

NOTICE OF CONFIDENTIALITY

***A PORTION OF THIS TESTIMONY OR TESTIMONY AND ATTACHMENTS
HAS/HAVE BEEN FILED UNDER SEAL.***

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

* * * * *

IN THE MATTER OF ADVICE LETTER)
NO. 1857-ELECTRIC OF PUBLIC)
SERVICE COMPANY OF COLORADO)
TO REVISE ITS COLORADO PUC NO.)
8-ELECTRIC TARIFF TO REVISE)
JURISDICTIONAL BASE RATE) PROCEEDING NO. 21AL-____E
REVENUES, IMPLEMENT NEW BASE)
RATES FOR ALL ELECTRIC RATE)
SCHEDULES, AND MAKE OTHER)
PROPOSED TARIFF CHANGES)
EFFECTIVE AUGUST 2, 2021)

DIRECT TESTIMONY AND ATTACHMENTS OF MICHAEL T. KNOLL

ON

BEHALF OF

PUBLIC SERVICE COMPANY OF COLORADO

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Confidential: Attachment MTK-1C and Attachment MTK-2C

July 2, 2021

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LIST OF ATTACHMENTS

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

GLOSSARY OF ACRONYMS AND DEFINED TERMS

<u>Acronym/Defined Term</u>	<u>Meaning</u>
AIP	Annual Incentive Program
Commission	Colorado Public Utilities Commission
Exempt	Salaried employees
FERC	Federal Energy Regulatory Commission
FLSA	Fair Labor Standards Act
FMLA	Family & Medical Leave Act
FTY	Future Test Year
HDHP or Plan	High Deductible Health Plan
HSA	Health Savings Account
IBEW	International Brotherhood of Electrical Workers
IRS	Internal Revenue Service
KPI	Key Performance Indicators
LTI	Long-Term Incentive
Non-Exempt	Hourly employees
O&M	Operations & Maintenance
Public Service, or the Company	Public Service Company of Colorado
SAIDI	System Average Interruption Duration Index
SIP	Supplemental Incentive Program
Test Year O&M	Calendar Year 2020 with Forecast Adjustments
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.

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DIRECT TESTIMONY AND ATTACHMENTS OF MICHAEL T. KNOLL

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

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

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

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

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

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

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

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

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

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

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

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

- 1 • Describes the structure of the Wholesale Marketing and Trading
2 Supplemental Incentive Program (“SIP”) and quantifies the amount of
3 SIP expense the Company is asking the Commission to approve;
- 4 • Describes the structure of the Long-Term Incentive (“LTI”)
5 compensation program and quantifies the LTI costs that the Company
6 is asking the Commission to approve;
- 7 • Describes the Recognition Program and quantifies the expense
8 requested in connection with that program;
- 9 • Describes the health, welfare, and retirement benefits offered to Xcel
10 Energy employees and the initiatives undertaken by Xcel Energy to limit
11 increases in these costs; and
- 12 • Explains that the benefits offered in connection with the Total Rewards
13 Program are reasonable and necessary.

14 **Q. ARE YOU MAKING ANY RECOMMENDATIONS IN YOUR DIRECT**
15 **TESTIMONY?**

16 A. Yes. I recommend that the Commission approve the amounts of compensation
17 and recognition expense included in the Future Test Year (“FTY”) cost of service
18 study, which are set forth in Table MTK-D-1 below:

19 **TABLE MTK-D-1**

Compensation Type	2020 Actuals	2022 Budget
Bargaining wage expense	\$33,527,062	\$35,749,185
Non-Bargaining base pay	\$146,399,201	\$155,899,305
Annual incentive (AIP) at target	\$10,731,696	\$11,385,256
Supplemental incentive (SIP)	\$1,488,992	\$855,307
Long-Term Incentive (LTI)	\$3,887,575	\$4,124,328
Recognition Programs	\$724,938	\$779,696

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

3 A. Yes, I am sponsoring the Attachments MTK-1 and MTK-2:

- 4 • CONFIDENTIAL (and Public) Attachment MTK-1, which is the 2020
5 Willis Towers Watson Competitive Total Direct Compensation Analysis;
- 6 • CONFIDENTIAL (and Public) Attachment MTK-2, which is the 2020 and
7 2021 Xcel Energy Non-Bargaining, Exempt Employee Annual Incentive
8 Program.

