

**NOTICE OF CONFIDENTIALITY:**  
***AN ATTACHMENT TO THIS TESTIMONY HAVE BEEN FILED UNDER SEAL.***

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

\* \* \* \* \*

RE: IN THE MATTER OF ADVICE LETTER )  
NO. 912-GAS FILED BY PUBLIC SERVICE )  
COMPANY OF COLORADO TO REVISE ITS )  
COLORADO PUC NO. 6-GAS TARIFF TO ) PROCEEDING NO. 17AL-\_\_\_\_G  
IMPLEMENT A GENERAL RATE SCHEDULE )  
ADJUSTMENT AND OTHER RATE CHANGES )  
EFFECTIVE ON 30-DAYS NOTICE. )

**DIRECT TESTIMONY AND ATTACHMENTS OF SHARON L. KOENIG**

**ON**

**BEHALF OF**

**PUBLIC SERVICE COMPANY OF COLORADO**

**NOTICE OF CONFIDENTIALITY:**  
***AN ATTACHMENT TO THIS TESTIMONY HAVE BEEN FILED UNDER SEAL.***

**Confidential:** Confidential Attachment SLK-1

**June 2, 2017**

**BEFORE THE PUBLIC UTILITIES COMMISSION  
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**SUMMARY OF DIRECT TESTIMONY OF SHARON L. KOENIG**

1 Ms. Sharon L. Koenig is the Director, Compensation for Xcel Energy Services  
2 Inc. (“XES”). In this position, Ms. Koenig has responsibility for designing, developing  
3 and implementing broad-based compensation programs, which include base pay and  
4 incentive strategy and administration, as well as executive compensation programs and  
5 recognition programs that are competitive with the other employers (referred to herein  
6 as the “market”) with whom Public Service Company of Colorado (“Public Service”) and  
7 XES compete for employees. The goals of these programs are to attract, retain, and  
8 motivate talented employees at all levels throughout the organization.

9 Ms. Koenig’s testimony demonstrates the reasonableness and necessity of  
10 compensation and benefits (referred to herein as the “Total Rewards Programs”) earned  
11 by employees of Public Service and XES. First, Ms. Koenig demonstrates that the total  
12 cash compensation is reasonable when compared to the market and, therefore,  
13 necessary to attract, retain, and motivate the employees who are required to provide  
14 safe, reliable gas service to Public Service customers. For the January 1, 2016 –

1 December 31, 2016 Historical Test Year (“Historical Test Year” or “HTY”), total cash  
2 compensation includes: (1) a 3.0 percent base pay increase for non-bargaining  
3 employees; (2) a 3.0 percent base wage increase for bargaining employees; and (3)  
4 annual incentive and recognition program expenses. As discussed further by Public  
5 Service witness Mr. Scott Brockett, the Multi-Year Plan (“MYP”) accounts for labor  
6 expense by using 2016 HTY as a baseline, applying the 3.0 percent wage increase for  
7 2017 and then applying a 2.0 percent escalation rate for 2018, 2019 and 2020.

8 Ms. Koenig also presents the Confidential Willis Towers Watson Compensation  
9 Study, which confirms the total cash compensation provided to employees is  
10 comparable to what is provided by the market and, therefore, is a reasonable cost of  
11 providing gas service to customers. Notwithstanding the market-competitiveness of  
12 Public Service’s total cash compensation, Ms. Koenig explains Public Service is not  
13 seeking full base rate recovery of its total cash compensation costs, but rather limiting  
14 recovery of annual incentive costs to 15 percent of an employee’s base pay.

15 Next, Ms. Koenig shows that the health and welfare and retirement benefits  
16 offered by Public Service, including both its Defined Benefit and Defined Contribution  
17 Plans are necessary to effectively compete with the market for the employees required  
18 to provide safe, reliable gas service to Public Service customers. By demonstrating the  
19 health and welfare and retirement benefits are necessary, Ms. Koenig also supports the  
20 reasonableness of the health and welfare and retirement expenses and supports their  
21 recovery through base rates, as further discussed by Public Service witness Richard  
22 Schrubbe.

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**TABLE OF CONTENTS**

<b><u>SECTION</u></b>	<b><u>PAGE</u></b>
I. INTRODUCTION, QUALIFICATIONS AND PURPOSE OF TESTIMONY.....	9
II. GOALS AND OBJECTIVES OF XCEL ENERGY'S TOTAL REWARDS PROGRAMS .....	12
III. REASONABLENESS OF TOTAL CASH COMPENSATION INCLUDED IN THE 2016 HTY .....	17
A. Base Pay .....	19
1. Non-Bargaining Employee Base Pay Increases.....	19
2. Base Wage Increases for Bargaining Employees .....	23
B. Annual Incentive Program.....	26
1. Benefits of AIP.....	26
2. Structure of AIP .....	29

**TABLE OF CONTENTS**

<b><u>SECTION</u></b>	<b><u>PAGE</u></b>
C. Recognition Programs.....	40
D. Reasonableness of Public Service's Cash Compensation .....	41
<b>IV. EMPLOYEE HEALTH AND WELFARE BENEFIT PROGRAMS .....</b>	<b>45</b>
A. Health and Welfare Benefits.....	45
B. Employee Retirement Programs .....	47
1. Defined Benefit Plan.....	47
2. Defined Contribution Plan.....	49
C. Reasonableness of Public Service's Retirement Benefits .....	51
<b>V. CONCLUSION .....</b>	<b>52</b>

**LIST OF ATTACHMENTS**

Confidential Attachment SLK-1	Willis Towers Watson Compensation Study
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**GLOSSARY OF ACRONYMS AND DEFINED TERMS**

<b><u>Acronym/Defined Term</u></b>	<b><u>Meaning</u></b>
AIP	Annual Incentive Program
CBA	Collective Bargaining Agreement
Commission	Colorado Public Utilities Commission
Exempt	Salaried employees
HDHP	High Deductible Health Plan
HTY	Historical Test Year – Calendar Year 2016
IBEW	International Brotherhood of Electrical Workers
KPIs	Key Performance Indicators
LTI	Long-Term Incentive Program
MYP	Multi-Year Plan 2018, 2019 and 2020 Forward Test Years
Non-Exempt	Hourly employees
O&M	Operations & Maintenance
OSHA	Occupational Safety and Health Administration
PEP	Pension Equity Plan
Public Service	Public Service Company of Colorado

<u>Acronym/Defined Term</u>	<u>Meaning</u>
SAIDI	System Average Interruption Duration Index
STEM	Science, Technology, Engineering, and Math
The market	Other employers with whom Public Service and XES compete for employees.
Total Rewards Programs	Employee Compensation and Benefits
FTY 2018	2018 Forward Test Year – 12 months ending December 31, 2018
FTY 2019	2019 Forward Test Year – 12 months ending December 31, 2019
FTY 2020	2020 Forward Test Year – 12 months ending December 31, 2020
UOR	Unplanned Outage Rate
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services, Inc.



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**DIRECT TESTIMONY AND ATTACHMENTS OF SHARON L. KOENIG**

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

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Sharon L. Koenig. My business address is 401 Nicollet Mall,  
4 Minneapolis, Minnesota 55401.

5 Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

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

11 Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

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

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

2 A. As Director of Compensation, my responsibilities include designing, developing,  
3 and implementing broad-based compensation programs, which include base pay  
4 and incentive strategy and administration, as well as executive compensation  
5 programs and recognition programs, that align with the other employers with  
6 whom Public Service and XES compete for employees (referred to herein as the  
7 “market”). The goals of these programs are to attract, retain, and motivate  
8 talented employees at all levels throughout the organization. I will also be  
9 representing Xcel Energy with regard to Employee Benefits for Retirement and  
10 Health and Welfare program offerings. A statement of my education and relevant  
11 experience is set forth following my Direct Testimony.

