Direct Testimony and Schedules
Richard R. Schrubbe

Before the Minnesota Public Utilities Commission
State of Minnesota

In the Matter of the Application of Northern States Power Company
for Authority to Increase Rates for Gas Service in Minnesota

Docket No. G002/GR-21-678
Exhibit___(RRS-1)

Pension and Benefits Expense

November 1, 2021

Table of Contents

Schedules

Terms and Acronyms

ACM	Aggregate Cost Method
Commission	Minnesota Public Utilities Commission
Company	Northern States Power Company – Minnesota
EEI	Edison Electric Institute
ERISA	Employee Retirement Income Security Act
EROA	Expected Return on Assets
FAS	Statement of Financial Accounting Standard
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
IBNR	Incurred But Not Reported
IRC	Internal Revenue Code
LTD	Long-Term Disability
NSPM	Northern States Power Company – Minnesota
NSPW	Northern States Power Company - Wisconsin
PBGC	Pension Benefit Guaranty Corporation
PBO	Pension Benefit Obligation
Public Service	Public Service Company of Colorado
PVFB	Present Value of Future Benefits
SPS	Southwestern Public Service Company
WACC	Weighted Average Cost of Capital
Xcel Energy	Xcel Energy Inc.
XEPP	Xcel Energy Pension Plan
XES	Xcel Energy Services Inc.

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND OCCUPATION.

A. My name is Richard Schrubbe. I am the Area Vice-President of Financial Analysis and Planning for Xcel Energy Services Inc. (XES), which provides services to Northern States Power Company – Minnesota (NSPM or the Company).

Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

A. As Area Vice-President of Financial Analysis and Planning, I am responsible for overseeing the business area leaders of Energy Supply, Transmission, Distribution, Gas Engineering & Operations, Nuclear, and Corporate Services with respect to budget planning, reporting, and analysis. I oversee the accounting for all employee benefits programs, playing a liaison role with the Human Resources department, external actuaries, and senior management with benefit fiduciary roles. I am also responsible for coordinating the benefits operations and maintenance (O&M), and capital budgeting and forecasting processes, as well as the monthly analysis of actual results against these budgets and forecasts. A summary of my qualifications, duties, and responsibilities is included as Exhibit___(RRS-1), Schedule 1.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I discuss the pension benefits and other non-cash benefits the Company offers to its eligible employees and their families, and I present the costs of these benefits for the 2022 test year. In addition, I discuss pension cost accounting principles and explain how the Company's pension expense necessarily reflects the cumulative effect of pension asset gain and loss experiences.

I also support the Company's request to include the net rate base increase associated with its benefit costs. This net rate base increase reflects the increase associated with the prepaid pension asset, although that amount is reduced to some extent by the accrued unfunded liability costs associated with the retiree medical and post-employment benefit costs and the accumulated deferred income taxes (ADIT) associated with the prepaid pension asset. I provide a detailed discussion of the accounting and ratemaking treatment of these costs, and I demonstrate why this ratemaking treatment is reasonable.

Q. IS ANY OTHER COMPANY WITNESS ADDRESSING PENSION AND BENEFIT ISSUES?

A. Yes. Company witness Ms. Ruth K. Lowenthal discusses the cash compensation offered by the Company, as well as the steps the Company has taken to help mitigate benefit cost increases. In addition, Company witness Mr. Evan Inglis discusses the appropriateness of the Company's pension investment strategy.

Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

A. I present the remainder of my testimony in the following sections:

- Section II, *Pension and Benefits Overview*, provides a summary of the pension and benefit costs included in our test year.
- Section III, *Pension Cost Accounting*, discusses pension accounting principles and describes how the Company calculates its pension expense.
- Section IV, *Pension Assumptions*, presents the primary assumptions used to calculate our pension costs in this case.
- Section V, *Qualified Pension and 401(k) Match Costs*, quantifies the test year expense amounts for qualified pension and 401(k).

- Section VI, *Retiree Medical and FAS 112 Long-Term Disability Benefits*, presents information and costs related to our request for recovery of post-retirement healthcare and long-term disability benefits.
- Section VII, *Benefit Rate Base Assets and Liabilities*, discusses ratemaking treatment of both the Company's prepaid benefit costs and unfunded accrued liability costs.
- Section VIII, *Active Health and Welfare Costs*, provides details related to the active healthcare costs included in our rate request.
- Section IX, *Workers' Compensation FERC 925 Costs*, provides details related to the workers' compensation costs included in our rate request.
- Section X, *Conclusion*, summarizes the Company's request for recovery of pension and benefit-related costs.

II. PENSION AND BENEFITS OVERVIEW

Q. WHAT TYPES OF COSTS ARE INCLUDED IN THE COMPANY'S PENSION AND BENEFITS REQUEST?

A. With the exception of the workers' compensation costs discussed in Section IX of my testimony, all the Company's pension and benefits costs are recorded in FERC Account 926.

Q. TO PROVIDE CLARITY, PLEASE DESCRIBE HOW DOLLAR AMOUNTS IN YOUR TESTIMONY ARE PRESENTED.

A. Unless specifically indicated otherwise, all the dollar values presented in my testimony are presented at the NSPM gas, State of Minnesota level.

Q. PLEASE PROVIDE A SUMMARY OF THE PENSION AND BENEFIT COSTS INCLUDED IN THE COMPANY'S RATE REQUEST.

A. Table 1 below sets forth the benefit amounts for the 2022 test year, as well as the actual amounts for 2020 and the forecasted amounts for 2021.

Table 1

Pension and Benefit Expense Summary ($)

FERC Account 926 Pension and Benefit Costs for NSPM Gas O&M, State of Minnesota

FERC 926 Benefit Type	2020 Actual Amounts	2021 Forecast	2022 Test Year
Actuarial Costs			
Qualified Pension	2,408,267	2,398,115	1,958,537
FAS 106 Retiree Medical	78,913	59,882	47,477
FAS 112 LTD	38,561	41,774	9,354
Total Actuarial Costs	**2,525,741**	**2,499,740**	**2,015,368**
Health & Welfare			
Active Health Care	2,898,982	3,220,640	3,332,430
Misc Ben Programs, Life, LTD	313,157	360,354	402,044
Total Health & Welfare	**3,212,139**	**3,580,994**	**3,734,474**
Other Retirement			
401(k) Match	813,399	868,541	915,504
Deferred Comp Match	2,516	3,489	2,756
Ret. & Comp Consulting	16,216	21,581	33,741
Total Other Retirement	**832,130**	**893,611**	**952,001**
Total FERC 926	**6,663,772**	**6,974,345**	**6,701,842**

Q. IS THE COMPANY SEEKING TO RECOVER THE PENSION AND BENEFITS EXPENSE SHOWN IN TABLE 1?

A. Yes. Company witness Mr. Benjamin Halama has incorporated the test year amount in the cost of service he supports. As discussed in detail throughout my testimony, our forecasts of the pension and benefit costs included in FERC

Account 926 are formulaic, are calculated in accordance with accounting rules and standards, and are based on actuarial assumptions specific to the Company.

III. PENSION COST ACCOUNTING

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

A. In this section I discuss pension accounting principles and describe how the Company calculates its test year pension expense.

Q. IN ORDER TO ESTABLISH THE CONTEXT FOR YOUR DISCUSSION OF THE CALCULATION OF PENSION EXPENSE, PLEASE DESCRIBE THE QUALIFIED PENSION PLANS THE COMPANY OFFERS.

A. The Company has two qualified pension plans: the NSPM Plan and the XES Plan. Employees of NSPM are eligible to participate in the NSPM Plan, whereas employees of XES are eligible to participate in the XES Plan.

Q. ARE THE PENSION COSTS ATTRIBUTABLE TO EACH PLAN ACCOUNTED FOR IN THE SAME WAY?

A. No. Pension costs under the NSPM Plan are determined under the Aggregate Cost Method (ACM), whereas pension costs for the XES Plan are determined in accordance with Statement of Financial Accounting Standard (FAS) 87.[1] The history of the Company's use of these two different accounting methods is explained below, but the ultimate goal of both methods is the same – to provide an actuarially sound basis to calculate and recover over the course of an employee's career the amount of money that will be necessary to satisfy the

[1] In 2009 FAS 87 was renamed Accounting Standards Codification 715-30, but I will continue to refer to the standard in this testimony as FAS 87 for ease of reference.

Company's pension obligation to that employee. In effect, both methods allow the Company to reflect a current expense associated with a future liability.

A. The Nature of Pension Expense

Q. IS PENSION EXPENSE SIMPLY A CASH OUTLAY IN THE TEST YEAR, LIKE MANY OTHER COMPONENTS OF OPERATION AND MAINTENANCE EXPENSE?

A. No. Pension expense represents an accrual for a future liability rather than the cash to pay benefits in a given year. Thus, pension expense is more similar to our nuclear decommissioning accrual, which is an expense in our cost of service, than it is to, say, contractor expense for our vegetation management, which more closely represents cash that flows out the door in a given year.

Q. WHY IS THE DISTINCTION BETWEEN A PRESENT ACCRUAL AND A PRESENT CASH OUTLAY IMPORTANT?

A. A more current cash outlay, such as vegetation management (we still use accrual accounting for this cost), is not materially affected by a number of assumptions about longer-term future conditions, but only by timing differences in the billing for the costs. In contrast, the current accrual for a substantial and distant future liability is affected by both past events and future forecasts. We must know what happened in the past and must have a forecast of what will happen in the future in order to derive the most accurate measure of the current year expense associated with that future liability.

Q. WHY ARE PAST EVENTS TAKEN INTO CONSIDERATION FOR PURPOSES OF CALCULATING PENSION EXPENSE?

A. A fundamental component of pension expense is the experience from prior years. That is, the current year's pension expense is determined by knowing the

existing value of the assets in the trust, as well as the forecasted future liability. To the extent the existing value of the assets is higher than initially forecasted, the level of expense is reduced, as there is less future cost to be recognized in the current period. To the extent the existing value of the assets is lower than initially forecast, then the expense level is higher.

Q. WHAT IS THE PROCESS FOR TAKING THE PAST EVENTS INTO ACCOUNT?

A. The elements used to calculate pension costs are established at the beginning of each year based on actuarial studies that account for factors such as the expected salary increases, expected mortality rates, the Expected Return on Assets (EROA), the discount rate and other factors. At the end of the year, the assumptions are trued up to actual experience, and the differences give rise to gains or losses.

Q. WHY IS IT NECESSARY TO TRUE-UP THE PROJECTIONS TO ACTUAL EXPERIENCE?

A. The Company makes projections so that it can reflect the most accurate forward-looking level of pension expense on its income statement. For example, our projection of future pension liability is based on our best estimate of how long employees will stay with the Company because pension benefits are designed to grow with years of service. But circumstances change over the course of a year, and the assumptions we made at the beginning of the year may have changed. To make our pension expense projections for the following year as accurate as possible, we incorporate the differences between the projections and actual experience from the prior years in our calculation of annual pension expense.

Q. WHAT DO YOU MEAN WHEN YOU SAY THAT THE COMPANY ACCOUNTS FOR THE CHANGES THAT HAVE OCCURRED?

A. Pension accounting systematically tracks the differences between the Year 1 forecast assumptions and the Year 1 actual experience, and then it includes a portion of that difference into the Year 2 pension expense as a gain or loss. (I explain in the next part of my testimony why only a portion is incorporated into the Year 2 pension expense calculation.) Deviations that reduce the level of the Present Value of Future Benefits (PVFB) are gains. Deviations that increase the PVFB are losses. The treatment of cumulative gain and loss experiences is a key component of the annual pension expense calculation, as I will discuss in the next subsection of my testimony.

B. Treatment of Gain and Loss Experiences

Q. WHAT FOUNDATIONAL CONCEPTS ARE NECESSARY TO UNDERSTAND HOW GAIN AND LOSS EXPERIENCES ARE INCORPORATED INTO THE CALCULATION OF CURRENT PENSION EXPENSE?