9 **Q. DO ANY OTHER COMPANY WITNESSES ADDRESS ISSUES RELATED TO**
10 **COMPENSATION AND BENEFITS?**

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

- 13 • Richard R. Schrubbe supports the Company's request for active health
14 and welfare expense, pension and other post-employment benefit
15 expense, workers' compensation expense, and other benefit-related
16 costs; and
- 17 • Deborah A. Blair's FTY Cost of Service Study includes the forecasted
18 costs for bargaining employee wages, non-bargaining employee base
19 pay, AIP, and LTI. The study also includes current pension and benefit-
20 related expense, and it reflects the prepaid pension asset, the retiree
21 medical asset, and the post-employment benefit liability amount that the
22 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 • Cash compensation in the form of:
7 ○ Base pay;
8 ○ AIP incentive compensation;
9 ○ SIP incentive compensation;
10 ○ LTI incentive compensation; and
11 ○ Recognition awards;
12 • Retirement benefits in the form of:
13 ○ Qualified pension benefits;
14 ○ Non-qualified pension benefits; and
15 ○ Retiree medical benefits;
16 • Active health care benefits;
17 • Workers' compensation benefits;
18 • Long-term disability benefits;
19 • 401(k) matches; and
20 • Other miscellaneous benefits.

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

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

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

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

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

16 A. No. Public Service relies on a combination of its own employees and XES
17 employees to provide safe, reliable electric service. To avoid the need to
18 distinguish between Public Service and XES employees, I will refer generally to
19 the employees who provide service to Public Service as being Public Service
20 employees, except when necessary to identify XES specifically. In addition, my
21 Direct Testimony sometimes refers to Xcel Energy as a whole because my group
22 takes a corporate-wide view of certain issues and programs.

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

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

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

7 **Q. PLEASE EXPLAIN WHAT YOU MEAN WHEN YOU REFER TO “BARGAINING”**
8 **AND “NON-BARGAINING” EMPLOYEES.**

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

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

17 A. No. Bargaining employees are eligible for the hourly wage amounts agreed to as
18 part of the collective bargaining agreements, including the amounts negotiated for
19 overtime work. In contrast, non-bargaining employees are eligible for base pay
20 and may be eligible for one or more of the following types of incentive
21 compensation:

- 22 • Annual incentive compensation (AIP);
- 23 • the Wholesale Energy Marketing and Trading supplemental incentive
24 compensation (SIP);

- 1 • Long-term incentive compensation (LTI); and
- 2 • Recognition awards.

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

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

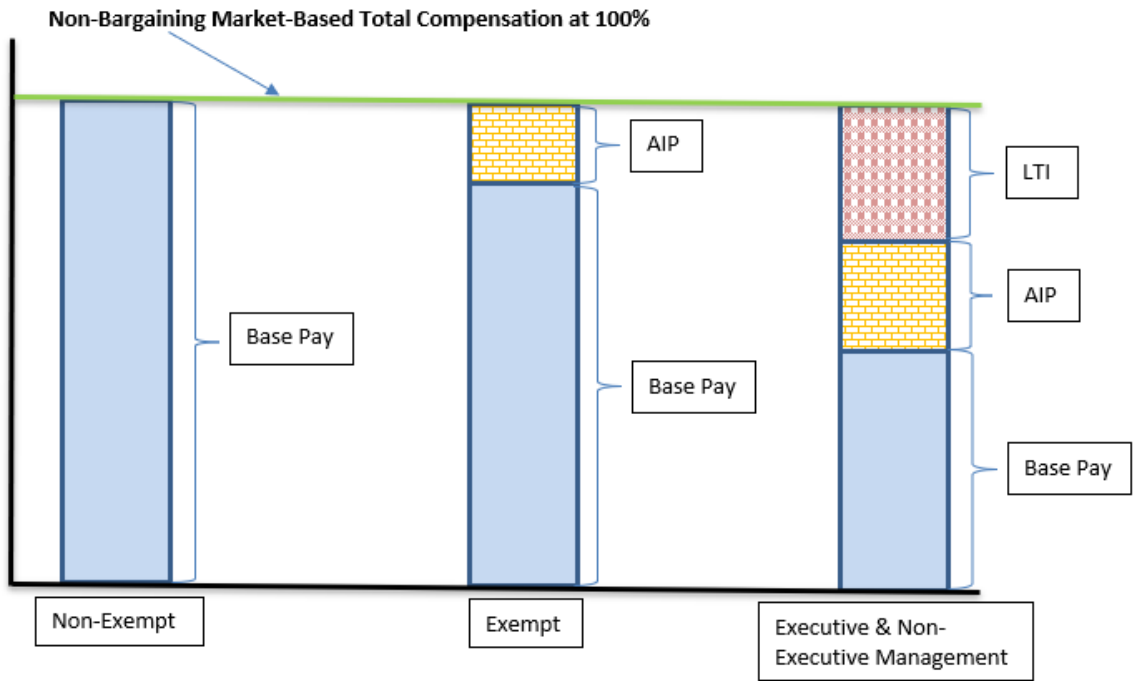
10 A. The eligibility for particular components of compensation varies depending on
11 whether a non-bargaining employee is considered to be an “exempt” employee or
12 “non-exempt” employee under the Fair Labor Standards Act (“FLSA”). Non-
13 exempt employees, which are defined in the FLSA as those employees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

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

20 A. No. As shown in Figure MTK-D-1, senior exempt employees receive a greater
21 percentage of their compensation in the form of incentive compensation than more
22 junior exempt employees do. This is similar to how other employers with whom
23 Public Service competes for employees structure their compensation elements.