12 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS**  
13 **PROCEEDING?**

14 A. The purpose of my Direct Testimony is to: (1) address the reasonableness of  
15 compensation and benefits (referred to herein as the “Total Rewards Programs”)  
16 Xcel Energy provides to its employees; and (2) demonstrate the costs included in  
17 the January 1, 2016 – December 31, 2016 Historical Test Year (“Historical Test  
18 Year” or “HTY”) for compensation and benefits are just and reasonable. In  
19 particular, I discuss:

20 • The goals of Xcel Energy’s Total Rewards Programs and how the  
21 resulting compensation results in a reasonable and necessary cost of  
22 providing gas service;

- 1                   • How the base pay increases provided to employees for the HTY are  
2                   either competitive with the market (in the case of non-bargaining  
3                   employees) or consistent with past wage increases (in the case of  
4                   bargaining employees) and, therefore, reasonable;
- 5                   • The structure for Xcel Energy’s Annual Incentive Program (“AIP”) for  
6                   the HTY, the AIP expense included in the HTY, and how the AIP  
7                   structure is expected to change prospectively;
- 8                   • Xcel Energy’s Recognition Program and how those costs were  
9                   determined for the HTY; and
- 10                  • The health and welfare and retirement benefits offered to Xcel Energy  
11                  employees, the initiatives undertaken by Xcel Energy to limit increases  
12                  in these costs, and how the benefits are necessary and reasonable to  
13                  provide service to customers.

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

16 A. Yes, I am sponsoring Confidential Attachment SLK-1, which is the 2016 Willis  
17 Towers Watson Compensation Study. The study was prepared by Willis Towers  
18 Watson. I have reviewed the attachment and it is a true and correct copy of the  
19 document I describe in my Direct Testimony.

20

**II. GOALS AND OBJECTIVES OF XCEL ENERGY'S TOTAL REWARDS PROGRAMS**

**Q. WHAT ARE THE GOALS AND OBJECTIVES OF XCEL ENERGY'S TOTAL REWARDS PROGRAMS?**

A. Public Service's customers rely on us to provide safe and reliable gas service 24 hours a day, seven days a week, 365 days a year. However, the planning, maintenance, and operation of a gas utility is highly complex and technically demanding. To meet our customers' needs, Public Service relies upon skilled employees who in turn provide a high level of service. The goal of the Total Rewards Programs is to attract, retain, and motivate these necessary employees by providing market-competitive compensation and benefits. Only by providing market-competitive levels of compensation and benefits can Public Service effectively compete with other employers both within and outside of the utility industry market for the qualified employees needed to provide safe and reliable service to our customers.

**Q. ARE THE EMPLOYEES UPON WHOM PUBLIC SERVICE RELY ON SOLELY ITS OWN EMPLOYEES?**

A. No. Public Service relies on both its own employees and XES employees to provide safe, reliable gas service. The goals, policies, and programs I describe in my testimony apply to both XES and Public Service employees. Unless otherwise specified, for ease of reference I will refer to both groups of employees as Public Service employees for the duration of my testimony.

1 **Q. WHEN YOU REFER TO THE MARKET, WITH WHOM DOES PUBLIC**  
2 **SERVICE COMPETE FOR EMPLOYEES?**

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

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

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

18 **Q. DOES PUBLIC SERVICE EXPERIENCE COMPETITION IN RECRUITING**  
19 **EMPLOYEES?**

20 A. Yes. Prospective employees with the skills and training required for the gas utility  
21 industry are in high demand. Many of our skilled trade crafts, such as  
22 journeyman gas fitters, welders, and gas plant operators require: (1) strong

1 Science, Technology, Engineering and Math (“STEM”) skills; and (2) four years  
2 of apprenticeship training. Thus, these employees are well-trained individuals  
3 that are in high demand by contracting firms, utilities, and other sectors of the  
4 energy industry. In addition, Public Service continues to see an imbalance in the  
5 supply and demand of gas engineers. As a result, there is a limited pool of  
6 experienced and qualified candidates for many jobs and Public Service must  
7 compete for these jobs on a national, regional, and local basis. In 2016 alone,  
8 Public Service had 56 STEM jobs that, on average, took 145 days to fill – in  
9 comparison to the overall average number of days to fill jobs in 2016 of 56 days.  
10 Thus, it took over two and a half times longer to fill STEM jobs versus other jobs.

11 **Q. DOES PUBLIC SERVICE’S LOCATION IN COLORADO IMPACT THE**  
12 **CHALLENGES FOR RECRUITING AND RETAINING EMPLOYEES?**

13 A. Yes. According to the Bureau of Labor Statistics<sup>1</sup>, Colorado had an  
14 unemployment rate of 2.6 percent in March 2017, as compared to the national  
15 average of 4.5 percent. The relatively low unemployment in Colorado creates an  
16 employee-friendly labor market, which means existing and potential employees  
17 can more readily change employers if the compensation provided by Public  
18 Service is not market-competitive.

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

1 **Q. DOES PUBLIC SERVICE'S RECRUITING CHALLENGES HIGHLIGHT THE**  
2 **NEED TO PROVIDE MARKET-COMPETITIVE TOTAL CASH**  
3 **COMPENSATION?**

4 A. Yes. Due to a limited talent pool in the gas utility industry for these jobs, as well  
5 as the employee-friendly labor market in Colorado, it is critical for Public Service  
6 to offer a competitive total rewards package to attract, retain and motivate its  
7 workforce.

8 **Q. IN ADDITION TO THE RECRUITING AND RETENTION CHALLENGES**  
9 **ALREADY DESCRIBED, WHAT OTHER WORKFORCE CHALLENGE IS**  
10 **PUBLIC SERVICE FACING?**

11 A. In addition to the competition Public Service and XES faces for employees,  
12 approximately 44 percent of current employees will become eligible to retire in  
13 the next 10 years.

14 **Q. WHAT LEVELS OF ATTRITION HAS BEEN EXPERIENCED IN RECENT**  
15 **YEARS?**

16 A. Table SLK-D-1 provides attrition rates over the past several years and a forecast  
17 for the remainder of 2017. As can be seen, although extensive efforts are  
18 undertaken to offer market-competitive total cash compensation, Public Service  
19 and XES continue to experience challenging levels of attrition.

**Table SLK-D-1 Attrition by Year**

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017*</b> Projected
<b>PSCo</b>	5.1%	6.9%	6.6%	8.2%	9.1%
<b>XES</b>	9.5%	14.9%	14.1%	13.4%	13.2%

\*Includes 2017 actual attrition projected through the end of the year.

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

4 A. Given the current environment in which Public Service is experiencing constant  
5 attrition and increasing competition for skilled employees, while at the same time  
6 44 percent of our current employees will become eligible to retire in the next 10  
7 years, it is imperative to continue to provide market-competitive compensation  
8 and benefits to employees who, in turn, provide safe, reliable gas service to  
9 Public Service's customers. Thus, the Colorado Public Utilities Commission  
10 ("Commission"), Public Service, and Public Service's customers should be  
11 aligned in ensuring Public Service's compensation program objectives are met.

12



1 **III. REASONABLENESS OF TOTAL CASH COMPENSATION INCLUDED IN THE**  
2 **2016 HTY**

3 **Q. WHAT IS THE STRUCTURE OF THE COMPENSATION PROVIDED TO**  
4 **PUBLIC SERVICE AND XES EMPLOYEES?**

5 A. Xcel Energy operates a similar compensation structure for all non-bargaining  
6 employees in the Xcel Energy group of companies. Thus, Public Service  
7 employees and XES employees are all covered by a similarly-designed  
8 compensation structure. The components of that compensation structure are: (1)  
9 base pay; (2) the AIP; and (3) the Long-Term Incentive Program (“LTI”).

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

12 A. No. Public Service is limiting recovery of annual incentive costs to 15 percent of  
13 an employee’s base pay. The 15 percent limitation is further addressed by Public  
14 Service witness Mr. Steve Berman. Public Service is also not seeking recovery  
15 of LTI as a part of this gas rate case.