A. The first concept is that asset gains and losses must be distinguished from liability gains and losses. I will explain below the difference between those types of gains and losses.

The second concept involves the phase-in of asset gains and losses. As I will discuss in more detail below, asset gains and losses are phased into an amortization "pool," for lack of a better term, over a five-year period. Liability gains and losses are not phased in, but instead are placed into the amortization pool in a single year.

The third concept involves amortization. FAS 87 asset and liability gains and losses that enter the amortization pool are amortized over the remaining service lives of existing employees if they fall outside a "corridor." If the FAS 87 gains or losses are within the corridor, they are not amortized. I will discuss the corridor and the mechanics of the amortization in more detail below. ACM gains and losses are treated a bit differently, but the concepts are similar. As with FAS 87, asset gains and losses are phased in over a five-year period. After accounting for the phase-in of asset gains and losses, the Company calculates the difference between the market-related value of the pension plan assets and the PVFB owed by the Company, and the difference is spread over the remaining service lives of existing employees. As I will explain below, this is not an amortization in the same sense as the FAS 87 amortization, but it achieves similar results in that it results in the spreading of unrecognized gains and losses over a period of years.

Q. STARTING WITH THE FIRST CONCEPT YOU MENTIONED, PLEASE EXPLAIN THE DISTINCTION BETWEEN ASSET GAINS AND LOSSES AND LIABILITY GAINS AND LOSSES.

A. The dollars in the pension trust are invested in assets such as stocks, bonds, real estate, and commodities, among other things. Each year the Company forecasts the average return that those assets will produce in that year, which is referred to as the expected return on assets, or EROA. Asset gains or losses arise when the actual returns on the pension trust assets in a given year are greater than or lesser than the expected return on assets. Suppose, for example, that the plan expects a seven percent return on its pension trust assets, which total $1 billion. The expected return for that year would be $70 million. If the actual return in that year is nine percent, the plan will have returns of $90 million, and the asset

gain will be $20 million. Of course, the opposite can also occur. If the expected return is seven percent and the actual return on the assets is five percent, the plan has a return of only $50 million and therefore suffers a $20 million asset loss.[2]

The plan must also account for factors that affect the PVFB, such as the discount rate, the expected number of retirements, and wage increases. Liability gains and losses arise when those components of pension expense differ from expectations. For example, if the Company assumes a four percent discount rate at the beginning of the year but the actual discount rate measured at year end for the next year turns out to be five percent, the Company will have a liability gain because the higher discount rate reduces the amount the Company must set aside to satisfy future pension liabilities.

Q. IS THE DISTINCTION BETWEEN ASSET GAINS AND LOSSES AND LIABILITY GAINS AND LOSSES IMPORTANT?

A. Yes. The distinction is important because, as I will discuss in more detail below, the asset gains and losses are phased in over time, whereas the liability gains and losses are not. Therefore, they must be tracked separately.

[2] It is important to distinguish between an actual loss and an actuarial loss. The $20 million asset loss discussed in the text does not represent an actual loss in the value of the trust. To the contrary, the trust has gained $50 million in return under this example. But because the $50 million of actual return is less than the $70 million of expected return, it is considered a $20 million actuarial loss.

Q. WHEN THE COMPANY HAS ASSET GAINS OR LIABILITY GAINS, DOES IT WITHDRAW THOSE AMOUNTS FROM THE TRUST AND TREAT THEM AS EARNINGS?

A. No. Federal law requires that all the gains and losses stay within the pension trusts, which means that they affect the amount of pension expense in subsequent years. Generally speaking, if there is an asset or liability gain, it reduces the Company's pension expense in the following years. If there is an asset or liability loss, it increases pension expense in the following years. Thus, the Company treats gains and losses symmetrically in the sense that both must remain in the pension trust and both affect future pension expense.

Q. TURNING TO THE SECOND CONCEPT YOU IDENTIFIED EARLIER, PLEASE EXPLAIN WHAT YOU MEAN BY THE "PHASE IN" OF GAINS OR LOSSES.

A. The term "phase in" is used to describe the process of moving asset gains or losses into an amortization pool. Under FAS 87 and the ACM, the asset gains or losses are incorporated into the calculation of pension expense over a period of five years. Thus, 20 percent of a gain or loss is phased into the amortization pool during the first year after the gain or loss occurs; another 20 percent is phased into the amortization pool during the second year after the gain or loss occurs, and so forth until the fifth year, when the full amount of the gain or loss is phased in. The gains and losses that enter the amortization pool are then amortized over a specific period of years if they satisfy the criteria I discuss below. Unlike asset gains or losses, liability gains and losses are not phased in.

Q. WHY ARE ASSET GAINS AND LOSSES PHASED IN BUT NOT LIABILITY GAINS AND LOSSES?

A. The assumptions used to establish pension liability (e.g., mortality rates, discount rates, etc.) typically do not vary greatly from year to year, and therefore,

the drafters of FAS 87 did not consider it necessary to require the phase-in of liability gains and losses. In contrast, the market returns on pension fund assets can vary greatly from year to year. Because of the effects that such volatility would have on businesses' income statements, the drafters of FAS 87 decided that it was appropriate to phase-in market gains and losses.

Q. ARE EACH YEAR'S GAINS OR LOSSES CONSIDERED IN ISOLATION?

A. No. After the phase-in is completed, the current year's gains and losses are aggregated with the previously accumulated gains and losses.

Q. PLEASE DISCUSS THE THIRD CONCEPT YOU MENTIONED – THE AMORTIZATION OF GAINS AND LOSSES.

A. In addition to phasing the asset gains or losses into the amortization pool, the Company must undertake an analysis to determine whether it will actually amortize those gains or losses.

Q. HOW DOES THE COMPANY DETERMINE WHETHER IT WILL AMORTIZE GAINS OR LOSSES?

A. It depends on which plan is under review, because the analysis for FAS 87 is not the same as the analysis for the ACM. For FAS 87, which governs the XES Plan, the Company aggregates its current year's gains or losses with the other accumulated gains or losses to calculate a net unamortized gain or loss. That net unamortized gain or loss is then compared to the present value of the projected benefit obligation (PBO) and to the market-related value of the assets in the pension trust. If the net unamortized gain or loss is outside a 10-percent corridor – that is, if it is more than 10 percent of the greater of the PBO or the market-related value of the trust assets – the Company must amortize that net

gain or loss. If the net unamortized gain and loss is within the corridor, amortization does not occur.

If amortization of the unrecognized gains or losses is required, the amortization amount is equal to the amount of the unrecognized gain or loss in excess of the corridor divided by the average remaining future service of the active participants in the plan. For the Company's FAS 87 plan this is approximately 11 years.

For the ACM, which governs the NSPM Plan, the Company simply compares the market-related value of the pension trust assets to the PVFB. If the market-related value of the assets is greater than the PVFB, the plan is overfunded and there is no pension expense. Thus, there is nothing to be amortized. If the market value is less than the PVFB, the plan is underfunded, which means there is pension expense that is amortized over the remaining service lives of the employees within the actuarial formula.

Note, however, that I am using the term "amortization" as a type of shorthand insofar as the ACM is concerned. The difference between the market value of trust assets and the PVFB is not truly amortized in the sense that the amount is established in Year 1 and then that amount is fixed and recovered according to a schedule that provides for annual payments over the next several years. Instead, the Company undertakes the following process each year:

1) it calculates the difference between the market-related value of the assets and the PVFB.
2) if the PVFB exceeds the market-related value, the Company calculates the number of years over which to recover the difference.

3) the difference is divided by the number of years to determine the amount of pension expense that would need to be recovered in the current year in order to fund the shortfall.

In Year 2, however, this entire process is repeated, and the Company comes up with a new shortfall amount and a new period over which to fund it. The amount and the schedule from Year 1 are no longer relevant, because the Year 2 calculation "resets" the amount and the period over which the amount is to be funded.

In short, prior years' experience, whether positive or negative, is incorporated into the calculation of the current period recognition of pension expense. Exhibit___(RRS-1), Schedule 3 contains a decision tree for FAS 87 and a decision tree for the ACM. Both show the process for determining whether to amortize gains or losses.

C. Calculation of Pension Expense under the ACM

Q. WHY DOES THE NSPM PLAN USE THE ACM TO ACCOUNT FOR PENSION EXPENSE?

A. NSPM began using the ACM to calculate pension expense in 1975. Although FAS 87 became the new standard for pension accounting for financial reporting purposes in 1987, it was made subject to the effects of rate regulation as provided for by FAS 71, which allowed regulated entities such as the NSPM Plan to reflect the "rate actions of a regulator" and the "effects of the rate-setting process" by regulatory agencies, such as the Commission. The authority provided by FAS 71 allowed the NSPM Plan to continue using the ACM for

ratemaking purposes, as it had before 1987, and the Commission approved this continued use.

Q. PLEASE SUMMARIZE THE ACM AND EXPLAIN HOW PENSION COSTS ARE CALCULATED UNDER THAT METHOD.

A. The ACM is based on a normalized level of long-term cash funding requirements measured as a constant percentage of payroll. Under the ACM, the pension cost is the normalized amount that would need to be paid into the pension fund each year to fund earned benefits. Based on specific actuarial assumptions such as the discount rate, projected salary levels, and mortality, the PVFB is calculated and compared to the phased-in market-related value of plan assets. The difference between the PVFB and the market value of assets is the unfunded liability that must be funded over the future working lives of current employees. I have included a summary of the ACM in Exhibit___(RRS-1), Schedule 4, along with a comparison to the FAS 87 method for calculating pension expense.

Q. PLEASE PROVIDE AN EXAMPLE OF HOW THE ACM WORKS.

A. Suppose the Company determines, based on actuarial studies, that it will ultimately need $3 billion to fund its pension liability, which is the PVFB. If the market value of assets in the Company's NSPM Plan trust is currently $2.5 billion, there is a $500 million difference that will need to be funded. The ACM requires that the Company fund that amount based on the period approved by the Commission or the remaining future working lives of its employees, which is approximately 11 years. The Company then sets the pension expense at a levelized percentage of payroll based on the amount needed and the time remaining to fund the pension liability.

Q. HOW ARE THE PENSION ASSET GAIN AND LOSS EXPERIENCES INCORPORATED INTO THE ACM CALCULATION?

A. Recall that the ACM is calculated by comparing asset values to the PVFB. Thus, if there is an asset gain from the prior year, the phased-in amount of that asset gain is added to the market-related value of the assets; and if there is an asset loss, the phased-in amount of that loss is subtracted from the market-related value of the assets. Insofar as the PVFB is concerned, if there is a liability gain from the prior year, the PVFB is reduced by that amount. If the plan has a liability loss from the prior year, the PVFB grows by that amount. The difference between the asset value and the PVFB after incorporating the asset and liability gains and losses is the amount that is placed into the amortization pool and netted with the cumulative unrecognized gain and loss experiences.

Q. PLEASE PROVIDE AN EXAMPLE OF HOW THE CALCULATION WORKS.

A. Consider the example set forth earlier – the market value of assets is $2.5 billion and the PVFB is $3.0 billion, which creates a funding obligation of $500 million in Year 1. Now suppose the following events occur:

- The actuarially determined EROA for Year 1 was seven percent, but the fund actually earned six percent. In that instance, the fund would have an asset loss of $25 million ($2.5 billion x .01 = $25 million).
- The actual discount rate in Year 1 was 25 basis points higher than the actuaries had assumed, which reduced the PVFB by $15 million. Thus, the fund has a liability gain of $15 million for Year 1.
- The pension fund paid out $175 million in benefits in Year 1, which is exactly equal to the expected earnings on the plan's assets during that year ($2.5 billion assets x .07 EROA = $175 million).

