

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

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

* * * * *

IN THE MATTER OF ADVICE NO. 961-)
GAS OF PUBLIC SERVICE COMPANY)
OF COLORADO TO REVISE ITS)
COLORADO PUC NO. 6-GAS TARIFF) PROCEEDING NO. 20AL-____G
TO INCREASE JURISDICTIONAL BASE)
RATE REVENUES, IMPLEMENT NEW)
BASE RATES FOR ALL GAS RATE)
SCHEDULES, AND MAKE OTHER)
PROPOSED TARIFF CHANGES)
EFFECTIVE MARCH 7, 2020.)

DIRECT TESTIMONY AND ATTACHMENTS OF MICHAEL T. KNOLL

ON

BEHALF OF

PUBLIC SERVICE COMPANY OF COLORADO

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

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

February 5, 2020

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LIST OF ATTACHMENTS

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

GLOSSARY OF ACRONYMS AND DEFINED TERMS

<u>Acronym/Defined Term</u>	<u>Meaning</u>
AIP	Annual Incentive Program
Commission	Colorado Public Utilities Commission
EPS	Earnings Per Share
Exempt	Salaried employees
FERC	Federal Energy Regulatory Commission
FLSA	Fair Labor Standards Act
FMLA	Family & Medical Leave Act
HDHP	High Deductible Health Plan
IBEW Local 111	International Brotherhood of Electrical Workers Local Union No. 111
IRC	Internal Revenue Code
IRS	Internal Revenue Service
KPI	Key Performance Indicators
LTI	Long-Term Incentive
Non-Exempt	Hourly employees
O&M	Operations & Maintenance

<u>Acronym/Defined Term</u>	<u>Meaning</u>
Public Service, or the Company	Public Service Company of Colorado
SAIDI	System Average Interruption Duration Index
STEM	Science, Technology, Engineering and Math Skills
Willis	Willis Towers Watson
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.

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DIRECT TESTIMONY AND ATTACHMENTS OF MICHAEL T. KNOLL

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

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

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

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

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

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

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

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

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

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

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

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

23 • Base Pay/Wages – I describe and quantify the base pay/wages element of
24 the Company's compensation structure and explain that the levels
25 requested by Public Service in this case are reasonable and necessary
26 costs of providing gas service;

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

15 **Q. PLEASE SUMMARIZE YOUR TESTIMONY AND RECOMMENDATIONS.**

16 A. The Total Rewards Program and its component parts are reasonable when
17 compared to the market and are therefore necessary to attract, retain, and
18 motivate the employees who are required to provide safe and reliable gas service
19 to Public Service customers. Even though the Total Rewards Program as a
20 whole provides a market-competitive compensation and benefits package, Public
21 Service is not requesting recovery of every component of the Total Rewards
22 Program. The cost of service study, which is Attachment DAB-1 to the Direct
23 Testimony of Company witness Ms. Deborah A. Blair (“Cost of Service Study”),
24 includes the amounts requested based upon costs incurred in the 12-month
25 period ended September 30, 2019, adjusted for known and measurable changes
26 reflective of the level of costs the Company will incur within one year of this

period and before new rates from this proceeding are in effect. These amounts are as follows:

Table MTK-D-1: Compensation Amounts Requested

Compensation Type	Amount
Bargaining wage	\$22,352,379*
Non-Bargaining base pay	\$67,543,769*
AIP capped at 15% of base pay, calculated on a person-by-person basis	\$3,530,540*
Time-based LTI at target	\$659,995
Recognition awards	\$165,161

*Requested amounts reflect PSCo Gas O&M after known and measureable pay increases.

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

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

A. Yes, I am sponsoring four attachments:

- CONFIDENTIAL Attachment MTK-1, which is the 2019 Willis Towers Watson ("Willis") Competitive Total Direct Compensation Analysis;
- Public Attachment MTK-1- which is the 2019 Willis Competitive Total Direct Compensation Analysis;
- CONFIDENTIAL Attachment MTK-2, which is the 2019 Xcel Energy Non-Bargaining, Exempt Employee Annual Incentive Program;
- Public Attachment MTK-2 - which is the 2019 Xcel Energy Non-Bargaining, Exempt Employee Annual Incentive Program;

- Attachment MTK-3, which provides operation and maintenance (“O&M”) expense by cost element; and
- Attachment MTK-4, which provides O&M expense by Federal Energy Regulatory Commission (“FERC”) account.

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

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

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

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

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

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

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

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

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

¹ Public Service relies on a combination of its own employees and XES employees to provide safe, reliable gas service. To avoid the need to distinguish between Public Service and XES employees, I will refer generally to the employees who provide service to Public Service as being Public Service employees, except when necessary to identify XES specifically. In addition, my testimony sometimes refers to Xcel Energy as a whole because my group takes a corporate-wide view of certain issues, such as attrition levels.

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

4 A. The market refers to the employers with whom Xcel Energy competes for
5 employees. Public Service principally competes for employees with utility-sector
6 employers, but also often competes with non-utility sector employers.

7 Utility-sector competition generally takes place for jobs specific to utility
8 operations and the delivery of utility services, such as gas control center
9 operators, gas engineers, gas plant operators, gas technicians, welders, and gas
10 fitter journeymen. Public Service also competes with other utilities for utility-
11 specific corporate roles such as gas integrity management, gas strategy, natural
12 gas sales, gas compliance, gas capacity planning, and gas project management.

13 In the non-utility sector, Public Service competes with: (1) gas pipeline and
14 oil and gas companies for engineers, project managers, and experienced gas
15 leadership; and (2) non-utility employers for jobs that are not specific to utilities,
16 such as finance and accounting analysts, marketing analysts, designers,
17 information technology specialists, attorneys, support staff, and customer service
18 representatives.

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

21 A. Yes. Prospective employees with the skills and training required for the gas utility
22 industry are in high demand. Many of the skilled trade crafts required to provide

1 safe and reliable service, such as journeyman gas fitters, welders, and gas plant
2 operators require strong Science, Technology, Engineering and Math (“STEM”)
3 skills and four years of apprenticeship training. Thus, these employees are well-
4 trained individuals that are in low supply and in high demand by contracting firms,
5 utilities, and other sectors of the energy industry. In addition, Public Service
6 continues to see an imbalance in the supply and demand of gas engineers. As a
7 result, there is a limited pool of experienced and qualified candidates for many
8 jobs, and Public Service must compete for these jobs on a national, regional, and
9 local basis.

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

12 A. Yes. According to the Bureau of Labor Statistics,² Colorado had an
13 unemployment rate of 2.7 percent in September 2019, at a time when the
14 national average was 3.5 percent. The relatively low unemployment rate – at
15 both the national and local level – means that there is increased mobility and
16 abundant opportunities for existing and potential employees to choose other
17 employers if the Total Rewards Program package provided by Public Service is
18 not market-competitive.

² <https://www.bls.gov/eag/eag.co.htm> and <https://www.bls.gov/eag/eag.us.htm>

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

A. In addition to the competition Public Service faces for employees, Xcel Energy projects that approximately 40 percent of its current workforce will be eligible to retire in the next 10 years. Many of those Xcel Energy employees provide support to Public Service utility operations.