16 **Q. HOW DOES PUBLIC SERVICE ENSURE THAT THE CASH COMPENSATION**  
17 **IT PROVIDES TO EMPLOYEES IS COMPETITIVE WITH THE MARKET?**

18 A. Xcel Energy undertakes a comprehensive job evaluation process, using external  
19 market data obtained from independent third-party surveys, to ensure its non-  
20 bargaining employee compensation levels are comparable to the market. Xcel  
21 Energy matches the job responsibilities of jobs within Public Service to external  
22 market data to identify the market-competitive compensation range being paid by  
23 other companies that compete with Xcel Energy for employees. Data is

1 considered from a variety of independent third-party surveys, including both utility  
2 and non-utility companies. Many of the Public Service and XES positions,  
3 however, exist only in the utility industry, so non-utility industry data is not used  
4 for those positions. When reviewing these surveys, essential job duties are  
5 defined in a position description. The 50th percentile of the survey data (that is,  
6 the median) is then used to determine the appropriate pay range for a position.  
7 Once an appropriate pay range is determined, the components of the  
8 compensation are broken up between: (1) base pay and (2) AIP. By approaching  
9 cash compensation in this manner, Xcel Energy is able to ensure our employee  
10 compensation ranges are comparable to the market and, thus, those costs are  
11 set at a reasonable level.

12 **Q. WHY DOES XCEL ENERGY USE INDEPENDENT THIRD-PARTY SURVEYS**  
13 **FOR JOB EVALUATIONS?**

14 A. Xcel Energy uses independent third-party compensation surveys because the  
15 survey vendors use rigorous methodologies to collect and aggregate  
16 compensation information from a wide array of companies. Surveys abide by  
17 Department of Justice/Federal Trade Commission Antitrust Safety Zone  
18 guidelines, which outline who can administer surveys and define minimums for  
19 the number of participants, the percent a provider can represent in weighted  
20 results, and the age of the data. In addition, surveys are confidential; they are  
21 available only to authorized users to encourage companies to share competitive  
22 information they would not otherwise release. Use of third-party compensation

1 surveys is a human resources best practice for determining compensation levels  
2 across industries.

3 **A. Base Pay**

4 **1. Non-Bargaining Employee Base Pay Increases**

4 **Q. PLEASE DESCRIBE HOW BASE PAY INCREASES MAY BE EARNED BY**  
5 **NON-BARGAINING EMPLOYEES.**

6 A. Consistent with the Xcel Energy's pay-for-performance and market-competitive  
7 pay philosophy, managers are allowed to award base pay increases based on  
8 employees' performance, position in the pay range (an indicator of relative  
9 market position), and internal equity between employees. Base pay increases  
10 tend to be higher for employees who have high performance levels and are  
11 currently at the low end of the pay range. On the other hand, average performers  
12 who are at the higher end of the pay range for their job classification may only  
13 receive a small base pay increase, and a poor performer will receive no base pay  
14 increase.

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

17 A. No. An employee must earn a base pay increase based upon performance,  
18 among other factors. This is opposed to cost of living increases in base pay,  
19 which are typically provided to all employees, regardless of performance. Public  
20 Service has not historically provided any cost of living increases. Base pay

1 increases that can be earned by Public Service employees are typically  
2 performance-based.

3 **Q. HOW DOES PUBLIC SERVICE DETERMINE THE ANNUAL BUDGET FOR**  
4 **BASE PAY INCREASES?**

5 A. For non-bargaining employees, Public Service balances a number of factors to  
6 arrive at budgeted base pay increases. The factors include: review of external  
7 market surveys regarding base pay increases; economic conditions; company  
8 performance; as well as a comparison of potential or negotiated wage increases  
9 to our bargaining employees.

10 **Q. WHAT BASE PAY INCREASE WAS EARNED BY NON-BARGAINING**  
11 **EMPLOYEES IN 2016 AND 2017?**

12 A. Effective March 2016, eligible Public Service non-bargaining employees earned  
13 on average a 3.13 percent base pay increase; however, the 2016 budget of 3.0  
14 percent was maintained because some non-bargaining employees did not earn a  
15 base pay increase primarily due to low performance. Thus, the dollars not paid to  
16 non-bargaining employees in 2016 were reallocated to employees with higher  
17 levels of performance; thus overall the 3.0 percent budget was maintained.

18 Similarly, effective March 2017, eligible Public Service non-bargaining  
19 earned on average a 3.02 percent total base pay increase. Again, however, the  
20 2017 budget of 3.0 percent was maintained because some non-bargaining  
21 employees did not earn a base pay increase and those dollars were reallocated  
22 to higher performing employees. Only non-bargaining employees who remained

1 eligible based on job performance, and remained employed by Public Service, as  
2 of the effective dates, earned base pay increases.

3 **Q. CAN YOU DEMONSTRATE THAT THE BASE PAY INCREASES EARNED BY**  
4 **NON-BARGAINING EMPLOYEES IN 2016 AND 2017 ARE REASONBLE?**

5 A. Yes. Surveys demonstrate that for 2016, the increase in base pay was  
6 competitive with the market. In particular, six different survey sources<sup>2</sup> reported  
7 that 2016 increases fell within the following ranges:

- 8 • 3.0 percent - 3.3 percent for all utilities on a national basis; and
- 9 • 2.9 percent - 3.0 percent for all companies on a national basis.

10 These independent surveys include a comprehensive representation of  
11 many companies, both in the utility and general industry. Thus, providing a 3.0  
12 percent base pay increase for non-bargaining employees was reasonable (if not  
13 lower) when compared to the market in 2016.

14 These same surveys demonstrate that for 2017, the increase in base pay  
15 for non-bargaining employees is within the range of what the market is expected  
16 to provide. The surveys reported that 2017 base pay increases are expected to  
17 fall within the following ranges:

- 18 • 2.9 percent - 3.2 percent for all utilities on a national basis; and
- 19 • 2.9 percent - 3.2 percent for all companies on a national basis.

---

2 WorldatWork "2015-2016 Salary Budget Survey"; The Conference Board "2015-2016 Salary Increase Budget Survey Results"; Towers Watson, "2015 General Industry Salary Budget Survey"; Culpepper, "Salary Budget & Compensation Planning Survey Results 2015-2016" Mercer "2015/2016 US Compensation Planning Survey Report"; and Aon Hewitt "U.S. Salary Increase Survey 2015-2016".

1 Thus, providing a 3.0 percent base pay increase is reasonable (if not lower)  
2 when compared to the market in 2017.

3 **Q. WHAT BASE PAY INCREASES ARE BUDGETED FOR NON-BARGAINING**  
4 **EMPLOYEES FOR 2018, 2019, AND 2020?**

5 A. A 3.0 percent budget for non-bargaining employees for all three years is  
6 expected to take effect annually in March.

7 **Q. ARE STUDIES AVAILABLE TO SHOW WHAT BASE PAY INCREASES ARE**  
8 **EXPECTED TO BE PROVIDED BY EMPLOYERS IN 2018, 2019 or 2020?**

9 A. No, not at this time. These surveys tend to be available in the fall timeframe.

10 **Q. IF NO STUDIES ARE AVAILABLE FOR 2018, WHY DOES PUBLIC SERVICE**  
11 **BELIEVE 3.0 PERCENT IS REASONABLE FOR NON-BARGAINING**  
12 **EMPLOYEES IN 2018, 2019, AND 2020?**

13 A. Although surveys are not yet available to show what employers are expected to  
14 provide in 2018 - 2020, actual pay increase data for the past several years has  
15 consistently hovered around 3.0 percent, with no significant indications this trend  
16 will change in the near future.