Because the amounts paid out as benefits equal the EROA, the only changes that need to be incorporated in the Year 2 pension expense are the asset loss and the liability gain. The Year 1 asset loss was $25 million, but under the phase-in rules, only $5 million (i.e., 20 percent) of that loss is reflected in the market value of assets in Year 2. On the other hand, the entire $15 million liability gain is recognized in Year 2, so the Year 2 asset value drops by $5 million and the Year 2 PVFB drops by $15 million. Now the difference between the market value of the assets and the PVFB is $490 million instead of $500 million. That $490 million is then spread over the amortization period approved by the Commission.

Q. IN THAT EXAMPLE, WHAT HAPPENS TO THE ASSET LOSSES THAT HAVE NOT BEEN PHASED IN AND AMORTIZED YET?

A. The amount is reflected on the Company's books as an increase to the liability offset by a regulatory asset, resulting in no change to the net balance sheet amount of the pension plan. As discussed earlier, an additional amount of the asset losses will be phased into the amortization pool each year for the next four years and will reduce the regulatory asset by a corresponding amount each year, all else being equal.

Q. THE NSPM PLAN CURRENTLY HAS PRIOR-PERIOD ASSET LOSSES AND PRIOR-PERIOD LIABILITY LOSSES, BOTH OF WHICH INCREASE THE AMOUNT OF PENSION EXPENSE IN THE CURRENT YEAR. HAVE THE COMPANY'S CUSTOMERS BENEFITED FROM ASSET GAINS AND LIABILITY GAINS IN THE PAST?

A. Yes. For many years the Company had significant gains because its pension plan investments benefited from a significant and prolonged upward market movement, and customers reaped the benefits through market gains that

exceeded the EROA. Mr. Inglis discusses the Company's pension plan investments in more detail in his testimony.

Q. IS THE COMPANY ASKING ITS CUSTOMERS TO RESTORE LOSSES FROM PRIOR YEARS?

A. No. We are simply calculating the current year's pension expense, which is affected by cumulative gain and loss experiences. Expense is determined by prior experience, and customers have benefitted from the prior gains. Therefore, it is reasonable, appropriate, and necessary to reflect both prior-period gain and loss experiences in current pension expense.

Q. HOW HAVE THE PRIOR GAIN EXPERIENCES BEEN INCORPORATED INTO THE COMPANY'S PENSION EXPENSE?

A. Prior gain experiences have been incorporated in the same way the prior loss experiences were incorporated. For the NSPM Plan, the asset gains and liability gains reduced the amount that needed to be funded, which reduced the pension expense charged to customers. For the XES Plan, the asset gains and liability gains have offset the service costs and interest costs that our customers would otherwise have paid in rates.

Q. DO YOU HAVE DATA TO SHOW HOW CUSTOMERS HAVE BENEFITED FROM PENSION ASSET GAINS?

A. Yes. Exhibit___(RRS-1), Schedule 5 quantifies the significant benefits that the Company's pension assets have provided to customers. Schedule 5 shows the Xcel Energy Pension Plan (XEPP) Trust activity since its inception in 1950. Although Schedule 5 reflects more than just the NSPM Plan, it does demonstrate the overall value of the pension assets, which include the NSPM

assets.[3] Since 1950, the Company has contributed approximately $1.5 billion into the trust while earning approximately $4.7 billion in investment returns, which helped pay for approximately $4.6 billion in payments to employees. For many years these asset returns enabled the Company to recognize pension benefit costs at or very close to zero and to make no pension contributions. These low or nonexistent pension expense amounts were reflected in our rate cases, which means that customers paid much less in annual pension cost than they would have paid in the absence of the pension asset gains.

Q. WHAT HAS THE COMPANY DONE WITH THOSE GAINS?

A. By law, earnings on pension trust assets cannot be removed from the trust fund. Therefore, the net gains on the pension asset have been used to reduce the pension expense charged to our customers and have mitigated cash funding requirements.

Q. IS THERE ANY OTHER WAY IN WHICH CUSTOMERS HAVE BENEFITED FROM THE PENSION ASSET GAINS?

A. Yes. For more than 50 years the Company's pension plan has provided a market-competitive employee benefit, which allowed us to attract and retain employees that helped us build, operate, and maintain the gas system that continues to provide safe, reliable gas service. The pension asset gains have helped the Company provide that benefit at a much lower cost than would have been possible without the asset gains.

[3] As of December 31, 2020, the NSPM Plan owned 50 percent of the total XEPP plan assets.

D. Calculation of Pension Expense under FAS 87

Q. PLEASE PROVIDE AN OVERVIEW OF FAS 87.

A. FAS 87 is an accounting standard adopted by the Financial Accounting Standards Board (FASB) in 1987 to govern employers' accounting for pensions. Under FAS 87, pension cost is generally made up of five components of costs, but a sixth component can be required provided certain criteria are met during the year. The five main components of FAS 87 pension cost are:

1) the present value of pension benefits that employees will earn during the current year (service cost).
2) increases in the present value of the PBO that plan participants have earned in previous years (interest cost).
3) expected investment earnings during the year on the pension plan assets, or EROA.
4) recognition of prior-period gains or losses (e.g., investment earnings different from assumed or amortization of unrecognized gains and losses).
5) recognition of the cost of benefit changes the plan sponsor provides for service the employees have already performed (amortization of unrecognized prior service cost).

Q. TAKING EACH OF THESE FIVE COMPONENTS IN ORDER, HOW IS THE SERVICE COST COMPONENT CALCULATED?

A. The service cost component recognized in a period is the actuarial present value of benefits attributed by the pension benefit formula to current employees' service during that period. In effect, the service cost is the value of benefits that the employees have earned during the current period. Actuarial assumptions are used to reflect the time value of money (the discount rate) and the

probability of payment (assumptions as to mortality, turnover, early retirement, and so forth).

Q. NEXT, HOW IS THE INTEREST COST COMPONENT CALCULATED?

A. The interest cost component recognized in a fiscal year is determined as the increase in the plan's total PBO due to the passage of time. Measuring the PBO as a present value requires accrual of an interest cost at a rate equal to the assumed discount rate. Essentially, the interest cost identifies the time value of money by recognizing that anticipated pension benefit payments are one year closer to being paid from the pension plan.

Q. HOW IS THE THIRD COMPONENT, EROA, CALCULATED?

A. The EROA is determined based on the expected long-term rate of return on the market value of plan assets. The market value of plan assets is a calculated value that recognizes changes in the fair value of assets in a systematic and rational manner over not more than five years. The EROA is an offset to the service costs and interest costs, and therefore it reduces the amount of pension expense.

Q. CAN YOU PROVIDE AN EXAMPLE OF HOW THE INVESTMENT EARNINGS REDUCE THE AMOUNT OF PENSION EXPENSE?

A. Yes. Assume that the pension trust fund has a beginning asset balance of $500 million and the expected EROA in that year is eight percent. The expected return is $40 million ($500 million x 8 percent). This amount will be used to offset the other components within the pension cost determination. Further assume that these other components are as follows: Service Cost ($25 million),

Interest Cost ($20 million), and Loss Amortization ($30 million). The net periodic pension cost for the year would be $35 million as shown in Table 2:

Table 2

Annual Pension Expense Example

Amounts in Millions				
Service Cost	Interest Cost	Loss Amortization	EROA	Total
$25	$20	$30	$(40)	$35

As shown in Table 2, the pension cost would have been $75 million in the absence of the investment earnings. If the actual earned return in a particular year is higher than the EROA, customers will enjoy even more savings in future years as the asset gain is phased into pension expense.

Q. HAVE THE COMPANY'S CUSTOMERS EXPERIENCED THOSE TYPES OF SAVINGS IN PRIOR YEARS?

A. Yes. As I explained previously, the Company's annual pension cost included in rates has been significantly lower in prior years as a result of the earnings on the FAS 87 pension assets because those earnings helped reduce the amounts contributed by customers, relative to the true cost of the pension benefits.

Q. WITH REGARD TO THE FOURTH COMPONENT, WHAT ARE THE UNRECOGNIZED GAINS AND LOSSES?

A. The unrecognized gains and losses are the asset gains or losses and the liability gains or losses that I discussed earlier. The asset gains or losses occur because the actual earned return on assets was different from the EROA in prior years. The liability gains or losses occur because the actual values experienced in prior years, such as the discount rate and wage assumptions, were different from what

was expected. The asset gains or losses are phased in according to the five-year schedule I discussed earlier, and then they are netted with not only the liability gains and losses from the previous year, but also the unamortized gains and losses from prior years. If the net unamortized gains or losses fall outside the ten-percent corridor, they are amortized over the remaining service lives of the Company's employees.

Q. PLEASE EXPLAIN IN MORE DETAIL THE PROCESS FOR DETERMINING WHETHER THE GAIN AND LOSS AMOUNT UNDER FAS 87 SHOULD BE AMORTIZED.

A. As noted in the decision tree that appears in Schedule 3 the determination of the gain or loss amortization is a multi-step process composed of the following steps:

1) The Company first determines whether it has an asset gain or loss by comparing the actual return on assets for the prior year to the EROA for the prior year.
2) To the extent there is an asset gain or a loss, the Company phases in 20 percent of that gain or loss. The Company will also phase in portions of gains and losses from prior years that have not been fully phased in. They are phased in at the rate of 20 percent per year.
3) The Company then calculates the gain or loss on the PBO by comparing the actual year-end PBO from the prior year to the expected year-end PBO for the prior year.
4) The Company next aggregates the cumulative net gains and losses from all prior years to arrive at the cumulative unrecognized gains or losses.
5) If the cumulative unrecognized gains and losses are more than 10 percent of the greater of the PBO or the market value of assets, the balance of gains and losses that falls outside the corridor is amortized over the

average expected remaining years of service of the Company's employees.

Q. IS THIS THE SAME PROCESS THAT THE COMPANY HAS FOLLOWED SINCE THE ORIGINATION OF THE XES PLAN?

A. Yes. The Company was required to set the phase-in period, as well as the basis for amortizing gains and losses at the time it adopted FAS 87, and it is not permitted to deviate from that basis from year to year.

Q. WITH RESPECT TO THE FIFTH COMPONENT OF THE PENSION COST CALCULATION, WHAT IS UNRECOGNIZED PRIOR SERVICE COST?

A. Plan amendments can change benefits based on services rendered in prior periods. FAS 87 does not generally require the cost of providing such retroactive benefits (prior service cost) to be included in net periodic pension cost entirely in the year of the amendment, but instead provides for recognition over the future years.

Q. HOW IS UNRECOGNIZED PRIOR SERVICE COST AMORTIZED?

A. Unrecognized prior service cost is amortized over the expected remaining years of service of the participants impacted by the benefit change. Also, there is no ten-percent corridor for this purpose.

Q. HOW HAS THE COMPANY TREATED THE ASSET GAINS OF THE XES PLAN?

A. As noted earlier in connection with the NSPM Plan, all net asset gains have been used to reduce pension expense.

Q. DOES THE AMORTIZATION AMOUNT OF UNRECOGNIZED GAINS AND LOSSES REPRESENT THE ENTIRE FAS 87 EXPENSE?

A. No. As I discussed earlier, it is only one component of the FAS 87 pension expense. The service costs, interest costs, EROA, and recognition of prior service costs are also components of the FAS 87 expense.

Q. YOU HAD MENTIONED PREVIOUSLY THAT A SIXTH COMPONENT OF PENSION COST CAN BE REQUIRED; WHAT IS THAT?

A. A sixth component, FAS 88 settlement accounting, can be required provided certain criteria are met during the year. Settlement accounting is required if lump-sum payments to employees in a year are greater than the sum of the service cost and interest cost components recognized for that year. This criterion for settlement accounting was met in 2017 and 2018 for the XEPP. The XEPP's participant population has a significant proportion of participants at or nearing retirement age. The Company has seen significantly more lump-sum pension payouts in 2017 and 2018 than in years past, thus exposing the plan to settlement accounting requirements for the first time. The Company did not experience a settlement in 2019 and 2020, but it did experience a FAS 88 settlement in the third quarter of 2021. When settlement accounting is triggered, the Company is immediately required to recognize a portion of unrealized losses currently deferred as a regulatory asset. When settlement accounting is not triggered, the unrecognized gain or loss is amortized over a much longer period of time.

