rationally related to the costs drivers
11 associated with the service being provided, is used with each cost center (billing
12 method). In her direct testimony, Ms. Schmidt discusses the selection of billing
13 methods and XES's method of charging for services in more detail.

14 **Q. How are the costs of the Human Resources affiliate class billed to SPS?**

15 A. My Attachment MTK-RR-B(CD) shows all of the costs in this class broken out
16 by activity and, in conjunction with Columns C in my Attachment MTK-RR-A,
17 shows the billing method associated with each activity. My Attachment MTK-
18 RR-A, shows the allocation method (Column D) associated with each billing
19 method (Column C) used in the affiliate class.

20 In SPS's 45-day case update, I will present updated Attachments
21 MTK-RR-A and MTK-RR-B(CD) so that the entries for the last three months of
22 the Updated Test Year provide actual data and conform to the information
23 provided for the first nine months. In the event the predominant billing methods

1 and associated allocation methods for the Human Resources affiliate O&M
2 expenses on my updated Attachments MTK-RR-A and MTK-RR-B(CD) differ
3 from those discussed below, I will explain those differences in supplemental
4 testimony in SPS's 45-day case update filing.

5 **Q. What are the predominant allocation methods used for billing the costs that**
6 **SPS seeks to recover for the Human Resources affiliate class of services?**

7 A. All of the requested XES charges to SPS for this class were charged using one of
8 the following allocation methods:

- 9 • Number of Employees – 79.72% of XES charges to SPS – \$1,914,628.93;
- 10 • Assets, Revenue, and Number of Employees – 15.28% of XES charges to
11 SPS – \$366,939.35; and
- 12 • Direct Billing – 5.01% of XES charges to SPS – \$120,232.47.

13 **Q. Why is the “Number of Employees” method appropriate for assigning the**
14 **costs captured in the cost centers that use that allocation method?**

15 A. For the cost centers that use the “Number of Employees” method as the allocator,
16 the costs are driven by the services provided to the employees within each
17 affiliate. For example, Cost Center 200166, which uses the “Number of
18 Employees” allocation method, captures costs related to the administration of
19 online training services provided to all employees. Thus, this cost center allocates
20 costs among the Xcel Energy legal entities based upon the proportionate share of
21 employees of each Xcel Energy legal entity (i.e., the number of employees of a
22 particular legal entity as a percentage of the total number of employees of all of
23 the legal entities). This allocation reflects cost causation and the distribution of
24 the benefits of the services received. For the cost centers that assign costs based

1 upon this allocation method, the per unit amounts charged by XES to SPS as a
2 result of the application of this allocation method are no higher than the unit
3 amounts billed by XES to other affiliates for the same or similar services and
4 represent the actual costs of the services.

5 **Q. Why is it appropriate to allocate costs based upon the “Assets, Revenue, and**
6 **Number of Employees” method for the costs captured in the cost centers that**
7 **use that allocation method?**

8 A. The three factor billing method using assets, revenue, and number of employees
9 produces an allocation of costs that recognizes the complexity, risk, and overall
10 business activity levels that drives the costs included in the cost centers and
11 measures the benefits received from those activities. For the cost centers billed
12 using this allocator, there is no one specific cost driver for the support tasks and
13 services provided, and the services benefit multiple Xcel Energy affiliates. For
14 example, the costs of corporate governance activities related to HR policies and
15 compensation and benefits plans, collected in Cost Center 200063, are assigned
16 using this allocation method. These costs were not incurred on behalf of a
17 specific Operating Company and within the Xcel Energy holding company group,
18 those legal entities that have proportionately more assets, revenues, and
19 employees will have more focus placed on their operations due to those
20 subsidiaries’ relative influence on the consolidated business balance sheet, income
21 statement and statement of cash flow, and the subsidiaries will benefit accordingly
22 from the services provided. For the cost centers that assign costs based upon this
23 allocation method, the per unit amounts charged by XES to SPS as a result of the

1 application of this allocation method are no higher than the unit amounts billed by
2 XES to other affiliates for the same or similar services and represent the actual
3 costs of the services.