1

FIGURE MTK-D-1



2

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

7

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

9

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

13

1 base pay based on 2022 budgeted levels.¹ However, all of the expenses of the
2 Company's compensation programs are necessary and reasonable costs of
3 attracting, retaining and motivating the employees needed to provide safe and
4 reliable electric service, and therefore Public Service reserves the right to request
5 full recovery of those costs in future base rate proceedings.

¹I explain in the next section of my Direct Testimony what is meant by a "target" level of incentive compensation.

1 **IV. REQUESTED ELEMENTS OF COMPENSATION**

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

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

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

10 **1. Bargaining Employee Base Wage**

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

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

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

18 A. The current collective bargaining agreement classification and wage scale, as
19 amended, was effective on June 1, 2020 and will remain in effect through May 31,
20 2023. Under that agreement, a base wage increase of 2.8 percent took effect on
21 June 1, 2021, and another base wage increase of 2.8 percent will take effect on
22 June 1, 2022.

1 **Q. HAS THE COMPANY INCLUDED THE BASE WAGE INCREASES**
2 **SCHEDULED FOR 2021 AND 2022 AS A PART OF ITS FTY COST OF**
3 **SERVICE?**

4 A. Yes. The rates established in this case will go into effect in 2022, and the
5 bargaining wage increases occurring in 2021 and 2022 are forecast adjustments.
6 Therefore, it is appropriate to include the 2021 and 2022 increases in the base
7 wage amount approved for bargaining employees.

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 \$35,749,185 of base wages for
11 bargaining employees.

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

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

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

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

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

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

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

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

² If the Public Service position is unique to the utility industry, Xcel Energy may restrict its comparison to only the utility-specific data in the surveys.

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

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

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

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

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

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

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

1 **Q. WHAT AMOUNT OF BASE PAY INCREASE HAS PUBLIC SERVICE**
2 **BUDGETED FOR 2022?**

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

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

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

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

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

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

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

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

- 12 • 3.1 percent to 3.7 percent for all utilities on a national basis; and
- 13 • 3.0 percent to 3.6 percent for all companies on a national basis.³

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

³ WorldatWork "2020-2021 Salary Budget Survey"; The Conference Board "2020 Salary Increase Budget Survey Results"; Willis Towers Watson, "2020 General Industry Salary Budget Survey"; Mercer "2020/2021 US Compensation Planning Survey Report"; and Aon Hewitt "2020 Salary Increase and Turnover Study-United States."

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

3 A. Yes. Table MTK-D-2 identifies the projected and actual non-bargaining base pay
 4 increase percentages available from 2017 through the 2021 projected increase,
 5 using the survey methodology described above:

6 **TABLE MTK-D-2**

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

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 2021 and 2022 base pay increases for non-bargaining
 10 employees are reasonable and should be included in the Company's FTY cost of
 11 service. Accordingly, Public Service requests that the Commission approve
 12 \$155,899,305 for non-bargaining base pay.

13 **B. Annual Incentive Compensation**

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

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

1 compensation through base pay. Second, I describe the structure of Xcel Energy's
2 incentive compensation program. Finally, I quantify the amount of incentive
3 compensation that Public Service asks the Commission to approve and the
4 reasoning underlying it.

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

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

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

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

19 A. A well-designed incentive compensation plan motivates employees to focus on
20 activities that benefit customers, such as improving customer service response
21 times, enhancing reliability, and achieving environmental goals. In addition, a
22 compensation structure that includes incentive compensation strengthens the link
23 between pay and performance by putting a portion of the employee's

1 compensation at risk. Employees are motivated to meet the performance
2 standards in order to earn their full compensation amount. Using base pay alone
3 to meet the necessary total compensation levels would allow the employee to
4 receive the payment regardless of performance. Thus, the use of incentive
5 compensation helps Public Service motivate and reward its employees for
6 delivering superior performance.

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

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

13 In contrast, customers benefit if total cash compensation is structured with
14 base pay and an incentive compensation opportunity (variable pay) to reach total
15 compensation. For example, an employee with an overall target compensation of
16 \$50,000 and a 20 percent incentive compensation opportunity would have a base
17 pay of \$41,670. The difference between base pay and total cash compensation
18 would need to be re-earned annually through the AIP. Additionally, unlike the fixed
19 cost described above, when total cash compensation is delivered in base pay, the
20 3.0% base pay increase would lead to an increase of \$1,250 in year two ($\$41,670$
21 $\times 3.0\% = \$1,250$) and a new base pay of \$42,920. Thus, by moving a portion of
22 each employee's pay from base pay to incentive pay, Public Service reduces
23 overall fixed labor costs (base pay) by avoiding the compounding effect of annual

1 base pay increases on the higher base pay amount, as noted in Table MTK-D-3
2 below.