Q. DOES SETTLEMENT ACCOUNTING RESULT IN AN INCREASE IN THE OVERALL PENSION EXPENSE?

A. No. Settlement accounting is not an increase in the overall pension expenses, but rather an acceleration of the timing of when the pension expense will be recognized.

Q. DOES THE ACM ALSO HAVE A SETTLEMENT ACCOUNTING PROVISION?

A. No. The ACM does not have a settlement accounting provision.

E. Pension Funding

Q. DO THE ACM AND FAS 87 ALSO GOVERN HOW RETIREMENT PLANS MUST BE FUNDED?

A. No. The funding of retirement plans is determined based upon prudent business practices as limited by the provisions of the Employee Retirement Income Security Act (ERISA), the Pension Protection Act, and the Internal Revenue Code (IRC). Under those laws and regulations:

- There are minimum required contributions.
- There are maximum contributions that can be deducted for tax purposes.
- The plan sponsor has a fiduciary responsibility to prudently protect the
- interests of the plan participants and beneficiaries.

Over the long run, the cumulative employer contributions made to a plan in accordance with ERISA, the Pension Protection Act, and the IRC rules will be roughly equal to the cumulative pension expense recorded under both the ACM and FAS 87; but in the short and intermediate run, there can be significant differences. The cumulative difference between pension contributions and

recognized pension expense gives rise to a prepaid pension asset or a pension liability, both of which I will explain in greater detail later in my testimony.

IV. PENSION ASSUMPTIONS

Q. PLEASE SUMMARIZE THE PRIMARY PENSION ASSUMPTIONS USED TO DETERMINE THE TEST YEAR PENSION COST.

A. The primary pension assumptions used to determine the test year pension costs are the discount rate and the EROA. The Company used the following assumptions in Table 3 to determine 2022 pension expense:

Table 3

2022 Pension Assumptions

Company – Accounting Method	Discount Rate	EROA
NSPM – Aggregate Cost Method (ACM)	6.60%	6.60%
XES – FAS 87 (ASC 715)	2.65%	6.60%

Q. HAS THE COMPANY PROVIDED OBJECTIVE, VERIFIABLE MEASURES TO EVALUATE THE ASSUMPTIONS?

A. Yes. We have provided objective, verifiable measures where they are available. For example, we used benchmark indexes to evaluate the reasonableness of the discount rate produced by our bond-matching study. For the EROA assumptions, we gathered information from the 2020 Edison Electric Institute (EEI) survey results for fiscal year 2020, and we compared those other utilities' assumptions to ours. The results are shown on Exhibit___(RRS-1), Schedule 6.

Q. WHAT DOES THE COMPARISON SHOW?

A. The EROA and wage increase assumptions used for the NSPM Plan and the XES Plan are at or near the average of the 43 EEI companies who responded to the survey.

1) The NSPM Plan discount rate of 6.60 percent is much higher than the average discount rate of 2.70 percent for the 43 EEI companies who responded to the survey. This is because the ACM requires that the discount rate be set equal to the EROA, which affects only companies using ACM. A higher discount rate assumption lowers the cost, so the NSPM discount rate assumption lowers pension cost as compared to other utilities, all else equal.

2) The XES FAS 87 discount rate is 2.65 percent, compared to the EEI survey average of 2.70 percent.

3) The NSPM Plan and the XES Plan EROA assumptions of 6.60 percent are slightly lower than the 6.68 percent average for the EEI companies.

A. Discount Rate Assumption

Q. WHAT DISCOUNT RATE DID THE COMPANY USE TO CALCULATE QUALIFIED PENSION EXPENSE?

A. The Company used a 2.65 percent discount rate to calculate the pension expense included in rates. Table 4 below shows how that discount rate compares to prior years' discount rates.

Table 4

Pension Discount Rate

Expense Period	**2017**	**2018**	**2019**	**2020**	**2021-2022**
Measurement Date	12/31/2016	12/31/2017	12/31/2018	12/31/2019	12/31/2020
XES FAS 87	4.11%	3.60%	4.31%	3.48%	2.65%

Q. WILL THE COMPANY PROVIDE AN UPDATED DISCOUNT RATE TO INCORPORATE THE MOST RECENT MEASUREMENT DATE?

A. Yes. As we have done in prior rate cases, the Company will provide an updated discount rate in Rebuttal Testimony to incorporate the most recent measurement date of December 31, 2021, which will be available in late January or early February of 2022.

Q. PLEASE DESCRIBE HOW THE DISCOUNT RATE LISTED ABOVE IN TABLE 4 WAS DETERMINED.

A. The Company uses multiple reference points to set the discount rate. The primary basis for valuation is a bond-matching study that is performed as of December 31 of each year. The bond-matching study selects a matching bond for each of the individual projected payout durations within the plan based on projected actuarial experience, as compiled by the Company's actuary, Willis Towers Watson. The bonds selected must have a rating of Aa/AA or higher and not have a pending review as of December 31. In addition, the bond may not have an inconsistent rating between agencies where any agency rates the bonds below Aa/AA. If bonds are not available for a specific duration within the plan, a bond with the next closest shorter duration is used to determine the discount rate.

The Company also uses other reference points to validate the rate calculated by the bond-matching study, including the Merrill Lynch Corporate (AA-AAA) 15+ Bond Index. In addition to these reference points, the Company also reviews general survey data provided by Willis Towers Watson and EEI to assess the reasonableness of the discount rate selected.

The Company has consistently used the bond-matching approach, along with the corroborating methods, because it provides the most accurate discount rate of the available alternatives that meet applicable standards of FAS 87. Further information pertaining to the determination of discount rates is provided in Exhibit___(RRS-1), Schedule 7. These standards and the review processes described below support the use of the discount rate that is used to determine pension expense for the XES Plan.

Q. DESCRIBE THE FINANCIAL VALIDATION PROCESS AND CONTROLS THAT ARE IN PLACE REGARDING SETTING THE DISCOUNT RATE.

A. The Company has a senior leadership team that reviews preliminary discount rates in late December with potential year-end scenarios. Because discount rates are not set until the December 31 rates are available, the review at the initial meeting is primarily to set expectations. Year-end discount rates are developed using a bond-matching study applied to projections of future cash outflows for benefit payments, as I described earlier. Bond-matching study results are reviewed jointly with the Company Controller, the area vice president in charge of benefits accounting, and representatives from Willis Towers Watson. Each individual bond is analyzed to consider any attributes that would make it inappropriate for the bond-matching study. This includes any known risk of downgrade to the bond, any deviation in yield from other bonds of the same

duration, and the total outstanding and traded value of the bond. The results of the study are compared to publicly available sources such as the Merrill Lynch Corporate (AA-AAA) 15+ Bond Index to validate the reasonableness of the discount rate determined using the bond-matching study. Any unusual deviations between these numbers are researched to understand the underlying drivers.

Bonds selected in the bond-matching study are revalidated by Willis Towers Watson prior to the filing of the Company's 10-K to ensure that individual bonds selected have not been downgraded or put on watch. In addition, employee data used to determine the projected future payments is compared to previous years for reasonableness of the headcount and pay rate information, both internally and by Willis Towers Watson. Final discount rates are communicated back to the senior leadership for approval, and the final approved rate is included in the meeting minutes. Final approved discount rate assumptions are then provided to the audit committee as part of the Company's critical accounting policies.

In addition to the year-end discount rate analysis, discount rates are regularly recalculated over the course of the year by Goldman Sachs, Willis Towers Watson, and independently by Company personnel using projected cash flows combined with publicly published Merrill Lynch Corporate (AA-AAA) 15+ Bond Index to understand the expected impact of changing rates as market conditions change. Changes in the 10-year Treasury rate and the Merrill Lynch Corporate (AA-AAA) 15+ Bond Index are used as indicators that pension discount rates are likely deviating from current assumptions and will often drive incremental estimates of expected discount rates.

Q. HOW WAS THE 6.60 PERCENT NSPM PLAN DISCOUNT RATE DETERMINED?

A. Pension expense for the NSPM Plan is based on the ACM, which requires use of the long-term EROA as the discount rate. Thus, the determination of the appropriate level of EROA, which is discussed below, also addresses the appropriateness of the ACM discount rate.

Q. WHAT IS YOUR CONCLUSION REGARDING THE DISCOUNT RATES USED FOR THE XES PLAN AND THE NSPM PLAN?

A. The test year discount rates for the XES Plan of 2.65 percent and the NSPM Plan of 6.60 percent are reasonable, and in the case of NSPM Plan is well above the average rates used by other companies.

Q. WILL THE COMPANY UPDATE ITS PROPOSED DISCOUNT RATE?

A. Yes. Consistent with the past practice, the Company will recalculate its test year pension cost using a measurement date of December 31, 2021, to capture the most current pension position and to provide an update to all elements of cost.

B. EROA Assumption

Q. WHAT IS THE TEST YEAR EROA?

A. The test year EROA is 6.60 percent.

Q. HAS THAT EROA DECLINED SINCE THE COMPANY'S LAST GAS RATE CASE?

A. The Company decreased the EROA assumption primarily because the risk-free interest rates (e.g., U.S. Treasury Bonds), which are a building block of asset returns, have continued to fall. A lower risk-free rate generally reduces forward looking expected returns.

Q. HOW WAS THE TEST YEAR EROA ASSUMPTION DETERMINED?

A. The EROA is, and must be, determined based on the long-term expected rates of return as dictated by the requirements of the ACM and FAS 87. The Company bases investment return assumptions on expected long-term performance for each of the investment types included in our pension asset portfolio – equity investments (such as corporate common stocks), fixed-income investments (such as corporate bonds and U.S. Treasury securities), and alternative investments (such as private equity, hedge fund-of-funds and real assets). In reaching return assumptions, the Company considers the actual historical returns achieved, as well as the long-term return levels projected and recommended by investment experts in the marketplace. Xcel Energy continually reviews its pension investment assumptions in order to maintain investment portfolios that provide adequate rates of return at appropriate levels of risk. Further information pertaining to the determination of EROA is provided in Schedule 7.

Q. DESCRIBE THE FINANCIAL VALIDATION PROCESS AND CONTROLS THAT ARE IN PLACE REGARDING SETTING THE EROA ASSUMPTION.

A. The Xcel Energy Treasury group, along with Goldman Sachs, establishes a target investment mix. This investment strategy and mix are then presented at the PTAC meeting for approval by the committee. The target portfolio investment mix has an expected long-term return based on Goldman Sachs' long term expected asset class returns. The expected long-term returns are validated for reasonableness by comparing them against expected returns provided by Willis Towers Watson, and in some cases, other investment advisory groups' returns. The range around the median return helps account for the differences in factors associated with the constructions of the underlying

asset class return, risk, and correlation forecasts. Key contributing factors may include, but are not limited to: time horizon, construction methodology, valuation assessment, interest rate forecast, inclusion of expected alpha, fees, or term premium, and inflation assumptions. The validated long term expected returns for each plan are then included in the assumptions provided for Executive review, and upon approval are included in the Xcel Energy's critical accounting policies provided to the audit committee.

Q. DOES THE COMPANY COMPARE ITS EROA TO OTHER COMPANIES?

A. Yes. The Company compares its EROA to other utilities and also to general industry data. Schedule 6 shows that the Company's long-term EROA assumption of 6.60 percent is slightly lower than the average of 6.68 percent for the EEI utilities.

Q. WHAT IS YOUR CONCLUSION REGARDING THE 6.60 PERCENT EROA?

A. The 6.60 percent EROA assumption is reasonable based on the arguments outlined above. Mr. Inglis discusses the reasonableness of the Company's target asset allocation and investment strategy in more detail in his testimony.