4 **Q. Why is the “Direct Billing” method appropriate for assigning the costs**
5 **captured in the cost centers that use that allocation method?**

6 A. For the cost centers that are assigned using the “Direct Billing” method, the costs
7 normally reflect work that was performed specifically for SPS only. In some
8 cases, however, the direct billing occurred after the application of an off-line
9 allocator that tracks the relevant cost drivers. In either situation, the cost centers
10 charged using the “Direct Billing” method are appropriate because the assignment
11 of costs is in accordance with the distribution of benefits for the services received.
12 For example, the costs of providing consulting support for equal employment
13 opportunities, affirmative action, fitness for duty, and workforce relations, which
14 are collected in Cost Center “Direct” were assigned using the “Direct Billing”
15 method. The cost of these services benefited SPS, the work was performed
16 specifically for SPS alone, and the cost driver is the metering services of SPS.
17 Thus, the “Direct Billing” method is appropriate because it assigns costs in
18 accordance with cost causation and benefits received. For the cost centers that
19 assign costs using Direct Billing, the per unit amounts charged by XES to SPS are
20 no higher than the unit amounts billed by XES to other affiliates for the same or
21 similar services and represent the actual costs of the services.

1 **VI. AFFILIATE EXPENSES FOR THE SS COMPANY**
2 **BENEFITS CLASS OF SERVICES**

3 **A. Summary of Affiliate Expenses for the SS Company Benefits**
4 **Class of Services**

5 **Q. Where does the SS Company Benefits affiliate class fit into the overall**
6 **affiliate structure?**

7 A. Attachment MLS-RR-6 to Ms. Schmidt's direct testimony provides a list and a
8 pictorial display of all affiliate classes, dollar amounts for those classes, and
9 sponsoring witness for each class. As seen on that attachment, the SS Company
10 Benefits class was part of the Benefits Related cost center during the Test Year.
11 Attachment MTK-RR-4 to my testimony is an organization chart showing the HR
12 organization which includes SS Company Benefits function, listed as "Supervisor
13 HR Service Center."

14 **Q. What services are grouped into the SS Company Benefits class?**

15 A. The services that are grouped into the SS Company Benefits class are those of the
16 HR service center, which provides benefits administration and call center support
17 to employees and retirees of Xcel Energy subsidiaries, including SPS. Also
18 included in this class are the costs of certain non-loading benefits, which include
19 the employee performance recognition, and Spot On Award costs, and any
20 adjustments to pension, health and welfare, and AIP accruals.

21 **Q. What is the dollar amount of the Test Year XES charges that SPS requests,**
22 **on a Total Company basis, for the SS Company Benefits affiliate class?**

23 A. The following table summarizes the dollar amount of the estimated Updated Test
24 Year XES charges for the SS Company Benefits affiliate class. I will update the

table below as part of SPS's 45-day case update filing to reflect the actual Updated Test Year costs for the SS Company Benefits affiliate class.

Table MTK-RR-12

Class of Services	Requested Amount of XES Class Expenses Billed to SPS (Total Company)			
	Total XES Class Expenses	Requested Amount	% Direct Billed	% Allocated
SS Company Benefits	\$58,937,602.25	\$2,530,918	0%	100%

Total XES Class Expenses

Dollar amount of total Updated Test Year expenses that XES charged to all Xcel Energy companies for the services provided by this affiliate class. This is the amount from Column E in Attachment MTK-RR-A.

Requested Amount of XES Class Expenses Billed to SPS (Total Company)

Requested dollar amount of XES expenses to SPS (total company) for this affiliate class after exclusions and pro forma adjustments. This is the amount from Column K in Attachment MTK-RR-A.

% Direct Billed

The percentage of SPS's requested XES expenses (total company) for this class that were billed 100% to SPS.

% Allocated

The percentage of SPS's requested XES expenses (total company) for this class that were allocated to SPS.

Q. Please describe the attachments that support the information provided on Table MTK-RR-12.

A. There are four attachments to my testimony that present information about the requested SPS affiliate expenses for the SS Company Benefits class. I explained these attachments in detail previously in Section V of my testimony.

1 **Q. Does XES bill its expenses for the SS Company Benefits affiliate class to SPS**
2 **in the same manner as it bills other affiliates for those expenses?**

3 A. Yes. As discussed by Ms. Schmidt, XES uses the same method for billing and
4 allocating cost to affiliates other than SPS that it uses to bill and allocate those
5 costs to SPS.

6 **Q. Are there any exclusions to the XES billings to SPS for the SS Company**
7 **Benefits affiliate class?**

8 A. No. In SPS's 45-day case update, I will present an updated Attachment
9 MTK-RR-C that will provide actual exclusions to replace any estimated
10 exclusions included in my original attachment.