3 **TABLE MTK-D-3**
4 **Fixed Cost and Variable Pay Example**

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

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

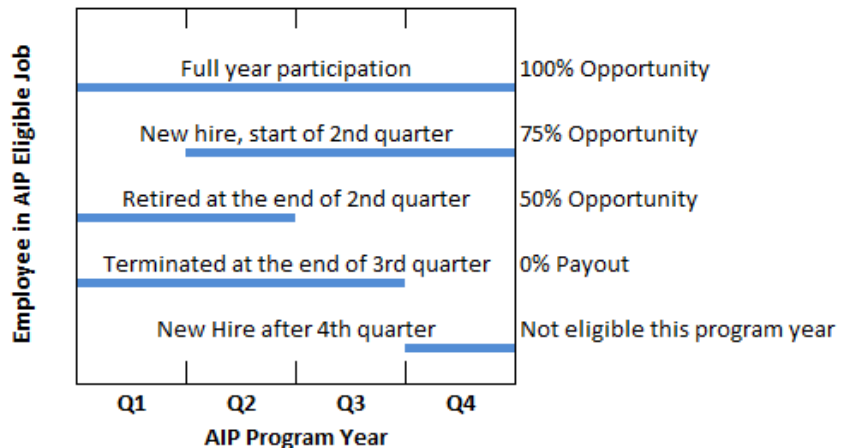
1 customers, while offering employees market-based, target-level total cash
 2 compensation.

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

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

14

TABLE MTK-D-4



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

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

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

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

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

20 **Q. WHICH EMPLOYEES ARE ELIGIBLE TO PARTICIPATE IN THE ANNUAL**
21 **INCENTIVE PROGRAM?**

22 A. The AIP applies to exempt, non-bargaining employees. An eligible employee must
23 be employed by October 1 of a particular year to be eligible for a prorated year-

1 end portion of the AIP compensation for that program year. With limited
2 exceptions, a person must also be actively employed by the Company on the date
3 that the year-end award payments are made in order to receive an incentive
4 award.⁴

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

8 A. During the first quarter of each year, Xcel Energy develops a Corporate scorecard
9 that identifies certain priorities for the year. In 2021, for example, the Corporate
10 KPIS are focused on four priorities: (1) leading the clean energy transition; (2)
11 enhancing the customer experience; (3) keeping bills low; and (4) promoting safety
12 and reliability. As shown in Table MTK-D-5, those four priorities resulted in six
13 Corporate KPIS for the year:

⁴ The exceptions are involuntary termination with severance, retirement, death, disability, or qualified leave of absence.

1

TABLE MTK-D-5

Priority	Key Performance Indicator	Threshold (50%)	Target (100%)	Maximum (150%)	KPI Weight
Lead the Clean Energy Transition	Customer Satisfaction <i>(JD Power residential survey)</i>	747	762	777	20%
	Public Safety <i>(gas emergency response)⁵</i>	91%	96%	99%	20%
Enhance Customer Experience	Electric System Reliability <i>(SAIDI)</i>	100	92	84	20%
	Employee Safety <i>(safety culture)</i>	Declining	Steady/ Improving	Significant Improvement	20%
Keep Bills Low	Diversity, Equity & Inclusion <i>(index)</i>	100	200	300	10%
Safety and Reliability	Wind Availability <i>(equivalent availability factor)</i>	92.0%	94.5%	97.0%	10%

2 **Q. TABLE MTK-D-5 USES THE TERMS “THRESHOLD,” “TARGET,” AND**
 3 **“MAXIMUM” FOR THE CORPORATE SCORECARD. CAN YOU EXPLAIN**
 4 **WHAT THOSE TERMS MEAN?**

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

⁵ This is the Corporate scorecard for Xcel Energy as a whole, so it also includes KPIs relevant to Xcel Energy gas utilities.

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

3 **TABLE MTK-D-6**

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

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

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

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

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

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

1 determine the year-end individual component award within a range of 0 to 150
2 percent based on the employee's contributions and performance during the year.⁶

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

5 A. No. The importance of the Corporate KPIS for year-end AIP payout varies based
6 upon the employee's position and level of responsibility. The weightings of
7 Corporate versus Individual KPIS are designed such that an employee's goals are
8 more strongly linked to objectives that he or she has the greatest potential to affect.
9 For example, the weighting for non-supervisory employees focuses on the job of
10 the individual to have day-to-day interactions tied to customer satisfaction, safety,
11 and reliability. In contrast, the weighting for more senior level positions focuses on
12 broader corporate goals. Table MTK-D-7 shows the weightings of these different
13 categories for the 2021 AIP:

⁶ The individual component also includes the "I Deliver Award" and "Innovator Award." These awards, however, are not part of the year-end evaluation of whether an employee achieved his or her individual KPIS during that year.