**Q. WHAT LEVELS OF ATTRITION HAS XCEL ENERGY EXPERIENCED IN
RECENT YEARS?**

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

Table MTK-D-2: Attrition by Year

	2013	2014	2015	2016	2017	2018	2019
PUBLIC SERVICE*	5.1%	6.9%	6.6%	8.2%	10.8%	7.8%	8.2%
XES	9.5%	14.9%	14.1%	13.4%	14.1%	15.3%	13.0%

*Includes bargaining and non-bargaining data

1 **Q. HOW DO THE ATTRITION DATA AND RETIREMENT OUTLOOK RELATE TO**
2 **THE NEED TO PROVIDE MARKET-COMPETITIVE COMPENSATION AND**
3 **BENEFITS?**

4 **A.** As I have explained, Xcel Energy is experiencing steady attrition and increasing
5 competition for skilled employees. At the same time, 40 percent of its employees
6 will become eligible to retire in the next 10 years. Because skilled employees are
7 critical to the Company's duty to provide safe and reliable gas service, Public
8 Service, the Commission, and Public Service's customers have a shared interest
9 in ensuring that compensation and benefit levels are set at a level that will allow
10 Public Service to attract, retain, and motivate those skilled employees.

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

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

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

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

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

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

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

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

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

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

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

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

18 A. Table MTK-D-3 summarizes employees’ eligibility for particular types of
19 compensation:

TABLE MTK-D-3: Eligibility Grid

	Bargaining	Non-Bargaining Non-Exempt (Hourly)	Non-Bargaining Exempt (Salaried)	Non-Bargaining Exempt (Senior and Executive Level)
Base Pay/Wages	Eligible	Eligible	Eligible	Eligible
AIP	X	X	Eligible	Eligible
LTI	X	X	X	Eligible
Recognition ³	Eligible	Eligible	Eligible	Eligible

*X = ineligible

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

A. No. 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. Because the market-competitive level varies by job and individual employee, the combinations and values of each component of compensation (base pay, AIP, and LTI) vary accordingly, as shown in Chart MTK-D-1 below. For example, Chart MTK-D-1 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 Public Service competes for employees structure their compensation

³ Bargaining, Non-Bargaining Exempt (Salaried), and Non-Bargaining Exempt (Senior and Executive Level) are eligible for only the Performance Recognition and Years of Contribution portion of Recognition, not the Spot-On Award. Non-Bargaining Non-Exempt (Hourly) employees are eligible for both.

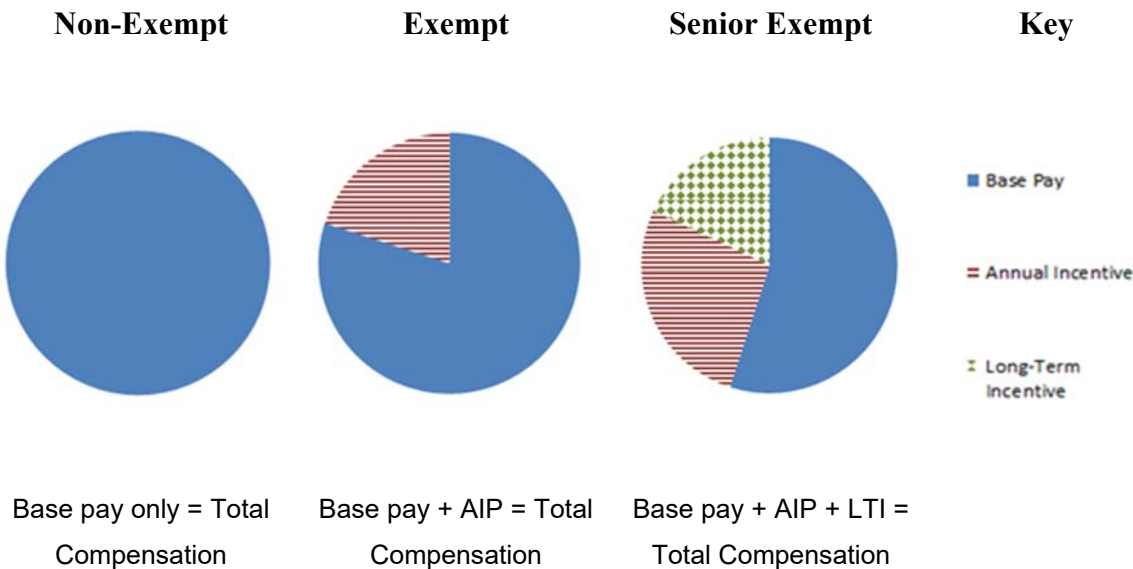
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elements, and it also reflects an intentional decision to align compensation opportunities with an employee’s level of responsibility and influence on the Company’s operations.

Chart MTK-D-1: Compensation Design Model



1 **IV. REASONABLENESS OF PUBLIC SERVICE'S COMPENSATION PROGRAMS**

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

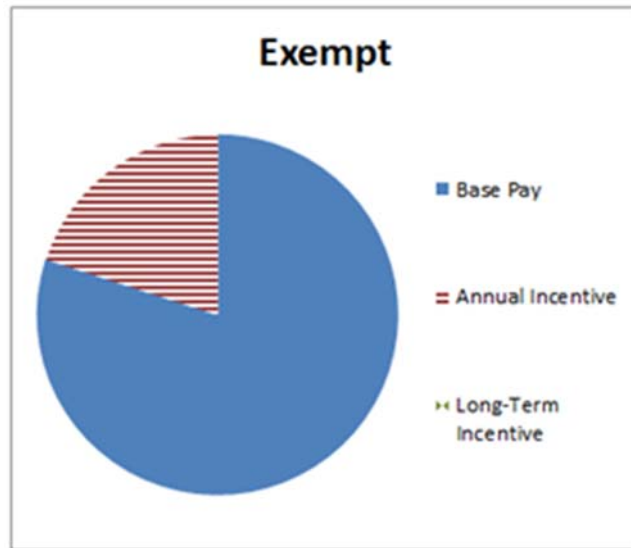
5 A. Yes. Public Service uses the median of market survey data to ensure that its total
6 cash compensation and total direct compensation levels are consistent with the
7 market. Public Service also engaged Willis to perform an analysis of how Xcel
8 Energy's 2019 target total cash compensation and total direct compensation
9 compare with the compensation of other utility companies. A copy of the 2019
10 Willis Compensation Study is provided as Confidential Attachment MTK-1. That
11 study includes compensation information related to exempt and executive
12 employees.

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

16 A. Total cash compensation is the combination of base pay plus short-term
17 incentive compensation (AIP) elements, as applicable (Chart MTK-D-2). These
18 two compensation elements, which apply to all non-bargaining, exempt
19 employees, are the main components of the compensation package offered to a
20 majority of these non-bargaining, exempt employees to make up 100 percent of
21 their market-based compensation.