17 **Q. IS THERE DATA TO SUPPORT YOUR ASSERTION THAT THERE IS A**  
18 **TREND OF ANNUAL BASE PAY INCREASES AROUND 3.0 PERCENT?**

19 A. Yes. Table SLK-D-2 below identifies the projected and actual base pay increase  
20 percentages available since 2014 through present, using the six-survey source  
21 methodology described above:

**Table SLK-D-2 Base Pay Increase Survey Data**

<b>Year</b>	<b>Projected Increase</b>	<b>Actual Increase</b>
2014	2.8% - 3.0%	2.8% - 3.0%
2015	2.8% - 3.1%	2.8% - 3.0%
2016	2.9% - 3.0%	2.7% - 3.0%
2017	2.9% - 3.2%	TBD

1 **Q. HAS PUBLIC SERVICE INCLUDED BASE PAY INCREASES FOR NON-**  
2 **BARGAINING EMPLOYEES AS A PART OF ITS COST OF SERVICE FOR**  
3 **THE MULTI-YEAR PLAN (“MYP”)?**

4 A. Yes. The MYP accounts for labor expense by using 2016 as a baseline, applying  
5 the 3.0 percent wage increase for 2017 and then applying a 2.0 percent  
6 escalation rate for 2018, 2019 and 2020. Please see the testimony of Public  
7 Service witness Mr. Scott Brockett for a more detailed explanation.

**2. Base Wage Increases for Bargaining Employees**

8 **Q. HOW ARE BARGAINING EMPLOYEE WAGE INCREASES DETERMINED?**

9 A. Bargaining employee hourly wage increases are based on the collective  
10 bargaining agreement with the International Brotherhood of Electrical Workers  
11 (“IBEW”) Local Union No. 111, which includes bargaining unit employees  
12 assigned to the gas utility.

13 **Q. WHAT IS THE STATUS OF THE CURRENT COLLECTIVE BARGAINING**  
14 **AGREEMENT?**

15 A. The term of the current collective bargaining agreement (“CBA”) will expire on  
16 May 31, 2017. Under that agreement, the last base wage increase was awarded  
17 on June 1, 2016 at an amount of 3.0 percent.

1 **Q. WHEN WILL THE NEXT COLLECTIVE BARGAINING AGREEMENT BE**  
2 **NEGOTIATED?**

3 A. Public Service is currently in the process of negotiating a new CBA with IBEW  
4 Local Union No. 111. If the CBA is finalized prior to the filing of its rebuttal case,  
5 Public Service will provide an update.

6 **Q. HAS PUBLIC SERVICE INCLUDED BASE WAGE INCREASES FOR**  
7 **BARGAINING EMPLOYEES AS A PART OF ITS COST OF SERVICE FOR**  
8 **THE MYP?**

9 A. Yes. The MYP accounts for labor expense by using 2016 as a baseline, applying  
10 the 3.0 percent increase for 2017 and then applying a 2.0 percent escalation rate  
11 for 2018, 2019 and 2020. Please see the testimony of Public Service witness Mr.  
12 Brockett for a more detailed explanation.

13 **Q. WHY IS IT REASONABLE TO INCLUDE BASE WAGE INCREASES FOR**  
14 **BARGAINING EMPLOYEES IF NO CURRENT COLLECTIVE BARGAINING**  
15 **AGREEMENT PROVIDES BASE WAGE INCREASES IN 2018, 2019 AND**  
16 **2020?**

17 A. Although no current agreement provides for base wage increases for 2018 –  
18 2020, historically these types of increases have been a part of the collective  
19 bargaining agreements. Table SLK-D-3 below shows the base wage increases  
20 for bargaining employees in recent years under collective bargaining  
21 agreements.



**Table SLK-D-3 Recent Base Wage Increases for  
Public Service Bargaining Employees**

6/1/2011-5/31/2012	4.00%
6/1/2012-5/31/2013	2.50%
6/1/2013-5/31/2014	2.75%
6/1/2014-5/31/2015	3.00%
6/1/2015-5/31/2016	3.00%
6/1/2016-5/31/2017	3.00%

1           In fact, base wage increases have been part of every collective bargaining  
2 agreement that Public Service has had with IBEW Local Union No. 111.  
3 Furthermore, it is not uncommon for collective bargaining agreements to  
4 implement base wage increases retroactively to the expiration of the previous  
5 agreement – meaning that whenever a new collective bargaining agreement is  
6 finalized, the base wage increase(s) will likely be retroactively implemented.  
7 Thus, it is reasonable to forecast that base wage increases will be included in the  
8 next agreement and be effective in 2017.

1        **B. Annual Incentive Program**

2                    **1. Benefits of AIP**

3        **Q. YOU STATED THAT XCEL ENERGY'S COMPENSATION STRUCTURE**  
4        **INCLUDES INCENTIVE PROGRAMS IN ADDITION TO BASE PAY FOR NON-**  
5        **BARGAINING, EXEMPT EMPLOYEES. WHAT IS THE ROLE OF THE**  
6        **INCENTIVE PROGRAMS IN THE COMPENSATION STRUCTURE?**

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

15       **Q. IS IT COMMON PRACTICE FOR LARGE COMPANIES SUCH AS UTILITIES**  
16       **TO USE ANNUAL INCENTIVE COMPENSATION AS PART OF THEIR**  
17       **COMPENSATION PACKAGES?**

18       A. Yes. The use of incentive compensation by employers is a prevalent practice  
19       throughout the United States. In fact, performance-based award programs, in  
20       which a portion of compensation must be re-earned each year, remained very  
21       high in 2015, with more than 90 percent of employers shifting more of their  
22       compensation spending to this type of program, according to an Aon Hewitt

1 survey of 1,214 U.S. companies.<sup>3</sup> According to the 2016 Willis Towers Watson  
2 Compensation Study (Confidential Attachment SLK-1), 100 percent of energy  
3 companies in the national sample maintain an annual incentive plan, and 100  
4 percent of energy companies in the revenue-based sample maintain an annual  
5 incentive plan.

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

8 A. There are two fundamental tenets related to incentive compensation that are well  
9 recognized: (1) it promotes superior employee performance; and (2) it reduces  
10 fixed labor costs. Thus, Public Service incorporates incentive compensation to  
11 provide these benefits for customers.

12 **Q. PLEASE EXPLAIN HOW INCENTIVE COMPENSATION PROMOTES**  
13 **SUPERIOR EMPLOYEE PERFORMANCE.**

14 A. A well-designed incentive compensation plan provides incentives for employees  
15 to meet specific goals. For example, AIP focuses on objectives or recognizing  
16 performance that benefit customers, including promoting customer satisfaction,  
17 reliability, and safety goals. An employee receives annual incentive  
18 compensation only if the employee demonstrates that the employee has met his  
19 or her annual objectives or significantly performed, which motivates employees to

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<sup>3</sup> <http://aon.mediaroom.com/2015-08-26-U-S-Organizations-Report-Highest-Compensation-Spend-in-39-Years>

1 accomplish these goals, thereby helping Xcel Energy and Public Service achieve  
2 overall operational excellence.

3 In addition, an approach that includes incentive compensation, in contrast  
4 to a pure base pay approach, strengthens the link between pay and  
5 performance, because the performance must occur for the pay to be realized.  
6 Using base pay alone to meet the necessary total cash compensation levels  
7 allows for the pay to be realized by the employee regardless of whether annual  
8 performance objectives are met or not. Thus, sole reliance on base pay would  
9 significantly limit Public Service's ability to motivate and reward its employees for  
10 delivering superior performance and would increase fixed labor costs.

11 **Q. HOW DOES INCENTIVE COMPENSATION PROVIDE COST SAVINGS FOR**  
12 **CUSTOMERS?**

13 A. If Public Service offered all compensation solely through base pay, an increase  
14 to base pay would become an annual fixed cost on the entire cash-based  
15 compensation. In contrast, the AIP requires the employee to re-earn the incentive  
16 reward every year, and if performance expectations are not met, incentive pay is  
17 reduced or eliminated. Incentive pay, therefore, does not become a permanent  
18 fixed cost. Thus, by moving a portion of each employee's pay from base pay to  
19 incentive pay, the AIP reduces our overall fixed labor costs by avoiding the  
20 compounding effect of annual base pay increases.