11 **Q. Are there any pro forma adjustments to SPS's per book expenses for the SS**
12 **Company Benefits affiliate class?**

13 A. Yes. As I mentioned earlier, pro forma adjustments are revisions to the Updated
14 Test Year expenses for known and measurable changes. Pro forma adjustments
15 are shown on Attachment MTK-RR-A, Column J, and on Attachment MTK-RR-
16 B(CD), Column M. The details for the pro forma adjustments, including the
17 witness or witnesses who sponsor each pro forma adjustment, are provided in
18 Attachment MTK-RR-D. Given the time of SPS's initial filing, only the first nine
19 months of the Updated Test Year have completed the full pro forma adjustment
20 review process. In SPS's 45-day case update, I will present an updated
21 Attachment MTK-RR-D that will complete the full pro forma adjustment review
22 process for the last three months of the Updated Test Year.

1 **Q.** Attachment MTK-RR-D shows that you are a sponsor or co-sponsor for
2 expenses for the SS Company Benefits affiliate class during the first nine
3 months of the Updated Test Year for pro forma adjustments that result in a
4 net decrease for the SS Company Benefits affiliate class of \$5,060,360. Please
5 explain the adjustments.

6 A. The pro forma adjustments that I sponsor or co-sponsor primarily are for the
7 adjustment to increase AIP expense to target (an increase of \$19,479.48), and
8 removal of LTI costs (a reduction of \$5,081,565.85). In addition, I sponsor an
9 adjustment to account for base wage increases, which added \$1,726.03 in costs
10 allocated to SPS.

11 **B.** **The SS Company Benefits Class of Services are Necessary**
12 **Services**

13 **Q.** Are the services that are grouped in the SS Company Benefits affiliate class
14 necessary for SPS's operations?

15 A. Yes. Appropriate management of a workforce involves providing answers to
16 employee questions regarding compensation and benefits programs. The costs of
17 responding to questions from SPS and XES employees who support SPS's
18 operations are captured in this affiliate class, and they are necessary costs of doing
19 business. This is a function required by all utilities and without which SPS would
20 not be able to provide electric service to its customers.

21 **Q.** What are the specific services that are provided to SPS by the SS Company
22 Benefits affiliate class?

23 A. The specific services that are provided to SPS by the SS Company Benefits class
24 are those associated with the HR service center. The HR service center provides a

1 call center that allows the employees and retirees of Xcel Energy's subsidiaries,
2 including those of SPS, to get information regarding compensation and benefits.
3 In addition, the HR service center administers annual benefits enrollment.

4 **Q. Are any of the SS Company Benefits affiliate class of services that are**
5 **provided to SPS duplicated elsewhere in XES or in any other Xcel Energy**
6 **subsidiary such as SPS itself?**

7 A. No. Within XES, none of the services grouped in the SS Company Benefits
8 affiliate class are duplicated elsewhere. No other Xcel Energy subsidiary
9 performs these services for the Operating Companies. In addition, SPS does not
10 perform these services for itself.

11 **Q. Do SPS's Texas retail customers benefit from the services that are part of the**
12 **SS Company Benefits affiliate class of services?**

13 A. Yes. The services of the SS Company Benefits class benefit SPS customers in
14 many ways. Providing services and information to SPS and XES employees
15 regarding their benefits and compensation assists in retaining the workforce
16 needed to bring safe and reliable electric service to customers.

17 **C. The SS Company Benefits Class of Services is Provided at a**
18 **Reasonable Cost**

19 **Q. Are the costs of the SS Company Benefits class of services reasonable?**

20 A. Yes. The costs of the SS Company Benefits class of services are reasonable. The
21 centralized organizational structure through which these services are provided
22 results in economies of scale and allows personnel and their expertise to be
23 leveraged across the Xcel Energy legal entities, reducing duplication of effort and

1 maximizing efficiency. In addition, the department's costs are controlled through
2 the budgeting process and rigorous review of expenditures.

3 *1. Additional Evidence*

4 **Q. Is there additional support for a portion of the expenses that you present in**
5 **this testimony?**

6 A. Yes. Of the estimated Updated Test Year costs for the SS Company Benefits
7 affiliate class, 99% consist of compensation and benefits for XES personnel. My
8 testimony establishes that the level of Xcel Energy's compensation and benefits is
9 reasonable and necessary. As I discussed earlier in my testimony, Xcel Energy's
10 compensation costs are a reasonable and necessary expense. Mr. Schrubbe also
11 establishes that the compensation and benefit costs are a reasonable and necessary
12 expense.

13 *2. Budget Planning*

14 **Q. Is a budget planning process applicable to the SS Company Benefits**
15 **department affiliate class costs?**

16 A. Yes. Annual O&M budgets are created using guidelines developed at the
17 corporate level. The SS Company Benefits department budget, as it relates to the
18 HR service center, is reviewed as part of the overall HR budget, while the benefit
19 costs that are reflected in this class are reviewed by the Finance organization. The
20 budgeting process is discussed in more detail by Ms. Schmidt.