1

Chart MTK-D-2: Exempt Compensation Design Model



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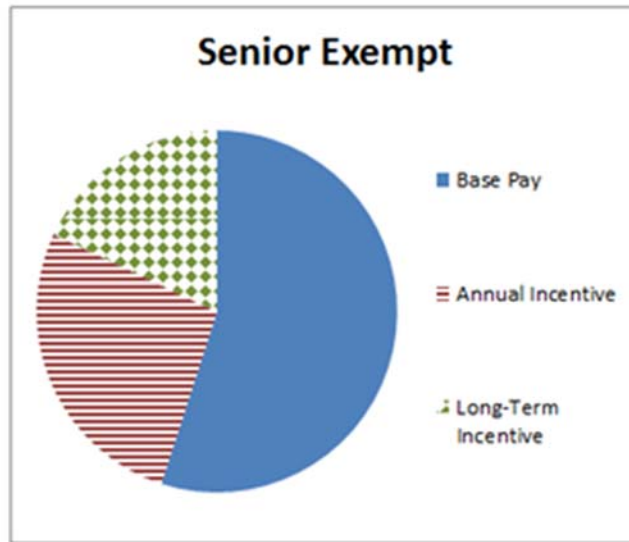
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Total direct compensation is used to describe the compensation package offered to highly specialized or senior-level talent and leadership employees. Total direct compensation includes base pay plus short-term incentive compensation (AIP) and long-term incentive (LTI) (Chart MTK-D-3). This third element of compensation, LTI, provides Public Service with a market-based attraction and retention compensation vehicle, because the long-term incentive offered requires a three-year vesting period before payment in most circumstances. These three elements make up 100 percent of the compensation for this group of eligible employees.

Chart MTK-D-3: Senior Exempt Compensation Design Model



Q. PLEASE DESCRIBE THE SPECIFIC ELEMENTS OF THE 2019 WILLIS COMPENSATION STUDY.

A. The 2019 Willis Compensation Study consists of the following comparisons:

- Xcel Energy's total cash compensation levels (total cash compensation is defined as base salary plus target annual incentive compensation) were compared with competitive market target total cash compensation levels;
- Xcel Energy's total direct compensation levels (total direct compensation is defined as base salary plus target annual incentive plus long-term incentive compensation) were compared with competitive market target total direct compensation levels;
- Xcel Energy's base salary levels were compared with competitive market total cash compensation levels;
- Xcel Energy's annual incentive targets were compared with market annual incentive targets; and
- Xcel Energy's long-term incentive targets were compared with the market long-term incentive targets.

1 The 2019 Willis Compensation Study compared Xcel Energy's level of
2 compensation to the median and average levels of compensation paid by the
3 comparison groups.

4 **Q. WHAT COMPARISON GROUPS DID THE 2019 WILLIS COMPENSATION**
5 **STUDY USE?**

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

12 **Q. WHY DID PUBLIC SERVICE HAVE THE WILLIS COMPENSATION STUDY**
13 **DONE AT THE NATIONAL LEVEL RATHER THAN COLORADO-SPECIFIC?**

14 A. The Sherman Antitrust Act provisions governing independent, third-party
15 consulting firms require that published survey data contain five or more
16 companies for the job surveyed. Companies use various survey providers based
17 on their jobs and industry, and therefore may not participate in the same surveys
18 or have the same jobs as Xcel Energy. The survey providers can only provide
19 results data based on those companies who submit data for the specific jobs.
20 Because there are only a limited number of publicly regulated utilities in Colorado
21 (e.g., Xcel Energy, Black Hills Energy, Atmos Energy Corporation, and Colorado
22 Natural Gas Inc.), Colorado-specific data would not meet the requirements set

1 forth by the Sherman Antitrust Act. In addition, XES employees are not all
2 located in Colorado, but they provide service to Colorado customers. Finally,
3 AIP-eligible employees tend to be more mobile and more likely to relocate, so
4 restricting the survey to Colorado would not necessarily capture the opportunities
5 available to those employees.

6 **Q. IF PUBLIC SERVICE INCLUDED COLORADO-SPECIFIC COMPENSATION**
7 **COMPARISONS, WOULD THAT BOLSTER THE RECOVERY REQUEST IN**
8 **THIS CASE?**

9 A. Yes. In fact, the most recent information available through the US Bureau of
10 Labor Statistics and the Colorado Department of Labor and Employment
11 indicates the average/median wage in Colorado is slightly higher than the
12 national average/median.⁴ Thus, using national survey data tends to understate
13 the market-compensation levels insofar as Colorado employers are concerned.

14 **Q. WHAT WERE THE RESULTS OF THE 2019 WILLIS COMPENSATION**
15 **STUDY?**

16 A. As shown on Table MTK-D-4, the 2019 Willis Compensation Study finds that with
17 the inclusion of target AIP, Public Service's median total cash compensation

⁴ https://www.bls.gov/regions/mountain-plains/news-release/pdf/countyemploymentandwages_colorado.pdf
<https://www.colorado.gov/pacific/cdle/news/colorado-occupational-employment-and-wages-2018>

1 levels are generally in line with other utilities.⁵ Without the target-level AIP,
2 however, the median total cash compensation provided would be well below the
3 median for the overall utility market, and would put Public Service at a material
4 disadvantage in the competition for employees.

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

⁵ As I explain in more detail later in my Direct Testimony, the "target" amount of AIP is paid if the employee achieves the level of success that Xcel Energy considers to be reasonable for a particular corporate goal. The actual AIP payment can be less than or more than target, depending on performance.

1

Table MTK-D-4 : Study Comparisons

Components of Xcel Energy Compensation	Compared to Base Salaries and Incentives of Utilities with Similar Revenues (Revenue Sample) *	Compared to Base Salaries and Incentives of Utilities Across the Nation (National Sample)
Base Salary Only (excludes Target AIP)	Below Market by 14.0%	Below Market by 11.8%
Target Total Cash Compensation (Base Salary + Target AIP)	Below Market by 4.3%	Below Market by 1.9%
Base Salary Only (excludes Target AIP and Target LTI*)	Below Market by 19.6%	Below Market by 16.4%
Base Salary + Target AIP (excludes Target LTI*)	Below Market by 10.6%	Below Market by 7.0%
Target Total Direct Compensation (Base Salary + Target AIP + Target LTI)	Below Market by 1.8%	Below Market by 0.6%

2

* Primary comparison group using median pay components

3 **Q. WHAT DO YOU CONCLUDE FROM THE 2019 WILLIS COMPENSATION**
 4 **STUDY?**

5 A. The 2019 Willis Compensation Study illustrates that Xcel Energy's compensation
 6 structure (i.e., both base salary and the AIP) provides a market level of
 7 compensation, which confirms that approval of Public Service's requested

1 amount of compensation expense, including target AIP, is appropriate and
2 reasonable. The study confirms that the target level of annual incentives provided
3 to employees through the AIP are aligned with those for similar positions in the
4 competitive market. Without the target AIP, however, Public Service's total cash
5 compensation would lag the market by 14.0 percent (compared to utilities with
6 similar revenues), which would put Public Service at a material disadvantage
7 when competing for skilled employees.

8 Additionally, the study confirms that the level of target LTI offered to
9 eligible employees is both in-line with the market and a necessary component of
10 pay for executives, other senior management, and senior specialized employees
11 to reach their market-based level of compensation at 100 percent. Without the
12 target LTI, however, Public Service's total direct compensation would lag the
13 market by 10.6 percent compared to utilities with similar revenues, making it
14 difficult to compete for senior- and executive-level talent.

15 In total, excluding these two forms of compensation (AIP and LTI) from the
16 Company's Total Compensation Package would significantly hamper Public
17 Service's ability to attract, retain and motivate eligible employees, because the
18 levels of compensation would be 19.6 percent below market-competitive levels
19 compared to utilities with similar revenues.