21 In addition, fixed costs associated with base pay impact a variety of  
22 benefit-related expenses, such as 401(k) match, life insurance premiums, long-

1 term disability premiums, higher levels of short-term disability expenses, etc. If  
2 total cash compensation was provided through base pay only, the additional fixed  
3 costs would correspondingly increase benefit-related expenses. In contrast,  
4 variable pay expenses associated with AIP do not impact all benefit expenses,  
5 and may fluctuate from year to year. This is another example of cost savings for  
6 customers that results from designing a compensation program with both base  
7 pay and incentive components.

8 Finally, base pay increases are only applied to base pay and not to the  
9 AIP earned by employees. Accordingly, if total cash compensation was provided  
10 solely through base pay, then future incremental cash compensation expense  
11 would be higher as annual base pay increases would be multiplied against a  
12 larger fixed amount of costs.

13 **2. Structure of AIP**

14 **Q. PLEASE SUMMARIZE THE AIP.**

15 A. The AIP is a broad-based program that covers exempt,<sup>4</sup> non-bargaining  
16 employees across all states in which Xcel Energy operates. Each eligible  
17 employee has a set of performance objectives upon which incentive  
18 compensation is tied. The employee's target annual incentive compensation is  
19 expressed as a percentage of base pay, and comparable to incentive  
20 compensation targets reflected in the market. The percentage is determined by  
21 the employee's position or level within the organization and, when combined with

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<sup>4</sup> Exempt employees are salaried employees as opposed to hourly employees.

1 the employee's base pay, offers a market-competitive level of total cash  
2 compensation. The program identifies organizational and individual goals to  
3 ensure directional alignment toward customer and safety related performance  
4 indicators.

5 **Q. WHAT PERFORMANCE OBJECTIVES WERE EFFECTIVE FOR THE 2016**  
6 **HTY AIP?**

7 A. Performance goals in the 2016 Historical Test Year AIP were set at the  
8 Individual, Business Area, and Corporate levels as follows in Table SLK-D-4:

**Table SLK-D-4 AIP Performance Goals**

<b>Performance Component</b>	<b>Types of Goals within Component</b>	<b>Purpose of Goals within Component</b>
Individual	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.
Business Area	The business area component consists of goals and key performance indicators ("KPI") specific to the business area in which the employee works.	Goals are typically comprised of measures related to operational performance and are aligned to the corporate scorecard goals and priorities.
Corporate	The corporate component consists of goals and KPI focused on operational, environmental, and safety measures.	Goals represent customer and employee interests.

1 **Q. IS EACH OF THE THREE PLAN COMPONENTS EQUALLY IMPORTANT IN**  
 2 **ASSESSING THE PERFORMANCE OF AN EMPLOYEE?**

3 A. No. In assessing a particular employee's performance, the importance of each of  
 4 the objectives will vary based upon the employee's position and level of  
 5 responsibility. The weightings are designed such that the employee's goals are  
 6 more strongly linked to objectives that he or she has the greatest potential to  
 7 affect. For example, the weighting for non-supervisory employees focuses on the  
 8 Individual and Business Area goals that are tied to customer satisfaction, safety,  
 9 and reliability. In contrast, the weighting for more senior level positions focuses  
 10 on Corporate goals. The following table shows the weightings of these different  
 11 categories for the 2016 HTY AIP.

**Table SLK- D-5 Weightings of AIP by Employee Position**

<b>Salary Tiers/Grades</b>	<b>2016 AIP Weights (Exempt, Non-Bargaining Employees)</b>		
	<b>Individual</b>	<b>Business Area</b>	<b>Corporate</b>
Exempt M, N, O Engineer A, B	75%	15%	10%
Exempt P, Q Engineer C	60%	20%	20%
Engineer D, E Management R-T	45%	25%	30%
Management U-V	30%	30%	40%
Management W-X	30%	30%	40%
Business Area Vice President	0%	40%	60%
Executives	0%	0%	100%

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

3 A. No. The weightings modify the mix of accomplishments needed for employees to  
4 achieve the target levels, but do not change the target opportunity levels for  
5 employees.

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

8 A. No. If the employee achieves 100 percent of his or her applicable performance  
9 objectives and the Business Area and Corporate results are at 100 percent, then  
10 the employee receives their target opportunity annual incentive payout. Actual  
11 payment earned by an employee may exceed or fall below the target amount,  
12 depending upon the actual performance of the AIP components. The maximum  
13 payout is 150 percent of the target amount based on exceptional performance,  
14 and the threshold for a minimum payout is 50 percent of the target, which reflects  
15 meeting the minimum expected level of performance. However, performance  
16 below the 50 percent level results in no incentive compensation.

17 **Q. WHAT WERE THE CORPORATE PERFORMANCE OBJECTIVES FOR THE**  
18 **HTY AIP?**

19 A. The 2016 AIP Corporate Scorecard is provided in Table SLK-D-6 below:



**Table SLK-D-6 2016 AIP Corporate Scorecard**

Priority	Key Performance Indicator	Measurement
Reliability	Customer Electric Reliability	This is measured by System Average Interruption Duration Index (“SAIDI”), which measures the average annual duration of sustained interruptions seen by the average electric customer on our system.
	Power Plant Availability	This metric measures the availability of a power plant/unit as a percentage of period hours.
Customer	Damages per 1000 Locates	Damage is measured by the number of damages to Xcel Energy’s buried electric and gas facilities per 1000 locate requests.
	Customer Loyalty	Customer Loyalty is measured by the Net Promoter score, which measures how customers view the competence and reputation of Xcel Energy.
	O&M Cost Management	This metric measures year-over-year growth in Operations & Maintenance (“O&M”) recovered in rates.
Employee	Employee Safety	The Occupational Safety and Health Administration (“OSHA”) Recordable Incident Rate is used to measure Employee Safety performance. It is the standard measurement used in the utility and general industry.

1 **Q. HOW DO THE 2016 AIP CORPORATE SCORECARD GOALS BENEFIT**  
 2 **CUSTOMERS?**

3 A. The Reliability goal benefits customers as it directly relates to the SAIDI and  
 4 Unplanned Outage Rates (“UOR”). SAIDI measures the average annual duration

1 of sustained interruptions experienced by the average electric customer. The  
2 Power Plant Availability metric benefits customers by maximizing the availability  
3 of base-load plants, as they promote uninterrupted generation capacity to meet  
4 customer demand. Focusing employees' efforts on obtaining the best scores  
5 possible for SAIDI and Power Plant Availability directly benefits customers  
6 through the provision of reliable electric service.

7 The Customer Focus Excellence goal is based upon the Public Safety  
8 Index, which measures Public Service's response time to calls regarding electric  
9 service from customers and contractors. The Customer Focus Excellence goal is  
10 based upon Customer Loyalty metric results. Again, this goal directly benefits  
11 and relates to the quality of service provided to Public Service's customers. In  
12 addition, mitigating the growth of O&M benefits customers by encouraging  
13 increased productivity and improved efficiencies in operational performance,  
14 while maintaining costs at the lowest possible level. Also, the Damages per 1000  
15 Locates goal benefits customers as it helps: (1) promote customer and employee  
16 safety; and (2) mitigation of damage related to locations of underground utility  
17 lines.

18 The Employee Safety and Engagement goal benefits customers as it  
19 relates to the OSHA recordable incident rate achieved. The OSHA recordable  
20 incident rate is used to measure safety performance and is the standard measure  
21 used in the utility industry. The higher the safety level of our employees while  
22 performing their job duties, the more productive and reliable the service.

1 Similarly, engaged employees are necessary to every facet of Public Service’s  
 2 business – especially in today’s environment, as Public Service seeks to improve  
 3 productivity and keep costs competitive for customers.