21 **Q. During the fiscal year, does the SS Company Benefits department monitor its**
22 **actual expenditures versus its budget?**

23 A. Yes. Actual versus expected expenditures are monitored on a monthly basis.
24 Deviations are evaluated each month to ensure that costs are appropriate. In

1 addition, action plans are developed to mitigate variations in actual to budgeted
2 expenditures. These mitigation plans may either reduce or delay other
3 expenditures so that the revised budget supports the authorized budget. If
4 authorized budget adjustments are required, they are identified and approved at an
5 appropriate level of management.

6 **Q. Are employees within the SS Company Benefits department held accountable**
7 **for deviations from the budget?**

8 A. Yes. Embedded within the expectations and responsibilities of all HR and
9 Finance employees who are responsible for the SS Company Benefits department
10 budget is accountability to manage this budget. Any deviations from the budget
11 are evaluated at the appropriate level of management as outlined in the previous
12 answer. Failure to meet these expectations may affect their performance
13 evaluation and overall compensation.

14 *3. Cost Trends*

15 **Q. Please state the dollar amounts of the actual per book charges from XES to**
16 **SPS for the SS Company Benefits class of services for the three fiscal years**
17 **preceding the end of the Updated Test Year and the estimated per book**
18 **charges for the Updated Test Year.**

19 A. The following table shows, for the fiscal years 2016, 2017, and 2018 (calendar
20 years) and for the Updated Test Year, the actual per book affiliate charges
21 (Column I on Attachment MTK-RR-A) from XES to SPS for the services grouped
22 in the SS Company Benefits affiliate class:

1

Table MTK-RR-13

Class of Services	2016	2017	2018	Updated Test Year (Estimated)
SS Company Benefits	\$4,872,583	\$6,333,126	\$6,213,363	\$7,595,758

2 **Q. What are the reasons for this trend?**

3 A. The increase between 2016 and 2017 was primarily related to higher LTI
 4 Compensation costs, which are not included in the cost of service, offset by a
 5 lower amount of annual incentive accrual adjustments. The increase between
 6 2017 and 2018 was primarily related to a higher amount of annual incentive
 7 accrual adjustments and to higher LTI Compensation costs – the latter of which
 8 are not included in the cost of service in this case. The increase between 2018
 9 and the Test Year was primarily related to a higher amount of annual incentive
 10 accrual adjustments and to higher LTI Compensation costs – the latter of which
 11 are not included in the cost of service.

12 *4. Staffing Trends*

13 **Q. Please provide the staffing levels for the SS Company Benefits class of**
 14 **services for the three fiscal years preceding the end of the Updated Test Year**
 15 **and the Updated Test Year.**

16 A. The following table shows, for the fiscal years 2016, 2017, and 2018 (calendar
 17 years) and for the Updated Test Year, the average of the end of month staffing
 18 levels for the SS Company Benefits class of services has remained constant over
 19 this period of time.

Table MTK-RR-14

	Average End of Month # of Staff			
Class of Services	2016	2017	2018	Updated Test Year (Estimated)
SS Company Benefits	10	10	10	10

5. Cost Control and Process Improvement Initiatives

Q. Separate from the budget planning process, does the SS Company Benefits department take any steps to control its costs or to improve its services?

A. Yes. The plans, initiatives and staffing of the SS Company Benefits department are continually reviewed to ensure they are appropriate and to identify and implement improvements. Staffing levels are increased only when it becomes apparent that there will be a long-term need for a specific type of expertise required to accommodate new work taken in by the Service Center or a major initiative requiring a specialized skill set. Conversely, staff is decreased if certain work is no longer required or when there is an opportunity to maximize the use of a higher level talent.

D. The Costs for the SS Company Benefits Class of Services are Priced in a Fair Manner

Q. For those costs that XES charges (either directly or through use of an allocation) to SPS for the SS Company Benefits class of services, does SPS pay any more for the same or similar service than does any other Xcel Energy affiliate?

A. No. The XES charges to SPS for any particular service are no higher than the XES charges to any other Xcel Energy affiliate. The costs charged for particular

1 services are the actual costs that XES incurred in providing those services to SPS.
2 A single, specific allocation method, rationally related to the costs drivers
3 associated with the service being provided, is used with each cost center. In her
4 direct testimony, Ms. Schmidt discusses the selection of allocation methods and
5 XES's method of charging for services in more detail.

6 **Q. How are the costs of the SS Company Benefits affiliate class billed to SPS?**

7 A. My Attachment MTK-RR-B(CD) shows all of the costs in this class broken out
8 by activity and, in conjunction with Columns C in my Attachment MTK-RR-A,
9 shows the billing method associated with each activity. My Attachment MTK-
10 RR-A, shows the allocation method (Column D) associated with each billing
11 method (Column C) used in the affiliate class.