1 **Q. THE COMPARISONS YOU HAVE JUST DISCUSSED USED THE TARGET**
2 **LEVEL OF AIP FOR THE COMPANY. IS PUBLIC SERVICE SEEKING**
3 **RECOVERY OF THE TARGET LEVEL OF AIP IN THIS CASE?**

4 A. No. In this filing, the Company has capped its AIP request at 15 percent of base
5 pay on an employee-by-employee basis in an effort to reduce the number of
6 contested issues in this case. But even though the Company is requesting AIP
7 capped at 15 percent of an employee's base salary instead of the target AIP,
8 Public Service must still offer employees the target AIP contemplated in the Total
9 Compensation Package. Failure to do so would materially impair the Company's
10 ability to attract, retain and motivate the talent needed to provide safe and
11 reliable gas service. In fact, structuring the Company's actual compensation
12 package in a manner that reflects what the Commission has recently authorized
13 to be recovered in base rates would arguably be an imprudent management
14 decision. Therefore, the combination of the Commission's prior decisions of
15 capping AIP at 15 percent of base pay and the real-world necessity that Public
16 Service pay a market-competitive level of compensation has the effect of
17 preventing Public Service from recovering the full cost of its market-competitive
18 compensation levels. As discussed by Company witness Brooke A. Trammell,
19 that materially erodes the Company's ability to earn its authorized return.

1 **Q. TABLE MTK-D-4 REFLECTS COMPARISONS TO MARKET-BASED TARGET**
2 **COMPENSATION. WHAT ARE THE TOTAL CASH COMPENSATION**
3 **COMPARISONS RELATED TO THE 15 PERCENT AIP CAP THE**
4 **COMMISSION HAS AUTHORIZED IN RECENT PUBLIC SERVICE RATE**
5 **CASES?**

6 A. If the target AIP in that table were replaced with AIP recovery capped at 15
7 percent of employees' base salaries, the Total Cash Compensation
8 comparisons, as shown in the second row of Table MTK-D-4, would drop an
9 additional two percentage points below market in both the Revenue and National
10 comparisons (i.e., below market by 6.3 percent and 3.9 percent respectively).

11 **Q. IF PUBLIC SERVICE WERE TO REDUCE ITS ACTUAL COMPENSATION**
12 **OFFERED TO EMPLOYEES AND POTENTIAL EMPLOYEES BY AN**
13 **ADDITIONAL TWO PERCENT TO REFLECT THE 15 PERCENT CAP, HOW**
14 **WOULD THAT AFFECT THE COMPANY'S ABILITY TO ATTRACT AND**
15 **RETAIL TALENTED EMPLOYEES?**

16 A. Reducing the actual compensation by an additional two percent to reflect the 15
17 percent cap would significantly impair the Company's ability to attract and retain
18 employees whose market-based incentive pay is greater than 15 percent,
19 particularly in the current job market. While two percent seems minor when
20 compared in aggregate, this limitation affects many operational leaders and
21 highly technical employees. Thus, the Company must continue to maintain its
22 actual compensation levels above the compensation levels authorized by the

1 Commission. While the Company's compensation practices are both consistent
2 and competitive with the job market, the efforts to ensure competitive employee
3 compensation leads to under-recovery of the reasonable and necessary costs of
4 providing safe and reliable gas service.

5 **Q. ARE XCEL ENERGY'S COMPENSATION PROGRAMS NECESSARY AND**
6 **REASONABLE?**

7 A. Yes. As I have explained, Public Service and Xcel Energy must provide a
8 market-competitive level of total cash compensation to attract and retain the
9 employees who in turn provide safe and reliable gas service to Public Service's
10 customers. Base pay coupled with the AIP is an appropriate method of providing
11 market competitive total cash compensation.

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

1 compensation in another manner to attract, retain, and motivate these groups of
2 critical employees.

V. REQUESTED ELEMENTS OF COMPENSATION

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

A. I describe the four elements of compensation that the Company asks the Commission to approve as reasonable and necessary expenses of providing gas service: (1) base pay/wages; (2) AIP compensation capped at 15 percent of base pay on an employee-by-employee basis; (3) time-based LTI compensation at target level; and (4) recognition awards.

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

A. No. In the interest of streamlining this rate case, Public Service has not included the LTI costs associated with relative total shareholder return or the LTI associated with environmental goals as a part of its requested compensation expense in this case. For the same reasons, Public Service is limiting recovery of AIP costs to 15 percent of base pay, calculated on a person-by-person basis. The LTI and target levels of AIP are required to achieve a market level of compensation, so it is fair to state that Public Service is requesting recovery of compensation levels that are below market. But because all of the expenses of the Company's compensation programs are necessary and reasonable costs of attracting, retaining and motivating employees needed to provide safe and reliable gas service, Public Service reserves the right to request full recovery of those costs in future base rate proceedings.

1 **A. Base Wages and Base Pay**

2 **1. Bargaining Employee Base Wage**

3 **Q. HOW ARE THE BARGAINING EMPLOYEE BASE WAGE AMOUNTS**
4 **DETERMINED?**

5 A. Bargaining employee base wage amounts, including the hourly wage increases,
6 are based on the collective bargaining agreement between Public Service and
7 IBEW Local 111.

8 **Q. WHAT IS THE STATUS OF THE CURRENT COLLECTIVE BARGAINING**
9 **AGREEMENT?**

10 A. The current collective bargaining agreement was retroactively effective on
11 June 1, 2017 and will remain in effect through May 31, 2020. Under that
12 agreement, a base wage increase of 2.8 percent took effect on June 1, 2018 and
13 another base wage increase of 2.8 percent took effect on June 1, 2019.

14 **Q. HAS THE COMPANY INCLUDED THE 2019 BASE WAGE INCREASE FOR**
15 **BARGAINING EMPLOYEES AS A PART OF ITS COST OF SERVICE?**

16 A. Yes. The June 2019 increase occurred during the twelve-month period ending
17 September 30, 2019, so the bargaining labor expense includes the 2.8 percent
18 increase reflected in the collective bargaining agreement. In her Direct
19 Testimony, Ms. Blair discusses how this increase is reflected in the cost of
20 service presented in this case.

1 **Q. HAS A COLLECTIVE BARGAINING AGREEMENT BEEN REACHED TO**
2 **BECOME EFFECTIVE WHEN THE CURRENT AGREEMENT ENDS?**

3 A. Yes. A collective bargaining agreement extension has been reached between
4 Public Service and IBEW Local 111. The Agreement calls for a 2.8 percent base
5 increase on June 1st of 2020, 2021 and 2022. Therefore, Public Service has
6 included in the cost of service a 2.8 percent base increase for 2020 as well, and
7 the details of the adjustment are discussed by Ms. Blair in her Direct Testimony.

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

10 A. Public Service asks the Commission to approve \$22,352,379 of base wages for
11 bargaining employees.

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

14 A. Yes. The base wage amount for bargaining employees was negotiated as part of
15 a collective bargaining agreement between the Company and IBEW Local 111.

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

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

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

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

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

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

⁶ If the Public Service position is unique to the utility industry, Xcel Energy may restrict its comparison to only the utility-specific data in the surveys.

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

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

5 A. No. Base pay increases must be earned based upon performance, among other
6 factors. In contrast, cost-of-living increases in base pay are typically provided to
7 all employees, regardless of performance. Public Service has not historically
8 provided cost-of-living increases.

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

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

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

18 **Q. WHAT BASE PAY INCREASE DID NON-BARGAINING EMPLOYEES EARN**
19 **IN 2019?**

20 A. Effective March 2019, eligible Public Service non-bargaining employees earned,
21 on average, a 3.0 percent base pay increase. To earn a base pay increase, a
22 non-bargaining employee had to be eligible based on job performance and had
23 to be employed by Public Service on the effective date of the base pay increase.