V. QUALIFIED PENSION AND 401(K) MATCH COSTS

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

A. I quantify the test year expense amounts for qualified pension and the 401(k) match.

A. Qualified Pension Expense

Q. WHAT IS THE LEVEL OF QUALIFIED PENSION EXPENSE IN THE TEST YEAR?

A. The 2022 qualified pension expense amount is approximately $2.4 million. That amount includes costs related to both the NSPM Plan and the XES Plan. Approximately 75 percent of the Company's qualified pension expense relates to the NSPM Plan and 25 percent relates to the XES Plan.

Q. DO THE NSPM PLAN AND THE XES PLAN DETERMINE THEIR QUALIFIED PENSION EXPENSE USING DIFFERENT METHODS?

A. Yes. As I indicated in an earlier section of my testimony, the ACM continues to be used to determine the expense of the NSPM Plan. Thus, the pension expense for that plan consists of a levelized percentage of payroll that is sufficient to recover the current year's portion of the difference between the PVFB and the asset value. In contrast, costs of the XES Plan costs are established based on the five elements prescribed by FAS 87 – service cost, interest cost, the EROA, unrecognized gains or losses, and unrecognized prior service costs.

Q. ARE THE TWO METHODS BASED ON ANY COMMON ASSUMPTIONS?

A. Yes. To calculate the pension liability under both methods, it is necessary to make assumptions about the discount rate and demographics (including attrition, expected wage increases, etc.). The assumptions are established at the end of each year, and they are used to determine book expense for the subsequent year. Accordingly, the 2021 assumptions were finalized as of December 31, 2020, and the 2022 assumptions will be finalized as of December 31, 2021. The final 2022 assumptions will be available in late January 2023. The Company has typically included updated cost amounts in Rebuttal Testimony.

We also recognize that our updates should be objectively validated when possible, and we will provide the available validation measures in both this testimony and my Rebuttal Testimony. I provided detailed support for each of the two major pension assumptions in the prior section of my testimony.

Q. WHAT WERE THE AMOUNTS OF QUALIFIED PENSION EXPENSE IN THE FOUR YEARS PRIOR TO THE TEST YEAR, AND WHAT DOES THE COMPANY EXPECT THEM TO BE OVER THE NEXT FEW YEARS?

A. Table 5 below shows pension expense amounts since 2018 and the Company's current forecast of qualified pension expense. The forecast for 2021 and 2022 assumes no changes in assumptions for the EROA, discount rate, plan contributions, wage increases, and employee turnover. The forecast also assumes that actual experience matches these assumptions, including the Company's actual return on assets equaling the EROA in 2021 and 2022.

Table 5
Qualified Pension Expense

NSPM Gas O&M State of MN	
Year	**Amount ($)**
2018	2,678,573
2019	2,701,842
2020	2,408,267
2021 Forecast	2,398,115
2022 Test Year	1,958,537

Q. WHAT ARE THE MAJOR DRIVERS OF THE DECREASE IN QUALIFIED PENSION EXPENSE?

A. The major drivers of the changes in qualified pension expense are:

- favorable asset returns in 2019 and 2020.
- a decrease in the asset loss amortization.
- a reduction in the interest cost arising from lower discount rates.
- improved funded status from contributions and expected return on assets.
- plan design changes.

Q. PLEASE DISCUSS THE RECENT DECREASE IN THE ASSET LOSS AMORTIZATION AND EXPLAIN HOW THIS CONTRIBUTES TO THE DECREASE IN PENSION EXPENSE.

A. The primary reason for the asset loss amortization decrease was that the XEPP earned a 20.91 and 17.49 percentage return in 2019 and 2020, respectively. The asset loss amortization was explained in detail in Section III. Also, see Exhibit___(RRS-1), Schedule 2, which shows the declining loss amounts.

Q. PLEASE DESCRIBE HOW CONTRIBUTIONS AND THE EXPECTED RETURN ON ASSETS CONTRIBUTE TO THE DECREASE IN PENSION EXPENSE.

A. Because of funding requirements mandated by the Pension Protection Act of 2006, the Company has made significant contributions to the pension trust funds in recent years. Those contributions increase the assets upon which the pension plan earns a return, and those returns are an offset to annual pension cost. Thus, the increase in the asset base helps to reduce annual pension cost.

Q. PLEASE DISCUSS HOW PENSION PLAN DESIGN CHANGES CONTRIBUTE TO THE DECREASE IN PENSION EXPENSE.

A. Plan design changes implemented in 2011 and 2012 significantly reduced benefit levels for newly hired bargaining and non-bargaining employees. Each year as new employees are hired, the Company will continue to see increased savings as new employees are enrolled in the revised pension benefit plan. In addition, effective on January 1, 2018, the annual Retirement Spending Account credits were eliminated on a going-forward basis for all non-bargaining employees, and the Social Security Supplement was eliminated for all non-bargaining employees who will not meet certain criteria, including retirement eligibility, by December 31, 2022

Q. HAS THE COMPANY PROVIDED THE ACTUARIAL STUDY AND DERIVATION OF THE JURISDICTIONAL AMOUNT?

A. Yes. The Company has included Exhibit___(RRS-1), Schedule 8, which is an actuarial study that supports the qualified pension costs included in the test year. Exhibit___(RRS-1), Schedule 9 shows the conversion of the 2022 total cost amounts to the NSPM gas O&M, state of Minnesota amount.

B. 401(k) Match

Q. WHAT IS THE 401(K) MATCH EXPENSE AMOUNT IN 2022?

A. The 2022 401(k) match expense amount is approximately $1.0 million.

Q. WHAT WERE THE AMOUNTS OF 401(K) MATCH EXPENSES IN THE FOUR YEARS PRIOR TO THE TEST YEAR COMPARED TO THE FORECASTED AMOUNTS FOR 2022?

A. Table 6 below shows the amounts of 401(k) match expense from 2018 through 2020, as well as the forecasted amounts in 2021 and the 2022 test year.

Table 6

401(k) Match Expense

NSPM Gas O&M State of MN	
Year	**Amount ($)**
2018	724,764
2019	765,984
2020	813,399
2021 Forecast	868,541
2022 Test Year	915,504

Q. WHAT ASSUMPTIONS WERE USED TO DEVELOP THE 401(K) MATCH EXPENSE FOR 2022?

A. The most recent actual 401(k) match, which was from the 2020 401(k) plan year, was used as the base year. This base year amount was then increased by the 2021 estimated and 2022 budgeted merit increases to derive the amount in 2022.

Q. WHY IS THE AMOUNT OF 401(K) EXPENSE INCREASING EACH YEAR?

A. The 401(k) expense is increasing because the contribution is calculated based on a percentage of salary, and merit salary increases cause the total labor costs to increase each year. Moreover, the Company has experienced an overall increase in 401(k) participation in recent years, and that trend is expected to continue.

C. Qualified Pension and 401(k) Match Benefits Summary

Q. PLEASE SUMMARIZE THE COMPANY'S REQUEST REGARDING THE TEST YEAR AMOUNTS FOR THESE BENEFITS.

A. The Company requests that the Commission approve the 2022 qualified pension expense amount of $1,958,537 and the 401(k) match expense amount of $915,504.

Q. IS IT REASONABLE TO ASK CUSTOMERS TO PAY FOR QUALIFIED PENSION AND 401(K) MATCH BENEFIT COSTS?

A. Yes. It is appropriate that customers pay for these benefits because they reflect a reasonable and necessary level of expense. As explained in more detail in the testimony of Ms. Lowenthal, our compensation and benefits plans are required to attract, retain, and motivate employees needed to perform the work necessary to provide quality services for NSPM customers. Without the pension plan and 401(k) matching benefits, the Company would have to pay significantly higher current compensation to attract employees.

VI. RETIREE MEDICAL AND FAS 112 LONG-TERM DISABILITY BENEFITS

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

A. I discuss the Company's request to recover the expense for post-retirement healthcare benefits under FAS 106, Employers' Accounting for Post-Retirement Benefits Other Than Pensions, and for post-employment long-term disability (LTD) benefits under FAS 112, Employers' Accounting for Post-Employment Benefits.

Q. PLEASE EXPLAIN THE DIFFERENCE BETWEEN FAS 106 AND FAS 112 LTD BENEFITS.

A. The FAS 106 benefits are primarily post-retirement healthcare benefits. FAS 112 encompasses a number of benefits, including LTD, self-insured workers' compensation, and continuation of life insurance.

A. Retiree Medical

Q. DOES THE COMPANY STILL OFFER FAS 106 RETIREE MEDICAL BENEFITS TO ITS ACTIVE EMPLOYEES?

A. No. The Company eliminated FAS 106 retiree medical benefits for all active non-bargaining and bargaining employees more than ten years ago. The current expense for retiree medical benefits is a legacy of the prior programs. But even though there are no new entrants into the plan, current employees who were hired prior to the termination date are still eligible for this benefit.

Q. PLEASE EXPLAIN HOW RETIREE MEDICAL COSTS ARE DETERMINED.

A. The components and calculation of FAS 106 are identical to FAS 87, with one exception. Unlike FAS 87, FAS 106 asset gains or losses are not phased in before they are amortized; instead, the total gain or loss amount is simply amortized over the average years to retirement for active employees. Otherwise, the FAS 106 benefits are calculated based on assumptions regarding the discount rate, the EROA, and the salary or wage levels.

Q. WHAT ARE THE ASSUMPTIONS REGARDING THE DISCOUNT RATE AND THE EROA FOR THE TEST YEAR?

A. The 2022 test year reflects an EROA of 4.50 percent for both bargaining and non-bargaining employees and a 2.65 percent discount rate.

Q. PLEASE DESCRIBE HOW THE 2.65 PERCENT DISCOUNT RATE WAS DETERMINED FOR THIS RATE CASE.

A. The Company determined the 2.65 percent discount rate consistent with the qualified pension expense calculation. Table 7 below shows how the test year discount rate compares to prior years.

Table 7

FAS 106 Retiree Medical Discount Rate

Expense Period	**2017**	**2018**	**2019**	**2020**	**2021-2022**
Measurement Date	**12/3/2016**	**12/31/2017**	**12/31/2018**	**12/31/2019**	**12/31/2020**
Discount Rate	4.13%	3.62%	4.32%	3.47%	2.65%

Q. WILL THE COMPANY PROVIDE AN UPDATED DISCOUNT RATE TO INCORPORATE THE MOST RECENT MEASUREMENT DATE?

A. Yes. As we have done in prior rate cases, the Company will provide an updated discount rate in Rebuttal Testimony to incorporate the most recent measurement date of December 31, 2021, which will be available in late January or early February of 2022.

Q. PLEASE DESCRIBE HOW THE DISCOUNT RATES LISTED ABOVE IN TABLE 7 WERE DETERMINED.

A. The process for determining the discount rate for retiree medical is the same as for pension and is built from the same portfolio of bonds developed through the Company's bond-matching study. This common set of bonds is then applied to the plan-specific cash flows to arrive at a weighted average discount rate appropriate for each individual plan.

Q. WHAT WERE THE AMOUNTS OF FAS 106 RETIREE MEDICAL EXPENSE IN THE FIVE YEARS PRIOR TO THE TEST YEAR, AND WHAT DOES THE COMPANY EXPECT THEM TO BE OVER THE NEXT FEW YEARS?

A. As Table 8 below shows, the test year retiree medical costs are the lowest they have been over this time period. This decrease in retiree medical costs has been the norm over the last several years and is primarily due to the fact that, as time passes, fewer employees are eligible for the benefit because it was closed to new participants more than a decade ago. Because of the foregoing factors, the FAS 106 expenses have decreased despite lower discount rates and the amortization of net gains and losses, both of which had the effect of increasing costs. Additionally, the Company implemented plan changes in 2013 to transition Medicare-eligible retirees and dependents to a healthcare exchange, which has also reduced costs. The steep drop in cost in 2021 is primarily due to a lower loss amortization and interest cost. The decreased loss amortization resulted from a net gain in 2020 attributable to:

- Claims increases being lower than expected.
- Decrease in liability due to normal operation of the plan.
- 2020 asset returns being much higher than expected.