12 In SPS's 45-day case update, I will present updated Attachments
13 MTK-RR-A and MTK-RR-B(CD) so that the entries for the last three months of
14 the Updated Test Year provide actual data and conform to the information
15 provided for the first nine months. In the event the predominant billing methods
16 and associated allocation methods for the SS Company Benefits affiliate O&M
17 expenses on my updated Attachments MTK-RR-A and MTK-RR-B(CD) differ
18 from those discussed below, I will explain those differences in supplemental
19 testimony in SPS's 45-day case update filing.

20 **Q. What are the predominant allocation methods used for costs that SPS seeks**
21 **to recover for the SS Company Benefits affiliate class of services?**

22 A. All of the requested XES charges to SPS for this class were charged using one of
23 the following three allocation methods:

- 1 • Assets, Revenue, and Number of Employees – 102.28% of XES
2 charges to SPS –\$2,588,628; and
- 3 • Number of Employees – (1.13%) of XES charges to SPS –
4 \$28,596.85;
- 5 • Direct – (0.0%) of XES charges to SPS – (\$0.00).

6 **Q. Why is it appropriate to allocate costs based upon the “Assets, Revenue, and**
7 **Number of Employees” method for the costs captured in the cost centers that**
8 **use that allocation method?**

9 A. The three factor allocation method using assets, revenue, and employees produces
10 an allocation of costs that recognizes the complexity, risk, and overall business
11 activity levels that drive the costs included in the cost centers and measures the
12 benefits received from those activities. For the cost centers billed using this
13 allocator, there is no one specific cost driver for the support tasks and services
14 provided, and the services benefit multiple Xcel Energy affiliates. For example,
15 the costs of LTI, collected in Cost Center 200063, are assigned using this
16 allocation method. Within the Xcel Energy holding company group, those legal
17 entities that have proportionately more assets, revenues, and employees will have
18 more focus placed on their operations due to those subsidiaries’ relative influence
19 on the consolidated business balance sheet, income statement, and statement of
20 cash flow, and the subsidiaries will benefit accordingly from the services
21 provided. Thus, allocating these costs based upon the average of the total asset
22 ratio, revenue ratio, and the employee ratio is appropriate because it allocates
23 costs in accordance with cost causation and benefits received. Ms. Schmidt
24 discusses this allocation method in more detail in her testimony. For the cost

1 centers that assign costs based upon this allocation method, the per unit amounts
2 charged by XES to SPS as a result of the application of this allocation method are
3 no higher than the unit amounts billed by XES to other affiliates for the same or
4 similar services and represent the actual costs of the services.

5 **Q. Why is it appropriate to allocate costs based upon the “Number of**
6 **Employees” method for the costs captured in the cost centers that use that**
7 **allocation method?**

8 A. For the cost centers that use the “Number of Employees” method as the allocator,
9 the costs are driven by the services provided to all employees. For example, Cost
10 Center 200166, which uses the “Number of Employees” method as the allocator,
11 captures labor costs associated with the HR service center call center which
12 answers employee questions regarding benefits and compensation. Thus, this cost
13 center allocates costs among the Xcel Energy legal entities based upon the
14 proportionate share of employees of each Xcel Energy legal entity (i.e., the
15 number of employees of a particular legal entity as a percentage of the total
16 number of employees of all of the legal entities). This allocation reflects cost
17 causation and the distribution of the benefits of the services received. For the cost
18 centers that assign costs based upon this allocation method, the per unit amounts
19 charged by XES to SPS as a result of the application of this allocation method are
20 no higher than the unit amounts billed by XES to other affiliates for the same or
21 similar services and represent the actual costs of the services.

1 **Q. Why is the “Direct Billing” method appropriate for assigning the costs**
2 **captured in the cost centers that use that allocation method?**

3 A. For the cost centers that are assigned using the “Direct Billing” method, the costs
4 normally reflect work that was performed specifically for SPS only. In some
5 cases, however, the direct billing occurred after the application of an off-line
6 allocator that tracks the relevant cost drivers. In either situation, the cost centers
7 charged using the “Direct Billing” method are appropriate because the assignment
8 of costs is in accordance with the distribution of benefits for the services received.
9 For example, the costs of providing consulting support for equal employment
10 opportunities, affirmative action, fitness for duty, and workforce relations are
11 assigned using the “Direct Billing” method. The cost of these services benefitted
12 SPS, the work was performed specifically for SPS alone, and the cost driver was
13 the service provided to SPS employees. Thus, the “Direct Billing” method is
14 appropriate because it assigns costs in accordance with cost causation and benefits
15 received. For the cost centers that assign costs using Direct Billing, the per unit
16 amounts charged by XES to SPS are no higher than the unit amounts billed by
17 XES to other affiliates for the same or similar services and represent the actual
18 costs of the services.