1 In her Direct Testimony, Ms. Blair discusses how this increase is incorporated
2 into the cost of service presented in this case.

3 **Q. WHAT AMOUNT OF BASE PAY INCREASE HAS PUBLIC SERVICE**
4 **BUDGETED FOR 2020?**

5 A. For 2020, the Company has budgeted a base pay increase of 3.0 percent for
6 non-bargaining employees.

7 **Q. IS PUBLIC SERVICE SEEKING TO INCLUDE THE BUDGETED 3.0 PERCENT**
8 **INCREASE FOR 2020 IN THE COST OF SERVICE IN THIS CASE?**

9 A. Yes. The 3.0 percent base pay increase will become effective in March 2020,
10 which is prior to the time the rates established in this case go into effect, and the
11 amount of the increase is known and measurable. Ms. Blair discusses this
12 adjustment to the cost of service in her Direct Testimony. Moreover,
13 independent third-party surveys demonstrate that the budgeted 3.0 percent
14 increase is comparable to the projected increases by other employers with whom
15 Public Service competes for employees.

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

19 A. Public Service relies on independent third-party compensation surveys because
20 the survey vendors use rigorous methodologies to collect and aggregate
21 compensation information from a wide array of companies. Those surveys are
22 compiled in compliance with Department of Justice and Federal Trade

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

9 **Q. CAN YOU DEMONSTRATE THAT THE 3.0 PERCENT BASE PAY**
10 **INCREASES EARNED BY NON-BARGAINING EMPLOYEES IN 2019 AND**
11 **BUDGETED FOR 2020 ARE REASONABLE?**

12 A. Yes. The independent third-party surveys that I described above demonstrate
13 that for 2019, the 3.0 percent base pay increase for Public Service employees
14 was competitive with the market as a whole. In particular, five different survey
15 sources reported the following base pay increase ranges:

- 16 • 3.0 percent to 3.5 percent for all utilities on a national basis; and
- 17 • 3.0 percent to 3.3 percent for all companies on a national basis.⁷

18 As these independent surveys show, the 3.0 percent base pay increase for
19 Public Service's non-bargaining employees was reasonable, and perhaps even
20 conservative, when compared to the market in 2019.

⁷ WorldatWork "2019-2020 Salary Budget Survey"; The Conference Board "2020 Salary Increase Budget Survey Results"; Willis Towers Watson, "2019 General Industry Salary Budget Survey"; Mercer "2019/2020 US Compensation Planning Survey Report"; and Aon Hewitt "U.S. Salary Increase Survey 2019-2020."

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

3 A. Yes. Table MTK-D-5 identifies the projected and actual non-bargaining base pay
4 increase percentages available from 2015 through 2020, using the survey
5 methodology described above:

6 **Table MTK-D-5: Base Pay Increases**

Year	Projected Increase	Actual Increase
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%	3.0% - 3.3%
2020	3.0% - 3.5%	TBD

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

9 A. I conclude that the 2019 and 2020 base pay increases for non-bargaining
10 employees are reasonable and should be included in the Company's cost of
11 service. Accordingly, Public Service requests that the Commission approve
12 \$67,543,769 for non-bargaining base pay.

13 **B. Annual Incentive Program Compensation**

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

16 A. I discuss three topics related to the Company's AIP. First, I explain that the
17 Company's use of incentive compensation to achieve a market level of
18 compensation benefits customers, as compared to a compensation system that

1 would provide all of a non-bargaining employee's market compensation through
2 base pay alone. Second, I describe the structure of Xcel Energy's AIP and
3 quantify the amount of incentive compensation that Public Service asks the
4 Commission to approve. Third, I describe the changes that Xcel Energy has
5 made to its AIP in recent years to incentivize employee behavior that leads to
6 customer benefits.

7 **Q. YOU NOTED ABOVE THAT THE COMPANY'S USE OF AIP IS DESIGNED TO**
8 **ALLOW AN EMPLOYEE TO REACH A MARKET LEVEL OF**
9 **COMPENSATION. WILL YOU ELABORATE?**

10 A. Yes. Employers can provide cash compensation to employees either solely
11 through base salary or through a combination of base salary and incentive
12 compensation. The Company's AIP reflects the latter approach. That is, rather
13 than providing all of an employee's market-level compensation as base salary
14 ("fixed pay"), Public Service provides a portion as incentive compensation ("at-
15 risk pay"). AIP compensation is a part of the total cash compensation package
16 provided to employees, and it is only with the inclusion of AIP that the Company's
17 cash compensation levels are competitive with what is paid by the market.

18 **Q. IS PUBLIC SERVICE REQUESTING THE ENTIRE AMOUNT OF AIP**
19 **COMPENSATION THAT ITS EMPLOYEES EARNED DURING THE TWELVE-**
20 **MONTH PERIOD ENDING SEPTEMBER 30, 2019?**

21 A. No. As mentioned above, in an effort to reduce the number of contested issues in
22 this case, Public Service is capping its AIP compensation request to 15 percent

1 of an employee's base pay, calculated on a person-by-person basis. That
2 amount is \$3,530,540. However, the Company reserves the right to request the
3 target amount of AIP compensation in future cases because that amount is
4 necessary in order for the Company to recover the market level of compensation.

5 **1. Benefits of AIP Compensation**

6 **Q. WHY DOES PUBLIC SERVICE INCLUDE AIP COMPENSATION AS PART OF**
7 **ITS OVERALL COMPENSATION PLAN?**

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

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

21 A. A well-designed incentive compensation plan motivates employees to focus on
22 activities that benefit customers, such as improving customer service response

1 times, enhancing reliability, and achieving environmental goals. In addition, a
2 compensation structure that includes incentive compensation strengthens the link
3 between pay and performance, because the employee must meet the
4 performance standards to earn the full compensation amount. Using base pay
5 alone to meet the necessary total compensation levels would allow the employee
6 to receive the payment regardless of performance. Thus, the use of incentive
7 compensation helps Public Service motivate and reward its employees for
8 delivering superior performance.

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

10 A. The use of incentive compensation reduces fixed labor costs by lowering the
11 base amount to which annual escalation rates are applied. For example, if a non-
12 bargaining employee's total compensation was \$50,000 in year one and all of the
13 compensation was in the form of base pay, a 3.0 percent base pay increase
14 would lead to a base pay increase of \$1,500 in year two and a new base pay of
15 \$51,500. In contrast, if the compensation was structured as 70 percent base pay
16 (i.e., \$35,000) and 30 percent incentive compensation, the 3.0 percent base pay
17 increase would lead to an increase of only \$1,050 in year two ($\$35,000 \times .03 =$
18 $\$1,050$) and a new base pay of \$36,050, with the remainder needing to be
19 earned through incentive elements. Thus, by moving a portion of each
20 employee's pay from base pay to incentive pay, Public Service reduces overall
21 fixed labor costs by avoiding the compounding effect of annual base pay
22 increases.