1

TABLE MTK-D-7

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

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

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

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

12 A. No. As I explained earlier, the percentage of total compensation paid as incentive
13 compensation is determined by the non-bargaining employee's position or level
14 within the organization. Thus, for example, an employee at a 10 percent target
15 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 and
2 Individual KPIs. Target opportunities will vary based on market competitive
3 incentive and design levels. As such, the more senior the non-bargaining
4 employee, the more of his or her total cash compensation is at risk to be earned
5 through incentive compensation.

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

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

1 **3. AIP Request**

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

4 A. Public Services is requesting the 2022 AIP target-level expense of \$11,385,256.

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

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

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

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

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

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

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

20 **Q. PLEASE SUMMARIZE XCEL ENERGY'S SUPPLEMENTAL INCENTIVE**
21 **PROGRAM.**

22 A. The Xcel Energy SIP is designed to provide certain eligible employees who work
23 in wholesale energy trading activities with compensation opportunities that are

1 competitive with compensation practices in the wholesale energy trading sector.
2 The program is a supplement to the AIP and is part of the total cash compensation
3 offered only to Xcel Energy wholesale energy trading employees. The incentives
4 are based on the wholesale energy trading profit margins.

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

7 A. Public Service requests recovery of \$855,307 for the 2022 projected SIP expense.

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

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

15 **Q. HAS THE COMMISSION APPROVED RATE RECOVERY FOR SIP EXPENSES**
16 **IN THE PAST?**

17 A. Yes. The Commission approved recovery of SIP expenses in Public Service's last
18 electric rate case, Proceeding No. 19AL-0268E.

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

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

21 A. Like the other Xcel Energy compensation programs, the LTI program is intended
22 to attract, retain, and motivate employees. LTI differs from AIP and other types of
23 compensation in that is offered only to executives and non-executive management

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

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

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

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

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

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

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

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

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

⁷ Company witness Ms. Blair has removed approximately \$12 million from the Test Year cost of service related to LTI costs for Relative Total Shareholder Return. Please refer to her cost of service study, and particularly to Attachment DAB-1.

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

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

6 **Q. IN THE COMPANY'S MOST RECENT ELECTRIC RATE CASE, WHICH WAS**
7 **PROCEEDING NO. 19AL-0268E, THE COMMISSION DENIED RECOVERY OF**
8 **ENVIRONMENTAL LTI ON THE GROUND THAT NO ONE EMPLOYEE CAN**
9 **ACCOMPLISH ENVIRONMENTAL GOALS ALONE. SHOULD THE**
10 **COMMISSION APPLY THAT SAME LOGIC IN THIS CASE?**

11 A No. It is true that achieving environmental goals is a Company-wide effort, but that
12 is not a valid reason to deny recovery of part of the compensation owed to
13 executive management employees who establish the Company's environmental
14 goals and oversee their implementation. No one Company employee is
15 responsible for providing electric service to Public Service customers, but each
16 employee makes some contribution to that effort and is compensated for it through
17 base pay or some combination of base pay and incentive compensation. It should
18 be no different for those eligible for environmental LTI. An employee who is eligible
19 for environmental LTI helps achieve the Company's and the State's environmental
20 goals, and the fact that the employee cannot accomplish those goals single-
21 handedly is no reason to disallow part of that employee's market-based
22 compensation.

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

3 A. Yes. I have two comments. First, the starting point for the Commission's
4 compensation analysis should be whether the Company is seeking to recover
5 more than its market-based compensation expense. If not, the expense should be
6 presumed reasonable. The environmental LTI expense is related to a component
7 of an eligible employee's market-based compensation, not an addition to the
8 market-based compensation. For example, if the market-based compensation for
9 a particular position was \$100,000, the environmental LTI compensation would be
10 included in the \$100,000, and Public Service would seek to recover only that
11 \$100,000, not some greater amount. Because Public Service is asking to recover
12 only market-based compensation, there is no reason for the Commission to
13 disallow environmental LTI.