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

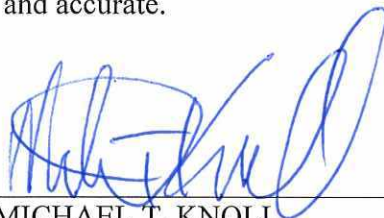
20 A. Yes.

AFFIDAVIT

STATE OF MINNESOTA)
)
COUNTY OF HENNEPIN)

MICHAEL T. KNOLL, first being sworn on his oath, states:

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

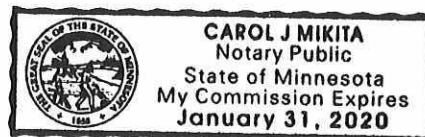


MICHAEL T. KNOLL

Subscribed and sworn to before me this 29th day of July, 2019 by MICHAEL T. KNOLL.



Notary Public, State of Minnesota
My Commission Expires: 1/31/2020



Compensation and Benefit Amounts

Total Company	Per Book	Adjustments	Requested
Base Salaries	\$113,152,078	\$3,151,911	\$116,303,988
Annual Incentive Plan	\$6,972,608	(\$1,868,234)	\$5,104,375
Spot On Recognition	\$759,024	\$0	\$759,024
Other Compensation	\$262,608	\$0	\$262,608
Pension and Benefits	\$37,978,729	(\$2,240,809)	\$35,737,920
Total Labor	\$159,125,047	(\$957,132)	\$158,167,915

This attachment contains estimates for the period of April 1, 2018 through June 30, 2019, which is referred to as the “Update Period.” As discussed by SPS witness William A. Grant, SPS will file actual costs for the Update Period, including an updated version of this schedule, no later than the 45th day after the date of the initial filing of this rate case, as required by PURA § 36.112.

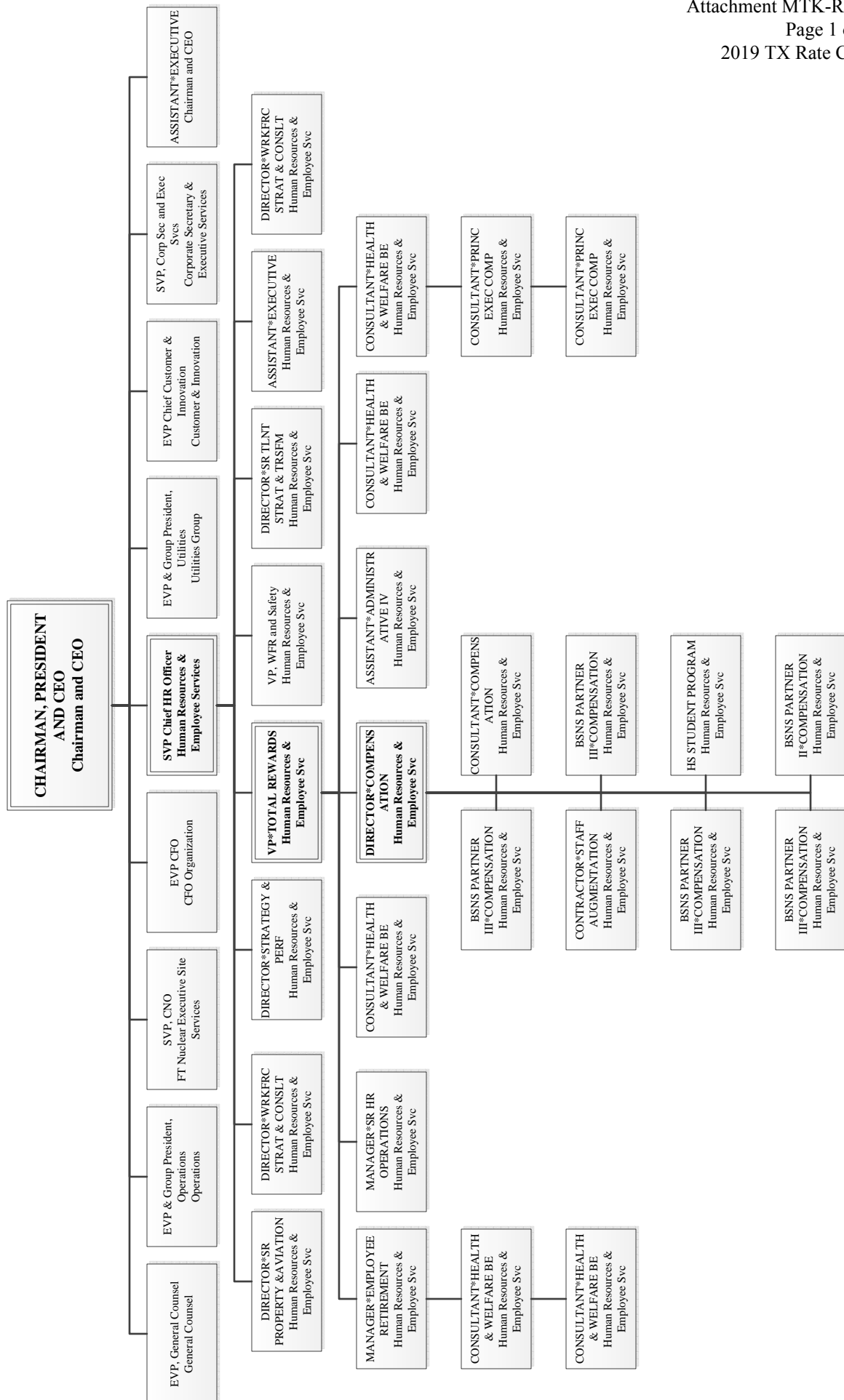
Attachment MTK-RR-2(CONF)