4 **Q. WHAT WERE THE CORPORATE PERFORMANCE OBJECTIVES**  
 5 **CURRENTLY IN EFFECT FOR THE 2017 AIP?**

6 A. The 2017 AIP Corporate Scorecard is provided in Table SLK- D-7 below:

**Table SLK- D-7 2017 AIP Corporate Scorecard**

<b>Priority</b>	<b>Key Performance Indicator</b>	<b>Measurement</b>
<b>Customer</b>	Net Promoter Score (Residential Customers)	Likelihood of recommending Xcel Energy to others
	Public Safety (Damages per 1000 Locates)	Damage is measured by the number of damages to Xcel Energy’s buried electric and gas facilities per 1000 locate requests
	O&M Growth (over 2016)	This metric measures year-over-year growth in O&M recovered in rates
<b>Reliability</b>	Electric System Reliability (SAIDI)	This is measured by SAIDI, which measures the average annual duration of sustained interruptions seen by the average electric customer on our system.
<b>Employee</b>	Employee Safety (DART)	Reflects current safety performance and time lost

7 **Q. WHY DO THE 2017 CORPORATE SCORECARD GOALS DIFFER FROM**  
 8 **2016?**

9 A. Each year, the Corporate Scorecard KPIs are reviewed and may be changed if  
 10 necessary to focus on the needs of customers, and to align with longer term

1 objectives, such as maintaining strong levels of reliable service and choice for  
2 our customers.

3 **Q. HOW DO THE 2017 AIP CORPORATE SCORECARD GOALS BENEFIT**  
4 **CUSTOMERS?**

5 A. The KPIs for 2017 are very comparable to those for 2016 and the following have  
6 identical measures: Public Safety; O&M Growth; and Electric System Reliability,  
7 which are highly customer-focused-goals. In addition, employee safety has  
8 always been a key priority, and was included in a slightly different, but  
9 comparable manner in 2016.

10 The Net Promoter Score for 2017 is not a new concept, but is now directly  
11 listed as one of the Key Performance Indicators and again is very customer-  
12 focused-goal. The measurement relies directly on the level of service provided to  
13 customers and the impression Public Service has left with customers. When  
14 Public Service employees provide great service, the anticipation would be a  
15 strong recommendation from customers.

16 **Q. WHILE THE CORPORATE SCORECARD GOALS ARE DESIGNED TO**  
17 **BENEFIT CUSTOMERS AND ENHANCE SUPERIOR EMPLOYEE**  
18 **PERFORMANCE, DOES PUBLIC SERVICE MONITOR ITS AIP DESIGN TO**  
19 **DETERMINE WHETHER IMPROVEMENTS CAN BE MADE?**

20 A. Yes. Periodically, companies, including Public Service, examine their  
21 compensation programs to determine if improvements can be made and whether  
22 the programs are effectively motivating employees.

1 **Q. IS PUBLIC SERVICE MAKING AIP DESIGN CHANGES PROSPECTIVELY?**

2 A. Yes. As I describe further below, Public Service is implementing changes for AIP  
3 prospectively with the goals of: (1) further strengthening the connection between  
4 individual employees' work and customer benefits; and (2) further promoting  
5 superior employee performance.

6 **Q. ARE THE AIP CHANGES FINAL?**

7 A. No. The design changes are still being finalized and a communication plan is  
8 being developed. However, managers have received a high-level overview of the  
9 pending changes and will be receiving further information to help them administer  
10 the program for their employees.

11 **Q. ALTHOUGH THE AIP DESIGN CHANGES ARE NOT FINAL, CAN YOU  
12 PROVIDE FURTHER DETAILS?**

13 A. Yes. To further strengthen the connection between individual employees' work  
14 and customer benefits, Public Service will repurpose the current AIP  
15 performance components (i.e., Corporate, Business Area, and Individual) so that  
16 only the Corporate and Individual performance components exist. The prior  
17 weighting for the Business Area performance component will be moved to the  
18 Individual performance component.

19 The majority of employees' salary grades have the highest AIP weightings  
20 for the Individual performance component. This means that most employees'  
21 earn the majority of their AIP based on the successful completion of individual  
22 goals that are designed to benefit customers. Thus, increasing the weighting of

1 the Individual performance component will further strengthen the employees'  
2 "line of sight"<sup>5</sup> between the accomplishment of their individual goals and  
3 receiving AIP compensation.

4 **Q. WHEN DO YOU EXPECT THE CHANGES TO AIP TO BECOME FINAL?**

5 A. The design changes for the 2017 AIP are being finalized and anticipated to be  
6 communicated in the second quarter of 2017.

7 **Q. YOU NOTED ABOVE THAT THE CORPORATE PERFORMANCE**  
8 **COMPONENT WILL CONTINUE ONCE THE AIP DESIGN CHANGES ARE**  
9 **FINALIZED. WILL THE 2017 CORPORATE SCORECARD GOALS**  
10 **ADDRESSED IN TABLE SLK- D-7 REMAIN IN PLACE?**

11 A. Yes. The 2017 corporate scorecard goals will remain unchanged as a key  
12 component of the AIP and will maintain the continued focus on customers.

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

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

---

<sup>5</sup> "Line of sight" is a theory on compensation and goal-setting for rewards and performance goals to be designed so that an employee sees a common line of sight between individual goals and the organization.

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

3 A. No. The target opportunity level of AIP will remain the same as it is today. Thus,  
4 from a rate-making perspective the level of costs Public Service requests to be  
5 recovered in rates will remain consistent once the design changes have been  
6 implemented. In other words, the AIP design changes will not increase the  
7 amount of AIP expense in comparison to the 2016 AIP.

8 Also, as confirmed by the Confidential Willis Towers Watson  
9 Compensation Study (Confidential Attachment SLK-1), the target opportunity  
10 level of AIP will allow the total cash compensation to be competitive with the  
11 market and, thus, is a reasonable cost of providing gas service to Public  
12 Service's customers.

13 **Q. WHAT AMOUNT OF AIP COSTS DID PUBLIC SERVICE INCUR FOR THE**  
14 **2016 HTY?**

15 A. Public Service incurred \$2,400,056 for the 2016 HTY.

16 **Q. HAS PUBLIC SERVICE INCLUDED AIP EXPENSE IN THE MYP?**

17 A. Yes. The MYP accounts for labor expense, including AIP expense, by using 2016  
18 as a baseline, applying the 3.0 percent wage increase for 2017 and then applying  
19 a 2.0 percent escalation rate for 2018, 2019 and 2020. Please see the testimony  
20 of Public Service witness Mr. Brockett for a more detailed explanation.

1           **C. Recognition Programs**

2           **Q. PLEASE SUMMARIZE PUBLIC SERVICE'S RECOGNITION PROGRAMS.**

3           A. The recognition programs include a years-of-contribution program, a corporate  
4           recognition program, and the Spot On Award program. The years-of-contribution  
5           program recognizes employee loyalty and cumulative career effort every  
6           milestone of service at 5 year increments. The corporate recognition program  
7           provides thank you cards, nominal gift cards, small gifts, or items commemorated  
8           with the Xcel Energy logo to recognize individuals and groups of employees for  
9           above-and-beyond performance. The Spot On Award program was created as a  
10          tool for managers to reward outstanding performance for non-exempt, non-  
11          bargaining employees. Employees eligible for the Spot On Award program are  
12          not eligible to receive AIP.