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

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

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

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

12 A. Yes. Like the environmental LTI, the time-based LTI is the form of LTI
13 compensation the Company has used to ensure employees reach the median level
14 of market-based compensation for their position and is not in addition to the
15 market-based compensation. Because the Company is seeking to recover no
16 more than each eligible employee's market-based compensation, there is no
17 reason to disallow that portion of the time-based LTI compensation unless the
18 Commission finds that the time-based LTI incentivizes behavior that harms
19 customers or that contravenes public policy. But in fact, the LTI does just the
20 opposite – it incentivizes eligible employees to remain at the Company long
21 enough to develop and implement long-term policies that benefit customers and
22 the State as a whole, such as the elimination of carbon emissions and the buildout
23 of Public Service's transmission grid. Because payment of time-based LTI

1 compensation is contingent on the employee remaining with the Company for an
 2 extended period of time, the time-based LTI produces the stability necessary to
 3 achieve those goals. Therefore, the time-based LTI should be recoverable in
 4 rates, just like other forms of market-based compensation.

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

7 A. Yes. Table MTK-D-8 provides the total compensation for a new hypothetical
 8 employee, including base pay, AIP and LTI. The green highlighted amounts
 9 identify the calendar years in which the employee would receive the respective
 10 forms of compensation.

11 **TABLE MTK-D-8**

Total Compensation	\$168,000			
	Calendar 2020	Calendar 2021	Calendar 2022	Calendar 2023
Base Pay	\$120,000			
AIP - Target - 20% - \$24,000	at risk	\$24,000		
LTI Grant - 20% - \$24,000	at risk (3-yr vesting)			
LTI - yr 1	2020 (\$8,000 accrued)			
LTI - yr 2		2021 (\$8,000 accrued)		
LTI - yr 3			2022 (\$8,000 accrued)	
LTI Settlement				2023 (2020 LTI Compensation Realized by EE - \$24,000)

12 In this example, the employee's total market-based compensation in 2020 is
 13 \$168,000, but the employee receives only \$120,000 of that amount in 2020. The
 14 employee must wait until 2021 to receive the \$24,000 of AIP deferred from 2020,
 15 based on target-level Company and employee performance, and the employee
 16 must remain employed at Xcel Energy until the spring of 2023 to receive the
 17 remaining \$24,000 that was deferred from 2020. If the employee leaves before
 18 the 2023 LTI settlement, he or she forfeits the entire \$24,000 that was deferred

1 from 2020. By deferring payment of part of the compensation earned in 2020 until
2 2023, the Company may be able to retain employees that would otherwise pursue
3 new opportunities.

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

6 A. Accrual of LTI expense occurs ratably over a three-year period and, therefore,
7 reflects LTI plans in effect during each of the three years. Since the Test Year is
8 2022, the 2020, 2021, and 2022 LTI years are included in the Test Year cost of
9 service.

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

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

13 **TABLE MTK-D-9**

LTI Type	Accrual Amount
Environmental	\$1,321,340
Time-based	\$2,802,988
Total	\$4,124,328

14 **E. Recognition Programs**

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

16 A. The recognition programs include a years-of-contribution program, a corporate
17 recognition program, and the Spot-On Award program. The years-of-contribution
18 program recognizes employee loyalty and cumulative career effort every five
19 years. The corporate recognition program provides thank-you cards, nominal gift

1 cards, small gifts, or items with the Xcel Energy logo to recognize individuals and
2 groups of employees for extraordinary performance. The Spot-On Award program
3 was created as a tool for managers to reward outstanding performance for non-
4 exempt, non-bargaining employees, who are generally not eligible to receive AIP.

5 **Q. WHAT AMOUNT IS PUBLIC SERVICE REQUESTING FOR RECOGNITION**
6 **PROGRAMS?**

7 A. The Company is requesting the amounts set forth in Table MTK-D-10.

8 **TABLE MTK-D-10**

Recognition Program	Requested Amounts
Performance Recognition and Years of Contribution	\$649,063
Spot On Award	\$130,633
Total	\$779,696

1 **V. BOARD EQUITY COMPENSATION**

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

4 A. Yes. Public Service is requesting recovery of \$903,822 for Board of Director equity
5 compensation for the FTY.

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

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

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

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

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

21 A. The compensation is provided to the Board of Directors in two components: (1) a
22 retainer, which the director can choose to have paid either as cash or the director
23 can elect to defer all or a portion of their cash retainer into stock equivalent units;

1 and (2) deferred stock equivalent units or taken as common stock. Public Service
2 incurs an allocable portion of these expense for these compensation costs on an
3 annual basis.