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

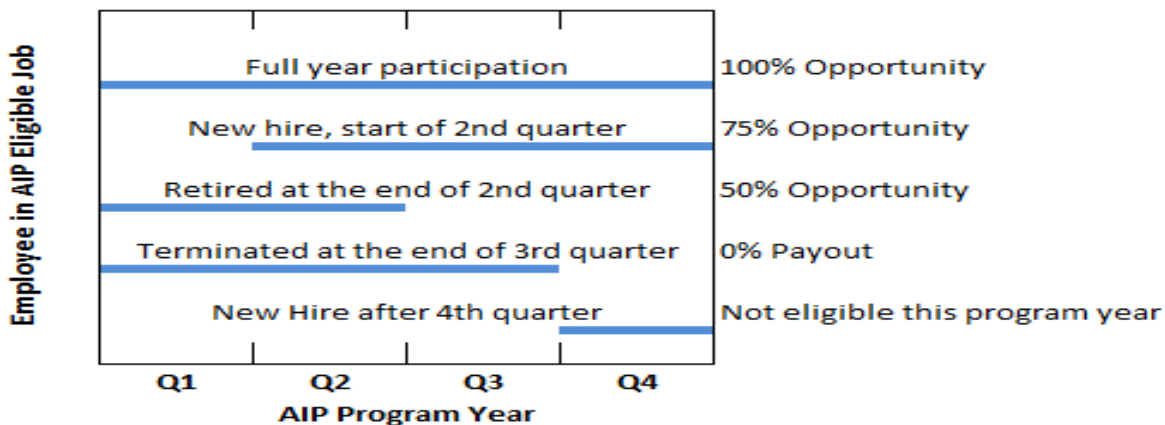
10 Finally, incentive compensation is paid only to those employed at the time
11 of payout in most circumstances. An eligible employee must be employed by
12 October 1 of a particular year to be eligible for a prorated year-end portion of the
13 AIP compensation for that program year. With limited exceptions, a person must
14 also be actively employed by the Company on the date that the year-end award
15 payments are made in order to receive an incentive award.⁸ The incentive
16 compensation calculation also prorates the payout of new or transferring
17 participants based on dates in an eligible position during the program year. By
18 avoiding payouts to departing employees and prorating payouts of arriving
19 employees, Public Service pays less in incentive compensation than it would

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

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

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

6 **Chart MTK-D-4: AIP Payout/Eligibility Example**



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

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

1 U.S. companies.⁹ According to the 2019 Willis Compensation Study
2 (Confidential Attachment MTK-1), 100 percent of energy companies in the
3 national sample maintain an annual incentive plan, and 100 percent of energy
4 companies in the revenue-based sample maintain an annual incentive plan.

5 **Q. YOU TESTIFIED EARLIER THAT THE COMPANY HAS CAPPED THE**
6 **REQUESTED AMOUNT OF AIP IN THIS CASE TO 15 PERCENT OF BASE**
7 **PAY TO REDUCE THE NUMBER OF CONTESTED ISSUES. DO YOU HAVE**
8 **ANY OTHER REMARKS REGARDING THE EFFECTS OF THE 15 PERCENT**
9 **CAP?**

10 A. Yes. As I indicated, Public Service has limited its AIP request to 15 percent of an
11 individual's base pay in this filing to reduce the number of contested issues, but
12 the Company continues to believe that such a cap represents poor public policy
13 and that while base rate recovery is reduced from the target AIP amount, it is
14 unreasonable for the Company to manage its compensation program at that
15 level. The result of this mismatch between costs incurred and authorized
16 recovery is leakage and has a negative financial impact to the Company, as
17 described by Ms. Trammell.

⁹ <http://aon.mediaroom.com/2015-08-26-U-S-Organizations-Report-Highest-Compensation-Spend-in-39-Years>,
accessed on 11/8/2019.

1 **Q. WHAT ACTIONS COULD THE COMPANY TAKE TO REDUCE OR LIMIT THE**
2 **FINANCIAL IMPACTS OF THE LEAKAGE YOU'VE DESCRIBED?**

3 A. By imposing the 15 percent cap, the Commission sends the message that the
4 only way for the Company to achieve full recovery of a true market-based
5 compensation level is to limit the actual amount of AIP to 15 percent of base pay
6 and to move the existing AIP compensation over 15 percent into base pay.

7 **Q. WHAT WOULD THE IMPACT TO CUSTOMERS BE IF THE AIP AMOUNT**
8 **OVER 15 PERCENT WERE MOVED TO BASE PAY?**

9 A. As I explained earlier, such a change would ultimately harm customers through
10 higher compounding costs because it increases the base to which base pay
11 increases are applied, it increases the amount of the AIP up to 15 percent, and it
12 increases employee pay-related benefits expenses such as pension and life
13 insurance. If the Company decided to cap the actual amount of AIP paid to
14 employees to 15 percent of base pay and to pay the remainder of the total
15 compensation through base pay, I estimate the overall compensation would need
16 to increase by approximately 18.0 percent¹⁰ on average over its current levels to
17 achieve a market-based level of compensation for the impacted employees.
18 Moreover, this change would result in Public Service having a vastly different
19 compensation structure than what is common in the markets where it competes
20 for employees. As a result, such a change would impair Public Service's ability
21 to attract high-performing employees who are needed to ensure the safe and

¹⁰ Percentage based on AIP amount over 15 percent excluded from rate request (\$635,331) divided by the amount included in the request (\$3,530,540).

1 reliable delivery of natural gas service to our customers. The skilled workforce
2 that the Company needs embraces the opportunity to achieve higher
3 compensation levels for superior performance, and changing the AIP to reflect
4 the Commission's authorized AIP amounts would challenge our ability to hire and
5 retain that workforce. Accepting the risk of potential workforce challenges is not
6 in our customers' long-term interests or in the interest of public safety, and it is
7 for those reasons that the Company has chosen not to alter its compensation
8 structure.

9 **2. Structure of Xcel Energy's AIP**

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

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

19 **Q. DOES THE ACHIEVEMENT OF A KPI LEAD TO A "BONUS" FOR THE**
20 **EMPLOYEE?**

21 A. No. While some may equate any dollars beyond base pay as a "bonus," the AIP
22 is a market-based incentive program with written goals and measurements
23 related to the payout, not a one-size-fits-all distribution of funds. If the goals are

1 achieved and AIP is paid at target, the employee's compensation for that year is
2 *just then* meeting market levels. Anything less than 100 percent of the full AIP
3 amount (target payout) generally puts the employee at a compensation level
4 below what other companies and utilities are paying.

5 **Q. EARLIER YOU REFERRED TO THE "YEAR-END PORTION OF THE AIP**
6 **COMPENSATION." ARE EMPLOYEES ABLE TO EARN INCENTIVE**
7 **COMPENSATION AT TIMES OTHER THAN YEAR-END UNDER THE AIP?**

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

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

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

1

Table MTK-D-6: 2019 Corporate Scorecard

Priority	KPI	Threshold (50%)	Target (100%)	Maximum (150%)	KPI Weight
Enhance Customer Experience	Customer Satisfaction (Residential)	726	737	759	20%
Keep Bills Low	O&M Growth (Over 2017)	2.0%	0.0%	(1.0%)	20%
Safety and Reliability	Employee Safety ¹¹	0.61	0.49	0.45	20%
	Public safety	85%	89%	94%	20%
	Electric system reliability (SAIDI)	100	92	84	20%

2 **Q. DOES THE COMPANY MEASURE WHETHER THE CORPORATE**
 3 **SCORECARD KPIS HAVE BEEN MET?**

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

¹¹ Calculated using the DART (Days Away, Restricted or Transferred) rate.

scorecard depends on the degree of success that the corporation as a whole achieves for the Corporate KPIs.