Table 8
FAS 106 Retiree Medical Expense

NSPM Gas O&M State of MN	
Year	**Amount ($)**
2018	181,738
2019	136,938
2020	78,913
2021 Forecast	59,882
2022 Test Year	47,477

Q. HAS THE COMPANY PROVIDED THE ACTUARIAL STUDY AND DERIVATION OF THE JURISDICTIONAL AMOUNT?

A. Yes. The Company has included Schedule 8, which is an actuarial study that supports the FAS 106 costs for 2021-2022. Schedule 9 shows the conversion of the 2022 total cost amounts to the NSPM gas O&M, state of Minnesota amount.

B. FAS 112 Long-Term Disability Benefits

Q. PLEASE DESCRIBE FAS 112 LONG-TERM DISABILITY BENEFITS AND EXPLAIN HOW THEY ARE ACCOUNTED FOR.

A. LTD benefits are provided by the Company to former or inactive employees after employment but before retirement. The LTD plan provides the employee income protection by paying a portion of the employee's income while he or she is disabled by a covered physical or mental impairment.

The accounting treatment varies depending on whether the cost is self-insured or fully-insured. In a fully-insured plan, the Company purchases an insurance plan from an outside insurance provider that assumes the risk. In a self-insured plan, the Company provides the benefits to the covered individuals and therefore, effectively acts as the insurer. For the self-insured piece, the Company is required to accrue for LTD costs under FAS 112, while the fully-insured piece is simply the cost of the insurance premium incurred each year along with any other miscellaneous costs. The FAS 112 accrual represents the expected disability benefit payments for employees that are not expected to return to work.

Q. WHAT GROUPS OF EMPLOYEES ARE COVERED UNDER THE SELF-INSURED BENEFIT AND WHICH GROUPS ARE COVERED UNDER THE FULLY INSURED BENEFIT?

A. All non-bargaining employees disabled prior to January 1, 2008 and NSPM bargaining employees disabled prior to January 1, 2014 are covered under the self-insured plan; all employees disabled after these dates are covered under a fully insured plan.

Q. WHAT WERE THE AMOUNTS OF FAS 112 LONG-TERM DISABILITY EXPENSE IN THE FOUR YEARS PRIOR TO THE TEST YEAR AND THE TEST YEAR?

A. Table 9 below compares the FAS 112 long-term disability benefit costs from 2018 through 2022.

Table 9

FAS 112 Long-Term Disability Expense

NSPM Gas O&M State of MN	
Year	**Amount ($)**
2018	675
2019	(11,091)
2020	38,561
2021 Forecast	41,744
2022 Test Year	9,354

Q. WHAT CAUSES THE FLUCTUATIONS IN THESE COSTS FROM YEAR TO YEAR?

A. The FAS 112 self-insured costs fluctuate from year to year because of changes to the discount rate or demographic adjustments, such as changes in the number of disabled employees or changes in the amount of the average monthly disability benefit. Discount rate changes and demographic adjustments are the differences between actual experience and assumed experience and are recorded

in the current year, which can result in significant changes in costs from one year to the next. The larger LTD costs in 2020 and 2021 are due to fully recognizing the losses associated with the decrease in discount rates (4.25 percent to 3.41 percent for 2020 and 3.41 percent to 2.53 percent for 2021). Under the FAS 112 LTD accounting methodology, the full impact of the discount rate change is reflected in the year of the update. These changes were significant because, unlike pension expense calculations, there is no amortization for gains and losses since there are no active employees to accrue the gain or loss over. Instead, the entire amount is recorded when it is determined. The cost then decreased significantly from 2021 to 2022 because we have assumed no further gains and losses arising from changes to the discount rate. It is reasonable to assume no further changes to the FAS 112 discount rate (level discount rate of 2.53 percent) because our assumptions are the most reasonable estimate to determine 2022 costs at this point in time.

Q. WILL THE COMPANY PROVIDE AN UPDATED FAS 112 DISCOUNT RATE TO INCORPORATE THE MOST RECENT MEASUREMENT DATE?

A. Yes. As we have done in prior rate cases, the Company will provide updated FAS 112 costs in Rebuttal Testimony to incorporate the most recent measurement date of December 31, 2021, which will be available in late January or early February of 2022.

Q. HAS THE COMPANY INVESTIGATED WHETHER IT SHOULD USE ONLY FULLY INSURED PLANS?

A. Yes. The Company has evaluated fully insuring the plans that are currently self-insured, but we determined that it was more costly to fully insure them than to

self-insure them due to the small number of individuals covered and the degree of uncertainty around anticipated claims.

Q. HAS THE COMPANY PROVIDED THE ACTUARIAL STUDY AND DERIVATION OF THE JURISDICTIONAL AMOUNT?

A. Yes. Schedule 8, which is an actuarial study that supports the FAS 112 LTD costs for 2022. Schedule 9 shows the conversion of the 2022 total cost amounts to the NSPM gas O&M, State of Minnesota amount.

C. Retiree Medical and FAS 112 Long-Term Disability Benefits Summary

Q. PLEASE SUMMARIZE THE COMPANY'S REQUEST REGARDING THE TEST YEAR AMOUNTS FOR THESE TWO BENEFITS.

A. The Company requests that the Commission approve retiree medical expense in the amount of $47,477. The Company requests that the Commission approve FAS 112 long-term disability benefit expense in the amounts of $9,354 for 2022.

Q. IS IT REASONABLE TO ASK CUSTOMERS TO PAY FOR RETIREE MEDICAL AND FAS 112 LONG-TERM DISABILITY BENEFIT COSTS?

A. Yes. It is appropriate that customers pay for these benefits because they reflect a reasonable and necessary level of expense, and because these are commitments that the Company made to employees who provided quality service to NSPM customers for many years. Stated differently, the FAS 106 and 112 expenses represent benefits that our former employees have already earned, and the Company is required to comply with its obligations to disabled and retired employees. These expenses are akin to accounts payable, which are amounts the Company must pay to satisfy its legal obligations.

VII. BENEFIT RATE BASE ASSETS AND LIABILITIES

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

A. I discuss the proposed ratemaking treatment of the Company's prepaid pension asset and its unfunded benefit-related liabilities.

A. Overview of the Prepaid Pension Asset

Q. PLEASE DESCRIBE THE COMPANY'S PREPAID PENSION ASSET AND ITS UNFUNDED RETIREE MEDICAL AND POST-EMPLOYMENT BENEFIT LIABILITY.

A. The prepaid pension asset arises in connection with the Company's qualified pension plan. Over the life of that plan, the Company has contributed more dollars to the plan than it has recognized in actuarially calculated pension expense. This results in a prepaid pension asset. Conversely, the Company has recognized more retiree medical, non-qualified pension and post-employment benefits expense than it has contributed to those plans, which results in unfunded liabilities.

Q. WHAT DO YOU MEAN WHEN YOU REFER TO THE ACTUARIALLY CALCULATED EXPENSE THAT IS COMPARED TO THE CUMULATIVE CONTRIBUTIONS BY THE COMPANY?

A. As I discussed earlier in my testimony, the annual qualified pension expense is calculated in accordance with FAS 87 and the ACM. Similarly, the retiree medical costs are calculated under FAS 106, and post-employment benefits are calculated under FAS 112. Based on its accounting records, the Company can quantify the total amount of actuarially calculated expense for each of those benefits over the entire period that the Company has offered that benefit. If that cumulative expense amount is less than the cumulative contributions made

by the Company since it began offering that benefit, the Company has a prepaid pension asset. If the cumulative recognized expense exceeds the cumulative contributions to the plan, there is an unfunded liability.

Q. CAN YOU PROVIDE A CONCRETE EXAMPLE OF HOW A PREPAID PENSION ASSET ARISES?

A. Yes. Suppose that the Company contributes $100 per year to the qualified pension trust for each of the first five years of its existence. Further suppose that the actuarially determined qualified pension expense in each of those five years is $90. Table 10 below shows how the excess contributions each year create a cumulative prepaid pension asset.

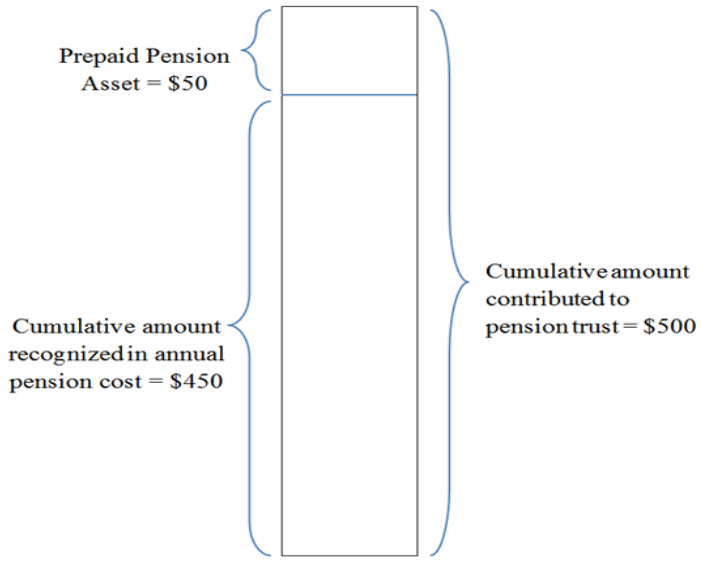
Table 10

Prepaid Pension Asset Example

Year	Pension Contribution	Pension Expense	Cumulative Prepaid Pension Asset
1	$100	$90	$10
2	$100	$90	$20
3	$100	$90	$30
4	$100	$90	$40
5	$100	$90	$50

At the end of the five-year period, the utility has a prepaid pension asset of $50. Of course, the opposite can also occur. If pension expense exceeds the pension contributions in a given year, the prepaid pension asset will decline, or if there is no prepaid pension asset, the utility may have a pension liability. Over the long run, pension contributions and pension expense will even out, but over the short and intermediate run there will almost certainly be differences, which are recorded as prepaid pension assets or pension liabilities. Figure 1[4] below visually depicts the prepaid pension asset as the excess contributions over the recognized pension expense.

Figure 1



Q. WHY ARE THE CONTRIBUTIONS AND EXPENSE DIFFERENT IN ANY GIVEN YEAR?

A. As I discussed earlier, the qualified pension expense calculation is governed by the ACM and FAS 87, which sets forth the rules that companies must follow in determining their pension costs in order to have their accounting be acceptable

[4] The amounts in this figure are merely illustrative, as are the amounts in Table 10.

under GAAP. In contrast, the contributions are driven by federal law requirements under ERISA and the IRC. Although the expense and contribution calculations both use accrual methodologies, the assumptions, attribution methods, and periods of time over which the costs are required to be recognized are different and thus can often result in different annual amounts.

Q. CAN THE UTILITY WITHDRAW THE PREPAID PENSION ASSET AND USE IT TO FUND CAPITAL REQUIREMENTS OR TO PAY FOR OPERATION AND MAINTENANCE EXPENSE?

A. No. As I noted earlier in my discussion of the calculation of qualified pension expense, federal law prohibits the withdrawal of any amounts from the pension trust fund except for the payment of benefits and plan expenses. Once the contributions are made, they are essentially locked away.

B. Ratemaking Treatment of Prepaid Pension Asset

Q. HOW ARE PREPAYMENTS AND UNFUNDED LIABILITIES GENERALLY TREATED FOR PURPOSES OF SETTING RATES?

A. Prepayments by the utility are generally treated as an addition to rate base, whereas prepayments by customers are generally treated as a reduction to rate base.

Q. IS THE COMPANY PROPOSING TO APPLY THE STANDARD RATEMAKING TREATMENT OF PREPAYMENTS AND UNFUNDED LIABILITIES IN THIS CASE?