13          **Q. WHAT AMOUNT DID PUBLIC SERVICE INCUR IN 2016 FOR RECOGNITION**  
14          **PROGRAMS?**

15          A. The 2016 HTY costs for the recognition programs were:

**Table SLK-D-8**

<b>Recognition Program</b>	<b>2016 HTY Costs for Public Service Gas</b>
Performance Recognition and Years of Contribution	\$97,319
Spot On Award	\$31,952
<b>Total</b>	<b>\$129,271</b>



1 **Q. HOW DID PUBLIC SERVICE DETERMINE THE AMOUNTS FOR THE**  
2 **RECOGNITION PROGRAMS TO INCLUDE IN THE MYP?**

3 A. As noted above, the MYP accounts for labor expenses by using 2016 as a  
4 baseline and then applying a 2.0 percent escalation rate. Please see the  
5 testimony of Public Service witness Mr. Brockett for a more detailed explanation.

6 **D. Reasonableness of Public Service's Cash Compensation**

7 **Q. HAS PUBLIC SERVICE COMPARED ITS TOTAL CASH COMPENSATION**  
8 **LEVELS TO THE COMPETITIVE MARKET, INCLUDING OTHER UTILITIES?**

9 A. Yes. Public Service uses the median of market survey data to ensure our total  
10 cash compensation levels are consistent with the market. Public Service also  
11 engaged Willis Towers Watson to perform an analysis of how Xcel Energy's 2016  
12 target total cash compensation compares with the compensation of other utility  
13 companies. A copy of the 2016 Willis Towers Watson Compensation Study is  
14 provided as Confidential Attachment SLK-1. The 2016 Willis Towers Watson  
15 Compensation Study includes exempt and executive employees.

16 **Q. PLEASE DESCRIBE THE SPECIFIC ELEMENTS OF THE 2016 WILLIS**  
17 **TOWERS WATSON COMPENSATION STUDY.**

18 A. The 2016 Willis Towers Watson Compensation Study consists of the following  
19 elements:

- 20 • Xcel Energy's total cash compensation levels (total cash compensation  
21 is defined as base salary plus target annual incentive compensation)  
22 were compared with competitive market target total cash  
23 compensation levels;

- 1 • Xcel Energy's base salary levels were compared with competitive
- 2 market total cash compensation levels; and
- 3 • Xcel Energy's annual incentive targets were compared with market
- 4 annual incentive targets.

5 The 2016 Willis Towers Watson Compensation Study compared Xcel  
6 Energy's level of compensation to the median and average levels of  
7 compensation paid by the comparison groups.

8 **Q. WHAT COMPARISON GROUPS DID THE 2016 TOWERS WATSON**  
9 **COMPENSATION STUDY USE?**

10 A. Compensation levels were compared with two sets of data. The first set of  
11 comparison data was national data reflecting a large majority of investor-owned  
12 utilities including those both smaller and larger than Xcel Energy. The second set  
13 of comparison data was of investor-owned utilities similar in revenue size to Xcel  
14 Energy.

15 **Q. WHAT WERE THE RESULTS OF THE 2016 WILLIS TOWERS WATSON**  
16 **COMPENSATION STUDY?**

17 A. As shown on Table SLK-D-9, the 2016 Willis Towers Watson Compensation  
18 Study finds that with the inclusion of the AIP, Xcel Energy's median total cash  
19 compensation levels are generally in line with other utilities. Without the AIP,  
20 however, the median total cash compensation provided would be well below the  
21 overall utility market and would put Public Service at a material disadvantage in  
22 the competition for employees.

**Table SLK-D-9**

<b>Components of Xcel Energy Compensation</b>	<b>Compared to Base Salaries and Incentives of Utilities with Similar Revenues (Revenue Sample)</b>	<b>Compared to Base Salaries and Incentives of Utilities Across the Nation (National Sample)</b>
Base Salary Only	Below Market By 14.7%	Below Market By 11.6%
Target Total Cash Compensation (Base Salary + Target Incentive)	Below Market by 2.6%	Above Market by 0.9%

1 **Q. WHAT DO YOU CONCLUDE FROM THE 2016 WILLIS TOWERS WATSON**  
 2 **COMPENSATION STUDY?**

3 A. The 2016 Willis Towers Watson Compensation Study illustrates that Public  
 4 Service’s compensation structure (i.e., both base salary and the AIP) provides a  
 5 market level of compensation, which confirms that Public Service’s requested  
 6 compensation expense in the HTY, upon which the MYP revenue requirement  
 7 amounts are based, is appropriate and reasonable. The Study also confirms that  
 8 the target level annual incentives provided to employees through the AIP are  
 9 aligned with those for similar positions in the competitive market. Without the  
 10 AIP, however, our total cash compensation would lag the market by 14.7 percent  
 11 (compared to utilities with similar revenues), which would put Public Service at a  
 12 material disadvantage when competing for skilled employees.

1 **Q. ARE PUBLIC SERVICE'S BASE PAY AND ANNUAL INCENTIVE**  
2 **COMPENSATION PROGRAMS NECESSARY AND REASONABLE?**

3 A. Yes. Public Service and Xcel Energy must provide a market-competitive level of  
4 total compensation to attract and retain employees who in turn provide safe and  
5 reliable gas service to Public Service's customers. Furthermore, a base pay  
6 coupled with the AIP is an appropriate method of providing market competitive  
7 total cash compensation.

8

1           **IV. EMPLOYEE HEALTH AND WELFARE BENEFIT PROGRAMS**

2           **A. Health and Welfare Benefits**

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

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

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

10   A. Yes. Over the past several years, Public Service has made several design  
11   changes and undertaken an array of initiatives to help mitigate health care costs.  
12   Many of these initiatives have resulted in a greater share of healthcare costs  
13   being borne by employees, but they have also allowed Public Service to better  
14   manage overall healthcare costs and the rate at which costs increase. These  
15   initiatives include:

- 16           • Between 2009-2013, Public Service consolidated non-bargaining medical  
17           plans to a single High Deductible Health Plan ("HDHP") medical plan and  
18           re-introduced monthly premiums; eliminated adult orthodontia coverage;  
19           reduced the Short-Term Disability income replacement ratio; shifted  
20           excessive pharmacy costs to employees when lower cost options were  
21           available; transitioned Medicare-eligible non-bargaining retirees and  
22           spouse/dependent medical and prescription coverage to the individual  
23           market; and introduced a new wellness program to encourage healthier  
24           lifestyle choices.

- 1           • Vendor contracts are continually monitored and renegotiated with benefit  
2           vendors on an ongoing basis. These negotiations focus on administrative  
3           fee reductions, better performance guarantees and rebates, and improved  
4           discounts on provider networks. All contribute to our ability to minimize  
5           rising healthcare costs and benefit administration costs charged by third  
6           parties.
- 7           • Effective January 2016, Public Service negotiated with its bargaining  
8           employees and now offers a single medical plan to all bargaining and non-  
9           bargaining employees across Public Service and Xcel Energy.
- 10          • Effective January 2017, Public Service introduced a monthly premium  
11          surcharge for coverage of a spouse when the spouse's employer offers  
12          medical coverage.
- 13          • Effective April 2017, Public Service has outsourced the Family Medical  
14          Leave Act administration, resulting in greater efficiencies, as well as cost  
15          savings.

16   **Q.    ARE XCEL ENERGY'S HEALTH AND WELFARE BENEFITS PROGRAMS**  
17   **AND THEIR COSTS NECESSARY AND REASONABLE?**

18   A.    Yes. Xcel Energy designs programs that promote a culture of personal  
19   accountability for employees' physical and financial well-being, while ensuring  
20   the long-term financial health of our programs. Xcel Energy provides competitive  
21   benefit programs that are necessary to attract and retain a qualified, skilled  
22   workforce. Based upon my knowledge and understanding of the benefits offered,  
23   Xcel Energy's benefit plans are reasonable, appropriate, and competitive with  
24   what is provided by the market and utility industry.