Table MTK-D-7: AIP Calculation Methodology

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%

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

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

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

Q. WHO ESTABLISHES THE INDIVIDUAL GOALS?

A. The individual component is based on the individual performance results of 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. Working within a prescribed budget, each manager has discretion to determine the year-

1 end individual component award within a range of 0 to 150 percent based on the
2 employee's contributions and performance during the year.¹²

3 **Q. ARE THE CORPORATE KPIS AND INDIVIDUAL GOAL COMPONENT**
4 **WEIGHTED EQUALLY WHEN ASSESSING THE PERFORMANCE OF AN**
5 **EMPLOYEE?**

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

¹² The individual component also includes the "I Deliver Award" and "Innovator Award." These awards, however, are not part of the year-end evaluation of whether an employee achieved his or her individual KPIs during that year.

Table MTK-D-8: Component Weights

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

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

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

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

A. No. As I explained earlier, the percentage of total compensation paid as incentive compensation is determined by the non-bargaining employee's position or level within the organization. Thus, for example, an employee at a 10 percent target opportunity level with a base salary of \$50,000 will receive \$5,000 in incentive

1 compensation, assuming achievement of 100 percent of the Corporate KPIs and
2 Individual goals. Target opportunities vary based on market competitive incentive
3 and design levels. As such, the more senior the non-bargaining employee, the
4 more of his or her total compensation is paid as incentive compensation.

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

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

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

4 A. Yes. To ensure that it can afford to pay incentive compensation, Xcel Energy
5 conditions payment of the year-end incentive compensation upon the
6 achievement of a certain earnings per share ("EPS") level for the year.¹³ If Xcel
7 Energy does not achieve that EPS level, the program does not pay any year-end
8 incentive compensation. The EPS level for 2019 is \$2.55 per share.

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

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

12 A. Yes. Public Service periodically examines its compensation programs to
13 determine whether improvements can be made and whether the programs are
14 effectively motivating employees.

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

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

¹³ There is no EPS requirement for the "I Deliver Award" or the "Innovator Award."

1 **Q. CAN YOU PROVIDE ADDITIONAL DETAILS ABOUT THE PLAN DESIGN**
2 **CHANGES?**

3 A. Yes. Prior to 2017, the AIP had three performance components – Corporate,
4 Business Area, and Individual. To strengthen the connection between an
5 individual employee's work and the benefits to customers, Public Service has
6 redesigned the program so that only the Corporate and Individual performance
7 components now exist. The prior weighting for the Business Area performance
8 component has been moved to the Individual performance component.

9 The design changes result in the majority of eligible employees having the
10 highest AIP weightings for the Individual performance component. This means
11 that most employees earn the majority of their incentive compensation based on
12 the successful completion of individual goals that are designed to benefit
13 customers. This change creates a clearer "line of sight" between the employees'
14 accomplishments and receiving AIP compensation.

15 In addition to the performance component change, the program provides
16 eligible employees the opportunity to earn a portion of their AIP individual
17 component in a more timely fashion – during the program year. This can be
18 accomplished by delivering greater than expected results that impact at a team
19 or department level and is linked to supporting Xcel Energy's strategy and
20 priorities. It can also be accomplished through the implementation of innovative,
21 high-impact solutions or processes that deliver significant benefits at a company-
22 wide level. These AIP payments can be made throughout the program year, and

1 are separate from the year-end incentive compensation payouts and EPS
2 requirements.

3 **Q. IS AN EMPLOYEE'S AIP COMPENSATION TARGET OPPORTUNITY STILL**
4 **EXPRESSED AS A PERCENTAGE OF BASE PAY?**

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

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

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

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

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

17 A. Like the other Xcel Energy compensation programs, the LTI program is intended
18 to attract, retain, and motivate employees. LTI differs from AIP and other types
19 of compensation in that is offered only to executives, senior management
20 employees, and senior exempt employees, as determined by market-competitive
21 compensation designs. The LTI is necessary, however, to ensure that those
22 employees' compensation levels and mix of compensation are competitive. Or

1 stated differently, without the LTI component, eligible employees' overall
2 compensation levels would be well below market-competitive levels of
3 compensation.

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

7 A. No. There are three components to the Company's LTI program, and Public
8 Service is seeking recovery for only one of them – the target amount of the time-
9 based component of LTI. Public Service is not seeking recovery for the LTI
10 portion related to total shareholder return or the performance-based component
11 of LTI related to Xcel Energy's environmental activities for executives.

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

13 A. Yes. LTI programs are widely used compensation vehicles for executives and
14 certain non-executive employees, as shown in the 2019 Willis Compensation
15 Study. These types of programs create an incentive for eligible employees to
16 engage in high-level planning that will lead to benefits over the long-term. It also
17 encourages those employees to remain with the Company and to follow through
18 on longer-term decisions and projects. Even though Public Service is requesting
19 the target level of only one component of its LTI program, all of the components
20 of LTI are needed to provide a market competitive compensation package for
21 executives and certain other senior-level employees.

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

3 A. The time-based LTI is used to attract, retain, and motivate eligible employees to
4 ensure that those employees engage in long-term planning for the benefit of the
5 Company and that they remain with Xcel Energy long enough to implement those
6 long-term plans. Executive-level and senior exempt employees tend to be highly
7 mobile, particularly when unemployment rates are so low in Colorado and across
8 the country. Time-based LTI helps provide continuity and stability in leadership,
9 which reduces recruiting expenses and allows leadership to more competently
10 implement programs that benefit customers. Xcel Energy accomplishes that goal
11 by requiring a three-year vesting period for the LTI payment. Employees eligible
12 for LTI include, but are not limited to, employees with roles that affect gas supply,
13 gas transmission, gas emergency response, information technology, engineering,
14 and customer service responsibilities. Each of these areas directly supports gas
15 customers in Colorado.

16 **Q. PLEASE EXPLAIN WHAT YOU MEAN BY “TARGET LEVEL.”**

17 A. The time-based LTI for the senior exempt participants includes a performance
18 lever based on final relative total shareholder return, which can increase or
19 decrease the final amount participants receive by plus or minus 20 percent of the
20 employee’s target LTI. Public Service, however, is requesting only the target
21 level amount for this group of participants, which renders the total shareholder
22 return metric irrelevant for purposes of this rate case. This total shareholder

1 return metric does not apply to the time-based LTI for executive-level
2 participants.

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

6 A. Yes. The time-based component of LTI ensures that employees are making long-
7 term plans that align with strategic priorities and embarking on multi-year projects
8 that create stability for Public Service's operations. Because payment of time-
9 related LTI compensation is contingent on the employee remaining with the
10 Company for an extended period, it requires employee commitment beyond a
11 single year. This form of compensation is considered deferred. While this piece
12 of the employee's compensation pie helps make the employee whole each year,
13 the actual compensation is not realized until after the three-year vesting period.

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

16 A. Accrual of LTI expense occurs ratably over a three-year period and, therefore,
17 reflects LTI plans in effect during each of the three years. The Company has
18 included the accrued amount from October 2016 through September 2019 in the
19 cost of service.