A. Yes. In this case, the Company is proposing to include the Company's prepayments of pension expense as an addition to rate base, and to treat the customers' prepayments of FAS 106 and FAS 112 as a reduction to rate base.

Because the prepaid pension asset is larger than the unfunded liability, the Company has a net asset and therefore has an increase to rate base. The Company proposes to earn a return on the asset at the Company's weighted average cost of capital (WACC).

Q. IS THE COMPANY PROPOSING TO EARN A RETURN ON THE FULL AMOUNT OF THE NET PREPAID PENSION ASSET?

A. No. The net amount of the asset will be further offset by the ADIT associated with it. Thus, instead of earning a return on the full amount of the net asset (i.e., the prepaid pension asset less the unfunded accrued liabilities of retiree medical and post-employment benefits) the Company earns a return only on the portion that remains after the ADIT is subtracted from it.

Q. HOW DOES ADIT ARISE IN CONNECTION WITH THE PREPAID PENSION ASSET OR ACCRUED UNFUNDED LIABILITY?

A. When the Company makes a contribution, it is allowed to deduct the contribution amount (up to IRS-imposed limits). That deduction shields income from taxes, which gives rise to deferred taxes. Thus, the amount by which the contributions in a particular year exceed the annual recognized cost for that year gives rise to a deferred tax liability. The opposite situation occurs when the annual cost recognized for a particular benefit exceeds the contribution, which give rise to a deferred tax asset. Mr. Halama discusses ADIT and how it impacts our filing.

Q. WHAT AMOUNT OF BENEFIT ASSETS AND LIABILITIES IS INCLUDED IN THE TEST YEAR RATE BASE?

A. Table 11 below shows the amount included in rate base for all benefit types in the test year. This table also shows the amounts that must be offset by the ADIT associated with the benefit asset or liability balance. This same information can also be found in the Non-Plant Rate Base (Assets/Liabilities) Schedule. The net balance is approximately $8.7 million on a Minnesota gas jurisdictional basis. This amount should be added to the Company's rate base because it represents shareholder capital held for future use and because it will reduce ratepayer costs in those years, providing ratepayer benefit.

Table 11

Pension and Benefits Assets and Liabilities ($)

Rate Base Benefit (Short and Long-Term)	Non-Plant Rate Base Asset/(Liability)	Associated Accumulated Deferred Tax Asset/(Liability)	Net Rate Base Impact Asset/(Liability)
Prepaid Pension Asset	15,272,365	(4,276,430)	10,995,935
Retiree Medical - FAS 106	(2,325,862)	651,267	(1,674,595)
Post-Employment Benefits FAS 112	(847,699)	237,365	(610,334)
Total	**12,098,804**	**(3,387,798)**	**8,711,006**

Q. WHAT IS THE COMPANY'S REQUEST WITH RESPECT TO THE NET PENSION ASSET BALANCE OF $8.7 MILLION?

A. The Company seeks Commission approval to add that amount to its rate base and earn its WACC on that balance, consistent with the treatment of other prepayments.

Q. HAS THE COMPANY CREATED A SCHEDULE TO REFLECT THE UNDERLYING CALCULATION OF THE PREPAID PENSION ASSET THAT IS INCLUDED IN THE 2022 TEST YEAR?

A. Yes. Exhibit___(RRS-1), Schedule 10 shows the annual calculation of the total NSPM prepaid pension asset or liability from 2017 through 2022. Schedule 10 also shows a detailed calculation by month that supports the 2021-2022 NSPM gas state of Minnesota prepaid pension asset balances that are being requested in rate base for this case.

Q. WHAT HAS CAUSED THE RECENT GROWTH OF THE PREPAID PENSION ASSET?

A. The growth of the prepaid pension asset was driven by two factors, both of which were outside the Company's control. The first factor was the enactment by Congress of the Pension Protection Act of 2006. Prompted by the defaults by several large defined benefit pension plans in the early part of that decade, Congress passed legislation that gave defined benefit pension plans seven years to become 100 percent funded. The Pension Protection Act also created penalties for plans that are underfunded, including an increase in Pension Benefit Guaranty Corporation (PBGC) premiums. As I will explain in more detail later in my testimony, the PBGC was established by Congress to ensure pension benefits under private-sector defined benefit pension plans. The PBGC is funded by premiums paid by plan sponsors and by investment returns on the assets held in the PBGC trust fund.

The second factor was the reduction in interest rates, which was caused by the Federal Reserve's efforts to stimulate the national economy in the wake of the 2008 recession. The resulting drop in discount rates caused the Company's pension liabilities to become larger, which increased the amount of

underfunding. This is because future pension liabilities are discounted to present value, and a higher discount rate reduces the liability balance, whereas a lower discount rate increases the liability balance. That liability balance is then compared to the value of the trust assets to determine its funded status and to determine whether the trust is overfunded or underfunded.

Q. HOW DID THE COMPANY RESPOND TO THE COMBINATION OF HEIGHTENED FUNDING REQUIREMENTS AND A LOWER FUNDING LEVEL IN ITS PLANS?

A. The Company responded by taking the only steps that were practically available to it, which was to provide additional funding to the pension plans. To help ensure that the pension plans complied with the Pension Protection Act by becoming fully funded within seven years, the Company made the contributions listed in Schedule 10. As I mentioned previously, these contributions will be recognized as expense over future periods. This timing difference gives rise to the prepaid pension asset.

Q. HOW CAN THE PENSION PLAN BE UNDERFUNDED AND YET THE COMPANY HAS A PREPAID PENSION ASSET?

A. The Company can have an underfunded pension plan at the same time it has a prepaid pension asset because they measure different things. The underfunded pension plan occurs when the projected benefit obligation exceeds the fair value of the pension plan assets. A prepaid pension asset occurs when the cumulative cash contributions to the trust exceed the cumulative pension expense recognized under FAS 87 since the inception of the pension plan.

C. Justification for Including the Net Asset in Rate Base

Q. WHY IS IT APPROPRIATE TO INCLUDE THE NET ASSET IN RATE BASE?

A. The net asset should be included in rate base for three separate and independent reasons. First, as I explained earlier, it is a well-established regulatory principle for prepayments to be included in rate base, regardless of whether they are prepayments by the utility or by its customers. In other words, prepayments are included regardless of whether they are additions or reductions to rate base. There is no reason to treat the net pension prepayment in this case differently. Second, having an adequately funded pension plan helps attract and retain the employees who provide safe and reliable gas service to our customers. Therefore, the prepaid pension asset is just that – an asset for the Company – and the Company should earn a return on that asset, just as it earns a return on other assets.

Third, customers are receiving the benefit of a return on the prepaid pension asset, and therefore it is appropriate that the Company earn a return on its prepayment as well.

Q. PLEASE EXPLAIN WHAT YOU MEAN WHEN YOU STATE THAT CUSTOMERS ARE RECEIVING THE BENEFIT OF A RETURN ON THE PREPAID PENSION ASSET.

A. As I explained earlier in my testimony, the annual pension cost determined under both accounting methods, the ACM (NSPM Plan) and FAS 87 (XES Plan), includes an EROA. The EROA percentage is multiplied by the value of the assets in the pension trust, and the product of that calculation is subtracted from the annual pension cost. Thus, the return on the prepaid pension asset reduces the annual qualified pension cost passed on to ratepayers on a dollar-for-dollar basis.

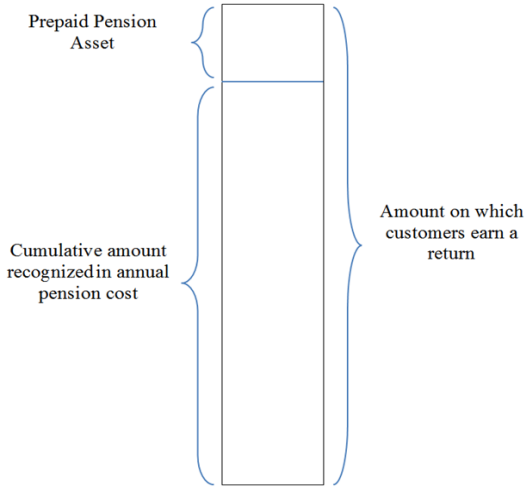
Q. WHAT IS THE EROA FOR THE NSPM PLAN AND THE XES PLAN?

A. The EROA for both the NSPM Plan and the XES Plan is 6.60 percent for 2022. That percentage is applied to the balance in the pension trust.

Q. DOES THE PENSION TRUST FUND BALANCE THAT IS MULTIPLIED BY THE EROA INCLUDE THE PREPAID PENSION ASSET?

A. Yes. As shown in Figure 2 below, customers receive the benefit of the earnings on the *entire* amount of assets in the pension trust, not just the amount that has been recognized in annual pension cost.

Figure 2



As the figure shows, customers are receiving a return on amounts that they have not yet paid through recognized pension cost. In effect, the Company has made a prepayment of pension contributions, and customers are earning a return on that prepayment at the EROA. The return is reflected as a decrease in annual pension cost. It would be inequitable and unreasonable to deny the Company a return on the prepaid pension asset at the WACC because customers are, in fact, receiving the benefit of a return on that prepayment at the EROA.

Q. HAS THE COMPANY QUANTIFIED THE REDUCTION IN ANNUAL PENSION EXPENSE THAT CUSTOMERS EXPERIENCED AS A RESULT OF THE PREPAID ASSETS?

A. Yes. As shown in Table 12, the Company's qualified pension expense will be reduced by $1.2 million in 2022 on a gas basis because of earnings on prepaid pension assets:

Table 12

Amounts are NSPM Gas State of MN (2022 13-month Average)

Pension Plan	Prepaid Pension Asset Balance	EROA	Rate Reduction from Prepaid Pension Asset
NSPM	$15,272,365	6.60%	$1,007,976
XES	$2,955,2019	6.60%	$195,044
Total	**$18,227,574**		**$1,203,020**

Thus, the earnings on the prepaid pension asset will reduce the Company's revenue requirement by nearly $1.2 million in 2022. Because that reduction is passed through to customers on a dollar-for-dollar basis, NSPM's Minnesota retail customers realize a substantial benefit as a result of the prepaid pension asset.

Q. YOU TESTIFIED EARLIER THAT THE EROA FOR THE PENSION PLAN IS 6.60 PERCENT, WHEREAS THE COMPANY IS SEEKING A WACC OF 7.46 PERCENT. DOES THE DISPARITY BETWEEN THE WACC AND THE EROA DEMONSTRATE THAT CUSTOMERS ARE DISADVANTAGED BY THE USE OF THE WACC AS THE RETURN ON THE PREPAID PENSION ASSET?

A. No, for three separate reasons. First, the NSPM pension plan balance on which customers earn a return is much larger than the balance on which they pay a

return. Second, customers earn a return on the XES prepaid pension asset, but do not pay a return on that asset because it is not included in rate base for ratemaking purposes.[5] Third, the prepaid pension asset allows the Company to avoid paying incremental PBGC premiums that would be added to the pension expense paid by customers in the absence of the prepaid pension asset.

Q. PLEASE EXPLAIN THE FIRST REASON, WHICH IS THAT THE BALANCE OF THE NSPM PREPAID PENSION ASSET ON WHICH CUSTOMERS EARN A RETURN IS MUCH LARGER THAN THE BALANCE ON WHICH THEY PAY A RETURN.

A. The 6.60 percent EROA is applied to the full amount of the NSPM prepaid pension asset, which totals approximately $15.3 million for the gas department. As shown in Table 12, that reduces the pension expense included in rates by more than $1.0 million per year. In contrast, customers pay a 7.46 percent return on only $8.7 million because the amount included in rate base reflects reductions for ADIT and the unfunded FAS 106 and FAS 112 liabilities. Thus, the balance on which customers earn a return is far larger than the balance on which they pay a return.