**Pages 1 through 24
of
Attachment MTK-RR-2(CONF)
Competitive Total Direct Compensation
Analysis (2018 Willis Towers Watson Study)
Are
Confidential Protected Information**

**CONFIDENTIAL PROTECTED MATERIALS
PROVIDED PURSUANT TO PROTECTIVE ORDER**

Attachment MTK-RR-3(CONF)

**Pages 1 through 11
of
Attachment MTK-RR-3(CONF)
2018 Xcel Energy Non-Bargaining, Exempt
Employee Annual Incentive Program
Booklet
Are
Confidential Protected Information
CONFIDENTIAL PROTECTED MATERIALS
PROVIDED PURSUANT TO PROTECTIVE ORDER**



Summary of XES Expenses to SPS by Affiliate Class and Billing Method
For Twelve Months ended June 30, 2019
Knoll

(A) Line No.	(B) Affiliate Class	(C) Billing Method (Cost Center)	(D) Allocation Method	(E) Total XES Billings for Class to all Legal Entities (FERC Acct. 400-935)	(F) XES Billings for Class to all Legal Entities Except for SPS (FERC Acct. 400-935)	(G) XES Billings for Class to SPS (Total Company) (FERC Acct. 400-935)	(H) Exclusions	(I) Per Book	(J) Proformas	(K) Requested Amount (Total Company)	(L) % of Class Charges
1	Human Resources	200063 - Executive - Corporate Governance	Assets/Revenue/No. of employees	\$ 8,154.40	\$ 7,095.73	\$ 1,058.67	\$ -	\$ 1,058.67	\$ (91.90)	\$ 966.77	0.04%
2	Human Resources	200073 - Human Resources (HR) - Corporate Governance	Assets/Revenue/No. of employees	2,877,574.61	2,506,273.48	371,301.13	(864.25)	370,436.88	(4,464.30)	365,972.58	15.24%
3	Human Resources	200076 - Xcel Foundation	Assets/Revenue/No. of employees	23,086.09	20,106.79	2,979.30	-	2,979.30	(2,979.30)	-	0.00%
4	Human Resources	200164 - Payroll	Number of Employees	130,398.91	111,662.92	18,735.99	-	18,735.99	(347.28)	18,388.71	0.77%
5	Human Resources	200165 - PeopleSoft	Number of Employees	516.78	442.69	74.09	-	74.09	(74.09)	-	0.00%
6	Human Resources	200166 - Human Resources (Diversity/Safety/Emp Relations)	Number of Employees	13,462,967.76	11,524,934.51	1,938,033.25	(11,664.00)	1,926,369.25	(30,129.03)	1,896,240.22	78.95%
7	Human Resources	Direct	Direct	1,346,180.22	1,224,782.75	121,397.47	-	121,397.47	(1,164.94)	120,232.53	5.01%
8	Human Resources Total			\$ 17,848,878.77	\$ 15,395,298.87	\$ 2,453,579.90	\$ (12,528.25)	\$ 2,441,051.65	\$ (39,250.85)	\$ 2,401,800.80	100.00%
9	SS Company Benefits	200063 - Executive - Corporate Governance	Assets/Revenue/No. of employees	\$ 59,494,108.80	\$ 51,823,782.77	\$ 7,670,326.03	\$ -	\$ 7,670,326.03	(5,081,698.10)	\$ 2,588,627.93	102.28%
10	SS Company Benefits	200164 - Payroll	Number of Employees	191,908.94	164,324.79	27,584.15	(20.64)	27,563.51	(884.01)	26,679.50	1.05%
11	SS Company Benefits	200166 - Human Resources (Diversity/Safety/Emp Relations)	Number of Employees	13,027.24	11,154.75	1,872.49	-	1,872.49	44.86	1,917.35	0.08%
12	SS Company Benefits	Direct	Direct	(761,442.73)	(657,438.96)	(104,003.77)	-	(104,003.77)	17,696.56	(86,307.21)	-3.41%
13	SS Company Benefits Total			\$ 58,937,602.25	\$ 51,341,823.35	\$ 7,595,778.90	\$ (20.64)	\$ 7,595,758.26	\$ (5,064,840.69)	\$ 2,530,917.57	100.00%
14	Total - Witness Michael Knoll			\$ 76,786,481.02	\$ 66,737,122.22	\$ 10,049,358.80	\$ (12,548.89)	\$ 10,036,809.91	\$ (5,104,091.54)	\$ 4,932,718.37	
	Amounts may not add or tie to other schedules due to rounding.										