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

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

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

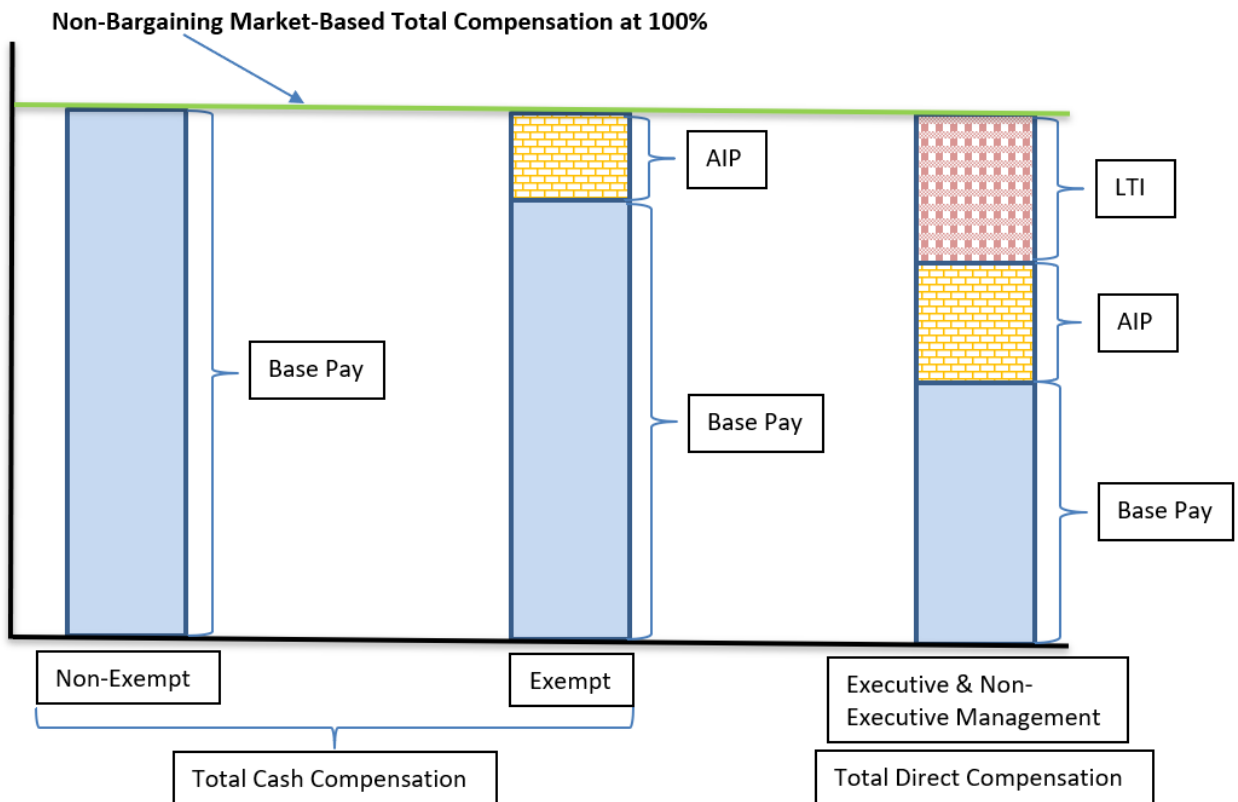
14 **Q. IN THE PREVIOUS RESPONSE, YOU USED THE PHRASES "TOTAL CASH**
15 **COMPENSATION" AND "TOTAL DIRECT COMPENSATION." WHAT IS THE**
16 **DIFFERENCE BETWEEN THOSE CONCEPTS?**

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

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

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

8 **FIGURE MTK-D-2**



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

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

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

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

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

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

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

3 A. As shown on Table MTK-D-11, the 2020 Willis Towers Watson Compensation
4 Study found that with the inclusion of AIP, Public Service's median total cash
5 compensation levels are generally in line with other utilities. Without the target-
6 level AIP, however, the median total cash compensation provided would be well
7 below the overall utility market and would put Public Service at a material
8 disadvantage in the competition for employees.

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

1

TABLE MTK-D-11

Components of Xcel Energy Compensation	Compared to Base Salaries and Incentives of Utilities with Similar Revenues (Revenue Sample) *	Compared to Base Salaries and Incentives of Utilities Across the Nation (National Sample)
Base Salary Only (excludes Target AIP)	Below Market by 15.2%	Below Market by 13.0%
Target Total Cash Compensation (Base Salary + Target AIP)	Below Market by 1.9%	Above Market by 0.6%
Base Salary Only (excludes Target AIP and Target LTI**)	Below Market by 23.2%	Below Market by 19.4%
Base Salary + Target AIP (excludes Target LTI**)	Below Market by 11.1%	Below Market by 6.8%
Target Total Direct Compensation (Base + Target AIP + Target LTI**)	Below Market by 1.4%	Above Market by 3.3%

* Primary comparison group using median pay components

** Includes those eligible for LTI

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

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

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

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

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

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

19 A. Yes. Public Service and Xcel Energy must provide a market-competitive level of
20 total cash compensation to attract and retain the employees who in turn provide
21 safe and reliable electric service to Public Service's customers. Furthermore, base
22 pay coupled with the AIP is an appropriate method of providing market competitive
23 total cash compensation.