1        **B. Employee Retirement Programs**

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

4        A. Xcel Energy provides retirement benefits to eligible employees, which include a  
5        defined benefit (pension) plan, as well as a defined contribution (401(k)) savings  
6        plan. Xcel Energy's pension or defined benefit programs are non-contributory  
7        programs (i.e., programs to which employees do not contribute), which provide  
8        pay replacement to eligible employees after separation of service. The 401(k)  
9        savings plan encourages employees to save regularly and cost effectively for  
10       their retirement through pre-tax and after-tax employee deferrals and provides an  
11       employer matching contribution up to a maximum amount. The amount of the  
12       employer contribution differs based upon the 401(k) plan for which the employee  
13       is eligible.

14                    **1. Defined Benefit Plan**

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

17        A. Yes. Of the 45 utilities in the Fortune 1000, 24 (53 percent) continue to provide  
18        defined benefit pension benefits to all employees, 17 (38 percent) provide  
19        defined benefit pension benefits to all employees except those hired after a

1 certain date, and only four have fully or partially discontinued the defined benefit  
2 pension benefit for employees.<sup>6</sup>

3 **Q. HAS PUBLIC SERVICE UNDERTAKEN ANY INITIATIVES TO REDUCE THE**  
4 **COSTS OF ITS DEFINED BENEFIT PENSION EXPENSE?**

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

10 In addition, Xcel Energy has previously implemented benefit level  
11 reductions for our Public Service bargaining unit employees by reducing the  
12 multiplier for newly hired employees effective in 2010, and changed the final  
13 average compensation definition from 36 months to 48 months, effective January  
14 1, 2012 for all bargaining unit employees.

15 **Q. PLEASE DESCRIBE THE PENSION PLAN FORMULA.**

16 A. The 5 percent Cash Balance Plan provides for an annual 5 percent Company  
17 contribution of the employee’s annual salary into a notional account. This  
18 account has interest credited to it annually based on the 30-year Treasury rates.  
19 Because the value of the plan is expressed in dollars, the 5 percent Cash  
20 Balance Plan looks similar to a savings account or a 401(k) plan, so employees  
21 easily understand the plan value. Non-bargaining employees hired prior to

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<sup>6</sup> Information gathered from annual reports for the Fortune 1000 utilities.



1 January 1, 2012 are eligible for the 10 percent Pension Equity Plan, which results  
2 in employees receiving 10 percent of their highest 48 months of consecutive  
3 earnings for each year of eligible service.

4 **Q. COULD THE CBA NEGOTIATIONS THAT ARE CURRENTLY PENDING**  
5 **BETWEEN PUBLIC SERVICE AND BARGAINING EMPLOYEES IMPACT THE**  
6 **RETIREMENT AND HEALTH AND WELFARE BENEFITS FOR BARGAINING**  
7 **EMPLOYEES?**

8 A. Yes. Earlier I discussed how Public Service is currently in the process of  
9 negotiating a new CBA with IBEW Local Union No. 111. The results of the  
10 negotiations may impact the retirement and health and welfare benefits for  
11 bargaining members. I can provide an update, if one is available, as a part of my  
12 rebuttal testimony.

13 **2. Defined Contribution Plan**

14 **Q. PLEASE DESCRIBE PUBLIC SERVICE'S DEFINED CONTRIBUTION PLAN.**

15 A. Public Service's defined contribution plan, which is a 401(k) savings plan,  
16 provides an employer contribution equal to a maximum of 4 percent of an  
17 employee's eligible compensation (i.e., base pay). Public Service matches 50  
18 cents on the dollar up to 8 percent of a non-bargaining employee's contribution.  
19 For bargaining unit employees, Public Service provides a 5 percent match on  
20 eligible compensation.

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

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

8 **Q. HAS THE COMMISSION PREVIOUSLY CONSIDERED THE**  
9 **REASONABLENESS OF PUBLIC SERVICE'S 5 PERCENT CASH BALANCE**  
10 **PLAN AND 401(K) SAVINGS PLAN?**

11 A. Yes. In Public Service's 2012 Gas Phase I rate case testimony (Proceeding No.  
12 12AL-1268G), a Joint Pension Study was commissioned through Moody  
13 Analytics. The results of this study indicated Public Service's 5 percent Cash  
14 Balance pension plan, combined with its 401(k) savings plan, actually provided a  
15 lower benefit value than what was provided by other regulated utilities. Pension  
16 plans tend to remain static for many years, so Public Service believes the results  
17 of this study would not change significantly and would continue to be relevant.

18 Since these types of retirement plans are common within the utility  
19 industry, and the overall value of the plans are reasonable to other utilities, Public  
20 Service believes the expenses associated with these plan are reasonable to  
21 include in the base rate recovery request.

1           **C. 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 PUBLIC**  
5           **SERVICE'S 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; giving employees some stability with a  
10          portion of their future income, while also offering a 401(k), which allows  
11          employees to increase their overall retirement savings.

12   **Q.   DOES PUBLIC SERVICE'S PENSION PLAN REPRESENT A REASONABLE**  
13          **LEVEL OF BENEFITS?**

14   A.   Yes. Our pension levels, historically and currently, represent a reasonable level  
15          of benefits. Alignment with what the external market is offering for a pension  
16          benefit is a major component of our pension plan design.

1 **V. CONCLUSION**

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

5 A. Yes. The Total Rewards Programs are necessary to attract, retain and motivate  
6 the employees who in turn provide safe and reliable gas service to our  
7 customers. Therefore, the costs associated with the Total Rewards Programs are  
8 reasonable costs of providing service.

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

10 A. Yes.

## **Statement of Qualifications**

### **Sharon L. Koenig**

I am employed by Xcel Energy Services Inc. ("XES"), as Director of Compensation. I have held this position since joining the Xcel Energy Services Inc. in February 2013. 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 executive compensation programs and 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 served as a witness representing rate case matters related to human resources and Total Rewards Programs under XES, and our other utility operating company subsidiaries in the jurisdictions of North Dakota (No. PU-12-813), Wisconsin (Nos. 4220-UR-121 and 4220-UR-123) and now currently in the Colorado gas case (No. 17AL-XXXXG).

Prior to joining XES, I worked for Supervalu Corporation as the Director of Compensation, a wholesale and retail grocery company located in various regions

throughout the United States. My responsibilities included administration of broad-based compensation programs, executive compensation management and recognition programs. Throughout my corporate career, I have worked for domestic and global companies where my primary focus was compensation administration and compliance programs in the insurance, recognition promotions, telecommunications, global manufacturing and retail industries.

I received my Bachelor of Arts degree in Business Management and Economics from Hamline University, St. Paul, Minnesota. I received training and earned the designation of Certified Compensation Professional from World at Work Society of Compensation Professionals. Throughout my professional 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 completed continuing education courses.

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF COLORADO

\* \* \* \*

RE: IN THE MATTER OF ADVICE LETTER )  
NO. 912-GAS FILED BY PUBLIC SERVICE )  
COMPANY OF COLORADO TO REVISE )  
ITS COLORADO PUC NO. 6-GAS TARIFF ) PROCEEDING NO. 17AL-\_\_\_\_G  
TO IMPLEMENT A GENERAL RATE )  
SCHEDULE ADJUSTMENT AND OTHER )  
RATE CHANGES EFFECTIVE ON 30-DAYS )  
NOTICE.

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AFFIDAVIT OF SHARON L. KOENIG  
PUBLIC SERVICE COMPANY OF COLORADO

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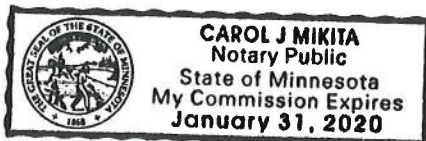
I, Sharon L. Koenig being duly sworn, state that the Direct Testimony and attachments were prepared by me or under my supervision, control, and direction; that the Testimony and attachments are true and correct to the best of my information, knowledge and belief; and that I would give the same testimony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

Dated at Denver, Colorado, this twenty-sixth day of May 2017.

  
\_\_\_\_\_  
**Sharon L. Koenig**  
Director, Compensation

Subscribed and sworn to before me this 26 day of May, 2017.

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



My Commission expires 1/31/2020