Southwestern Public Service Company

XES Expenses by Affiliate Class, Activity, Billing Method and FERC Account

Michael T. Knoll

2019 TX Rate Case

**APPLICATION OF
SOUTHWESTERN PUBLIC SERVICE COMPANY
FOR AUTHORITY TO CHANGE RATES**

MTK-RR-B(CD)

**Exclusions from XES Expenses to SPS by Affiliate Class and FERC Account
For Twelve Months ended June 30, 2019
Knoll**

(A) Line No.	(B) Affiliate Class	(C) FERC Account	(D) Explanation for Exclusions	(E) Exclusions (Total Company)
1	Human Resources	426.1 - Donations	Below the line	\$ (8,419.93)
2	Human Resources	426.4 - Life Insurance	Below the line	(42.74)
3	Human Resources	426.5 - Other Deductions	Below the line	(4,065.58)
4	Human Resources Total			\$ (12,528.25)
5				
6	SS Company Benefits	426.5 - Other Deductions	Below the line	\$ (20.64)
7	SS Company Benefits Total			\$ (20.64)
8		Total - Witness Michael Knoll		\$ (12,548.89)
	Amounts may not add or tie to other schedules due to rounding.			

**Pro Forma Adjustments to XES Expenses by Affiliate Class and FERC Account
For Twelve Month ended June 30, 2019
Knoll**

(A) Line No.	(B) Affiliate Class	(C) FERC Account	(D) Explanation for Pro Formas	(E) Sponsor	(F) Pro Formas (Total Company)
1	Human Resources	920 - Administrative and general salaries	116.5% Incentive	Arthur Freitas/Michael Knoll	\$ (27,237.33)
2	Human Resources	920 - Administrative and general salaries	3% Wage Adjustment	Arthur Freitas/Michael Knoll	36,586.19
3	Human Resources	920 - Administrative and general salaries	Business Area Adjustment	Michael Knoll	(74.09)
4	Human Resources	920 - Administrative and general salaries	Foundation	William Grant	(2,979.30)
5	Human Resources	926 - Employee pensions and benefits	Pension & Benefits Adjustment	William Grant	(32,179.84)
6	Human Resources	930.1 - General advertising expenses	Advertising	Arthur Freitas	(13,366.48)
7	Human Resources Total				\$ (39,250.85)
8	SS Company Benefits	920 - Administrative and general salaries	116.5% Incentive	Arthur Freitas/Michael Knoll	\$ 19,479.48
9	SS Company Benefits	920 - Administrative and general salaries	3% Wage Adjustment	Arthur Freitas/Michael Knoll	1,726.03
10	SS Company Benefits	920 - Administrative and general salaries	Long Term Incentive	Arthur Freitas/Michael Knoll	(5,081,565.85)
11	SS Company Benefits	921 - Office supplies and expenses	Business Area Adjustment	Michael Knoll	(3.09)
12	SS Company Benefits	926 - Employee pensions and benefits	Pension & Benefits Adjustment	William Grant	(4,477.26)
13	SS Company Benefits Total				\$ (5,064,840.69)
14	Total Witness - Michael Knoll				\$ (5,104,091.54)
	Amounts may not add or tie to other schedules due to rounding				