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

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

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

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

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

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

15 **A. Active Health Care**

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

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

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

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

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

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

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

3 A. These initiatives include:

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

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

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

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

7 **B. Retiree Medical Expense**

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

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

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

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

1 expenses while fulfilling our obligations to them for their past service with the
2 Company and to our customers.

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

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

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

10 **A. Defined Benefit Plan**

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

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

14 **1. Qualified Pension Plan**

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

17 A. Public Service is seeking to recover \$9,944,760 of qualified pension expense.
18 Public Service witness Mr. Schrubbe also provides details related to non-qualified
19 pension expense in his Direct Testimony.

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

22 A. Yes. Effective January 1, 2018, the Company eliminated the annual Retirement
23 Spending Account credits on a going-forward basis for all non-bargaining

1 employees, and it eliminated the Social Security Supplement for all non-bargaining
2 employees who did not meet retirement eligibility by December 31, 2022.

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

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

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

17 **2. Non-Qualified Pension**

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

20 A. Public Service is seeking to recover \$699,325 of non-qualified pension expense.
21 Public Service witness Mr. Schrubbe also provides details related to non-qualified
22 pension expense in his Direct Testimony.

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

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

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

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

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

17 A. No. In fact, through the non-qualified pension benefit, Public Service is simply
18 providing the same level of retirement benefits to all employees, including those
19 with compensation in excess of Internal Revenue Code qualified plan limits. The
20 non-qualified pension benefit does not provide "extra" benefits for recipients
21 compared to the pension benefits provided to other non-bargaining employees.

1 **B. 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, provides
4 an employer contribution equal to a maximum of four percent of an employee's
5 eligible compensation (i.e., base pay). The Company matches 50 cents on the
6 dollar up to eight percent of a non-bargaining employee's eligible compensation.
7 For bargaining unit employees, Public Service matches 100 percent of the first
8 three percent plus 50 percent of the next four percent (up to a maximum of five
9 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 benefit
13 to employees. The employer contribution encourages employees to plan for their
14 retirement and reach higher personal contribution levels. The more the employee
15 saves, the higher the Company contribution, up to the Company maximum
16 amount.

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

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

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

1 **IX. CONCLUSION**

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

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

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

14 A. Yes.

Statement of Qualifications

Michael T. Knoll

I am employed by Xcel Energy Services Inc. (XES), as Director of Compensation. I have held this position since October 2018 and have held the positions of Compensation Manager and Principal Executive Compensation Consultant since joining Xcel Energy Services Inc. in February 2014. XES is a wholly-owned subsidiary of Xcel Energy Inc. (Xcel Energy), and provides an array of support services to Public Service Company of Colorado and the other utility operating company subsidiaries of Xcel Energy on a coordinated basis. As Director of Compensation, my responsibilities include designing, developing, and implementing broad-based compensation programs, which include base pay and incentive strategy and administration, as well as managing the recognition programs. The goals of these programs are to attract, retain, and motivate talented employees at all levels throughout the organization.

In my broader role as a member of the human resources management team, I am also responsible for supporting our regulatory process related to human resource matters for rate case testimony, and more specifically describing our total rewards programs.

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

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

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

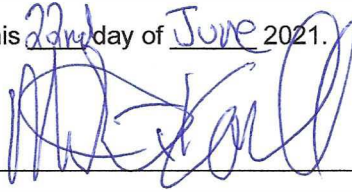
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IN THE MATTER OF ADVICE LETTER)
NO. 1857-ELECTRIC OF PUBLIC)
SERVICE COMPANY OF COLORADO TO)
REVISE ITS COLORADO PUC NO. 8-)
ELECTRIC TARIFF TO REVISE)
JURISDICTIONAL BASE RATE) PROCEEDING NO. 21AL-____E
REVENUES, IMPLEMENT NEW BASE)
RATES FOR ALL ELECTRIC RATE)
SCHEDULES, AND MAKE OTHER)
PROPOSED TARIFF CHANGES)
EFFECTIVE AUGUST 2, 2021)

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

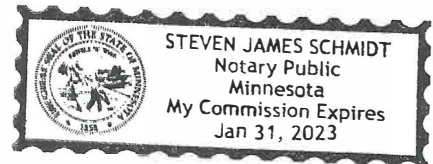
I, Michael T. Knoll, being duly sworn, state that the Direct Testimony and attachments were prepared by me or under my supervision, control, and direction; that the Direct Testimony and attachments are true and correct to the best of my information, knowledge and belief; and that I would give the same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

Dated in Carver County, Minnesota, this 22nd day of June 2021.



Michael T. Knoll
Director, Compensation

Subscribed and sworn to before me this 22 day of June 2021



Notary Public

My Commission
expires 01/31/2023