20 **Q. WHAT AMOUNT OF LTI COMPENSATION IS THE COMPANY SEEKING TO**
21 **RECOVER?**

22 A. The accrued amount for the time-based LTI is \$659,995.

D. Recognition Programs

Q. PLEASE SUMMARIZE XCEL ENERGY'S RECOGNITION PROGRAMS.

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

Q. WHAT AMOUNT DID PUBLIC SERVICE INCUR IN THE TWELVE-MONTH PERIOD ENDING SEPTEMBER 30, 2019?

A. The costs for the recognition programs during that period are shown in Table MTK-D-9.

Table MTK-D-9: Recognition Expenses

Recognition Program	Amounts
Performance Recognition and Years of Contribution	\$126,406
Spot On Award	\$38,755
Total	\$165,161

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

3 A. Public Service is requesting recovery of \$165,161 for its Recognition Programs.

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

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

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

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

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

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

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

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

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

- 21 • Xcel Energy offers a High Deductible Health Plan ("HDHP") medical plan
22 with focus on individual consumerism, and wellness to encourage
23 healthier lifestyle choices. Public Service moved to the HDHP January,
24 2016;

- 1 • To help mitigate pharmacy costs, Xcel Energy's pharmacy coverage
2 mandates generic prescriptions be used when available, unless there is
3 medical need;
- 4 • Vendor contracts are continually monitored and renegotiated with benefit
5 vendors on an ongoing basis. These negotiations focus on administrative
6 fee reductions, better performance guarantees and rebates, and improved
7 discounts on provider networks. All contribute to the Company's ability to
8 minimize rising healthcare costs and benefit administration costs charged
9 by third parties;
- 10 • Effective January 2017, Xcel Energy introduced a monthly premium
11 surcharge for coverage of a spouse when the spouse's employer offers
12 medical coverage;
- 13 • Effective April 2017, Xcel Energy outsourced the Family Medical Leave
14 Act administration, resulting in greater efficiencies, as well as cost
15 savings; and
- 16 • Effective January 2018, Xcel Energy implemented a monthly premium for
17 non-bargaining employees and spouses who are enrolled in the medical
18 plan and are tobacco users.

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

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

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

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

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

10 **A. Defined Benefit Plan**

11 **Q. IS IT COMMON IN THE UTILITY INDUSTRY TO HAVE A DEFINED BENEFIT**
12 **PLAN?**

13 A. Yes. Of the 40 utilities in the Fortune 1000, 17 (43 percent) continue to provide
14 defined benefit pension benefits to all employees, 19 (47 percent) provide
15 defined benefit pension benefits to all employees except those hired after a
16 certain date, and only four (10 percent) have fully or partially discontinued the
17 defined benefit pension benefit for employees.¹⁴

¹⁴ Information gathered from annual reports for the Fortune 1000 utilities through mid-2019.

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

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

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

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

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

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

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

11 **B. Non-Qualified Pension Expense**

12 **Q. WHAT AMOUNT OF NON-QUALIFIED PENSION EXPENSE IS THE**
13 **COMPANY SEEKING TO RECOVER?**

14 A. The Gas Utility O&M non-qualified pension expense that Public Service is
15 requesting is \$124,838. That amount reflects the 15 percent limitation on AIP
16 that Public Service has accepted for purposes of this case.

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

18 A. The primary purpose is to provide an opportunity for employees to receive
19 comparable benefits through the Company's pension plans. The tax rules limit
20 the compensation that can be used in the determination of the qualified pension
21 benefit. The goal of the non-qualified pension offering is to enable Xcel Energy
22 to attract and retain experienced and knowledgeable employees to fill more

1 senior positions, which necessarily entail higher compensation levels as part of a
2 market competitive total rewards package.

3 **Q. WHILE THERE IS A LIMIT TO THE AMOUNT OF COMPENSATION ELIGIBLE**
4 **FOR A QUALIFIED PENSION PLAN, DOES THE INTERNAL REVENUE**
5 **SERVICE (“IRS”) INDICATE THE AMOUNT OF COMPENSATION RECEIVED**
6 **ABOVE THIS LIMIT SHOULD BE DEEMED UNREASONABLE?**

7 A. No. The IRS limit does not indicate that a specific compensation level is
8 unreasonable, nor does it indicate any analysis was performed to determine what
9 amount of compensation should be paid to any employee for his or her job.

10 **Q. IS PROVIDING NON-QUALIFIED PENSION BENEFIT TO THE MOST SENIOR**
11 **EMPLOYEES FAIR TO THE OTHER EMPLOYEES?**

12 A. Yes. In fact, through the non-qualified pension benefit, the Company is simply
13 providing the same level of retirement benefits to all employees, including those
14 with compensation in excess of Internal Revenue Code (“IRC”) qualified plan
15 limits. No additional benefits are paid above those that would have been
16 provided under the qualified plan if the IRC limits were not in place.

17 Table MTK-D-10 identifies the pension calculation for new employees
18 since 2012 who are eligible for the 5 Percent Cash Balance Plan:

1

TABLE MTK-D-10: Non-Qualified Pension Example

	Total Pensionable Wages	Qualified Pensionable Wages	5% Cash-Balance Plan	Total 5% Cash Balance Contribution	Qualified 5% Cash Balance Contribution	Non-Qualified Pension Contribution
Example 1	\$85,000	\$85,000	5%	\$4,250	\$4,250	\$0
Example 2	\$275,000	\$275,000	5%	\$13,750	\$13,750	\$0
Example 3	\$300,000	\$275,000*	5%	\$15,000	\$13,750	\$1,250
			Calculation for Example 3 Amount	\$300,000*5%	\$275,000*5%	Total Cash Balance Contribution Minus Qualified Cash Balance Contribution (\$15,000 - \$13,750 = \$1,250)

2

***\$275,000 2018 annual compensation limit**

3

Example 3 uses the same calculation for all employees in this pension plan. The difference in the examples is the calculation of the amount for pensionable wages above the IRC 2018 limit of \$275,000, which results in \$1,250 moving to the Non-Qualified Pension Contribution in Example 3. Therefore, no advantage or disadvantage related to the pension contribution occurs based on the administration of this pension plan because the Cash Balance Contribution remains at 5% for all compensation levels.

9

1 **C. Defined Contribution Plan**

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

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

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

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

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

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

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

VIII.CONCLUSION

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

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

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Statement of Qualifications

Michael T. Knoll

I am employed by Xcel Energy Services Inc., as Director of Compensation. I have held this position since October 2018 and have held the positions of Compensation Manager and Principal Executive Compensation Consultant since joining XES in February 2014. As Director of Compensation, my responsibilities include designing, developing, and implementing broad-based compensation programs, which include base pay and incentive strategy and administration, as well as managing the recognition programs. The goals of these programs are to attract, retain, and motivate talented employees at all levels throughout the organization.

In my broader role as a member of the human resources management team, I am also responsible for supporting our regulatory process related to human resource matters for rate case testimony, and more specifically describing our total rewards programs. I have recently provided Direct Testimony for the 2019 Public Service Electric Rate Case and the Southwestern Public Service-New Mexico Electric Rate Case, and testified as the witness during the Public Service hearing.

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

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

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

* * * *

IN THE MATTER OF ADVICE NO. 961-GAS OF)
PUBLIC SERVICE COMPANY OF COLORADO)
TO REVISE ITS COLORADO PUC NO. 6-GAS)
TARIFF TO INCREASE JURISDICTIONAL BASE) PROCEEDING NO. 20AL-____G
RATE REVENUES, IMPLEMENT NEW BASE)
RATES FOR ALL GAS RATE SCHEDULES, AND)
MAKE OTHER PROPOSED TARIFF CHANGES)
EFFECTIVE MARCH 7, 2020.)

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

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

Dated at Denver, Colorado, this 29th day of January, 2020.



Michael T. Knoll
Director, Compensation

Subscribed and sworn to before me this 29th day of January, 2020.



Notary Public

My Commission expires 1/31/2025