Q. THE SECOND REASON YOU LISTED EARLIER IS THAT CUSTOMER EARN A RETURN ON THE XES PREPAID PENSION ASSET BUT DO NOT PAY A RETURN ON IT. WHAT IS THE BALANCE OF THE XES PLAN PREPAID PENSION ASSET?

A. The thirteen-month average balance of the XES Plan net prepaid pension asset associated with NSPM's gas retail jurisdiction will be approximately $3.0 million in 2022. With an EROA of 6.60 percent for the XES Plan, NSPM's gas retail customers will receive the benefit of approximately $0.2 million (gas retail) of

[5] NSPM does not include the XES prepaid pension asset in rate base because the asset belongs to XES, not to NSPM.

return on an asset on which they pay no return. That reduces annual pension expense by an equal amount.

Q. CAN YOU DEMONSTRATE MATHEMATICALLY THAT THE COMPANY'S GAS RETAIL CUSTOMERS ARE BETTER OFF AS A RESULT OF THE PREPAID PENSION ASSET?

A. Yes. Table 13 (on the next page) shows that customers receive approximately $1.0 million of benefit on a gas O&M basis as a result of EROA that is applied to the NSPM prepaid pension asset. In addition, they receive an additional $0.2 million of return on the XES prepaid pension asset, even though they pay no return on that asset. That results in a total savings to customers of approximately $1.2 million. In contrast, multiplying the NSPM net prepaid pension asset of $8.7 million by the 7.46 percent WACC requested by the Company results in a return of approximately $0.6 million on a gas O&M basis. Even when that amount is grossed up for taxes, the total amount paid by customers is $0.9 million. Thus, as shown in Table 13, even when customers pay a WACC return on the net prepaid pension asset, they realize a net benefit of approximately $0.3 million on a gas basis as compared to a situation in which there was no prepaid pension asset.

Table 13			
Amounts are NSPM Gas State of MN			
Prepaid pension asset balance (excluding the XES prepaid pension asset)		$15,272,365	
EROA for NSPM plans	x	6.60%	
Initial return benefit to customers	=	$1,007,976	
Balance of XES prepaid pension asset		$2,955,209	
EROA for XES prepaid pension asset	x	6.60%	
Return on XES prepaid pension asset	=	$195,044	
Total annual reduction in rates attributable to prepaid pension asset			$1,203,020
Prepaid pension asset net of ADIT and after FAS 106 and FAS 112 offsets		$8,711,006	
WACC	x	7.46%	
Return on prepaid pension asset	=	$649,841	
Tax gross-up factor	x	1.403351	
Total return paid by customers	=		$911,955
Net benefit to customers from prepaid pension asset	**=**		**$291,065**

Q. DOES THE PREPAID PENSION ASSET BENEFIT CUSTOMERS IN ANY OTHER WAY?

A. Yes. As I noted earlier, the third reason that customers realize a benefit from the prepaid pension asset is that the contributions that helped create the prepaid pension asset allow the Company to avoid incurring PBGC premiums that

would otherwise be included within the annual pension cost charged to customers.

Q. PLEASE DESCRIBE THE PBGC.

A. The PBGC is a federal agency established by Congress as part of ERISA to insure pension benefits under private sector defined benefit pension plans. If a pension plan is terminated without sufficient money to pay all benefits, PBGC's insurance program will pay employees the benefits promised under the pension plan, up to the limits set by law. The funding for the PBGC comes partly from premiums charged to pension sponsors and partly from returns on assets held by the PBGC.

Q. WHAT TYPES OF PREMIUMS DOES THE PBGC CHARGE?

A. The PBGC charges two types of premiums: (1) a per capita premium that is charged to all single-employer defined benefit plans; and (2) a variable premium charged to underfunded plans. The amounts of the premiums are set by Congress and must be paid by sponsors of the defined benefit plans, such as NSPM.

Q. ARE THE VARIABLE PREMIUMS APPLICABLE TO UNDERFUNDED PLANS INCREASING?

A. Yes. For 2021, the variable-rate premium for a single-employer plan such as that of NSPM will be $46 per $1,000 of unfunded vested benefits.

Q. ARE THE COMPANY'S PENSION PLANS CURRENTLY UNDERFUNDED?

A. Yes. And absent the prepaid pension asset, the plan would be further underfunded.[6]

Q. BY HOW MUCH WOULD THE PENSION PLANS BE UNDERFUNDED IN THE ABSENCE OF THE PREPAID PENSION ASSET?

A. In the absence of the gross prepaid pension asset, the NSPM Plan would be further underfunded by $15.3 million using a 13-month average for 2022.

Q. BY HOW MUCH WOULD THE PBGC PREMIUMS INCREASE IN 2022 IN THE ABSENCE OF THE PREPAID PENSION ASSET?

A. The PBGC premiums would be approximately $0.3 million higher in 2022 on a NSPM Gas, state of Minnesota basis, without the prepaid pension asset.

Q. ARE PBGC PREMIUMS INCLUDED IN THE ANNUAL PENSION COST?

A. Yes. PBGC premiums are included in the annual pension cost calculation. Therefore, the existence of the prepaid asset will avoid the need for NSPM's gas retail customers to pay an additional $0.3 million in 2021.

Q. DOES THE AVOIDANCE OF INCREMENTAL PBGC PREMIUMS PROVIDE AN ADDITIONAL OFFSET TO THE PERCENTAGE DIFFERENCE BETWEEN THE EROA AND THE WACC?

A. Yes. In addition to the $0.3 million net benefit that I described earlier; customers avoid an additional $0.3 million of PBGC premiums as a result of

[6] As I explained earlier, a plan can be underfunded at the same time it has a prepaid pension asset because they measure different things. As I testified earlier, the prepaid pension asset is the amount by which cumulative contributions exceed cumulative recognized pension expense. A pension plan is underfunded when its pension benefit obligations exceed the value of its assets.

the prepaid pension asset. Because customers realize nearly $0.6 million in net benefit as a result of the prepaid pension asset, it is reasonable to include the net asset in rate base and for the Company to earn a WACC return on the asset.

Q. PLEASE SUMMARIZE THE COMPANY'S REQUEST WITH RESPECT TO THE PREPAID PENSION ASSET.

A. The Company requests that the prepaid pension asset be included in rate base. That is how other prepayments are treated, including prepayments by customers, and there is no reason to treat the prepaid pension asset differently. Moreover, customers realize a significantly greater rate reduction from the prepaid pension asset than the return they are asked to pay, so it is reasonable and equitable for the prepaid pension asset to be included in rate base and to earn a WACC return.

D. Commission Precedent on Prepaid Pension Asset

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

A. I describe the way the Commission has treated the prepaid pension asset in recent cases, and I explain why I respectfully disagree with the Commission's reasoning in those cases.

Q. HOW HAS THE COMMISSION TREATED THE PREPAID PENSION ASSET IN RECENT RATE CASES?

A. In several recent cases, the Commission has excluded the utilities' prepaid pension assets from rate base and disallowed any return on those assets.[7] I

[7] *In the Matter of the Application of Minnesota Power for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-015/GR-16-664, Findings of Fact, Conclusions and Order at 16 (Mar. 12, 2018) (Minnesota Power Order); *In the Matter of the Application of Minnesota Energy Resources*

respectfully submit that the reasoning employed by the Commission in those cases is either mistaken or does not apply to NSPM.

Q. WHAT REASONS HAS THE COMMISSION ASSERTED TO DENY UTILITIES' REQUESTS TO INCLUDE THEIR PREPAID PENSION ASSETS IN RATE BASE AND TO EARN A RETURN ON THOSE ASSETS?

A. As I understand the Commission's orders in recent cases involving Minnesota Power, Minnesota Energy Resources Corp. (MERC), and Otter Tail Power Company (Otter Tail), the Commission has rejected requests to include the utilities' pension and benefit-related assets and liabilities in rate base because:

- The utility "recovers its allowable pension expense from ratepayers, and is not being denied recovery of this operating cost"[8];
- The pension-plan assets and benefit obligations "go up and down depending on funding, market conditions, or amendments to the plan"[9];
- The balances in the prepaid pension asset are "temporary, and fundamentally different than typical rate-based assets on which the Company earns a return on investment"[10];
- The asset already earns a return in the form of investment returns[11]; and
- It would be "impractical, if not impossible, to equitably separate the prepaid amount attributable solely to [the utility's] contributions from that attributable to ratepayer contributions and market returns."[12]

Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota, Docket No. G-011/GR-15-736, Findings of Fact, Conclusions, and Order at 11 (Oct. 31, 2016) (MERC Order); *In the Matter of Otter Tail Power Company for Authority to Increase Rates for Electric Service in Minnesota*, Docket No. E-017/GR-15-1033, Findings of Fact, Conclusions, and Order at 25 (May 1, 2017) (Otter Tail Order).

[8] Minnesota Power Order at 16; MERC Order at 11; Otter Tail Order at 25.

[9] Minnesota Power Order at 16; MERC Order at 11; Otter Tail Order at 25.

[10] Minnesota Power Order at 16; MERC Order at 11; Otter Tail Order at 25.

[11] Minnesota Power Order at 16.

[12] Minnesota Power Order at 17.

None of those reasons justifies excluding NSPM's prepaid pension asset from rate base.

Q. PLEASE EXPLAIN YOUR DISAGREEMENT WITH THE FIRST REASON – THAT THE UTILITY RECOVERS ITS ALLOWABLE PENSION EXPENSE FROM RATEPAYERS AND IS NOT BEING DENIED RECOVERY OF THIS OPERATING COST.

A. That rationale confuses income statement items, such as O&M expense, with balance sheet items, such as capital assets. The annual pension expense included in rates is an O&M expense, whereas the contributions to the pension trust represent a capital cost on which the utility is entitled to a return. The inclusion of pension expense in rates does not compensate investors with a return on the capital they have advanced to fund the pension trust.[13]

The Commission's rationale for denying rate base treatment of the contributions to the pension trust costs is akin to saying that utility investors do not need a return on the capital they have invested in a transmission line because the O&M costs necessary to operate and maintain the transmission line are included in rates. The utility and its investors are entitled to recover both the O&M expenses associated with the transmission line and a return on their capital investment in the transmission line. Similarly, NSPM and its investors are entitled to recover both the annual pension expense and a return on the prepayments to the pension trust.

[13] As I have explained, a prepayment such as a prepaid pension asset reflects capital provided by the Company for the benefit of ratepayers.

Q. PLEASE ADDRESS THE SECOND RATIONALE, WHICH IS THAT PENSION-PLAN ASSETS AND BENEFIT OBLIGATIONS GO UP AND DOWN DEPENDING ON FUNDING, MARKET CONDITIONS, OR AMENDMENTS TO THE PLAN.

A. This rationale erroneously conflates two separate things – the funded status of the pension trust and the prepaid pension asset. Changes in the market value of the pension-plan assets and changes in the benefit obligations affect the funded status of the pension plan, but they have no effect on the amount of the prepaid pension asset. As I have explained, the prepaid pension asset measures the difference between the cumulative pension contributions and the cumulative recognized pension expense. The fact that the plan's funded status changes periodically has no logical connection to amount of the prepaid pension asset or the issue of whether the prepaid pension asset should be included in rate base.

Q. WHY DO YOU DISAGREE WITH THE COMMISSION'S THIRD REASON, WHICH IS THAT THE BALANCES IN THE PREPAID PENSION ASSET ARE "TEMPORARY, AND FUNDAMENTALLY DIFFERENT THAN TYPICAL RATE-BASED ASSETS ON WHICH THE COMPANY EARNS A RETURN ON INVESTMENT?

A. All asset balances are "temporary" in the sense that they rise and fall as new investments are made and depreciation expense is recognized. Moreover, the Company accounts for the changes in the prepaid pension asset balance by using a 13-month average, as it does for other balances that vary over the year, such as materials and supplies.

I also disagree with the assertion that the prepaid pension asset is somehow "different than" other utility assets. The Company is required by ERISA and the Pension Protection Act to make contributions to the pension trust, just as

the Company is required to make investments in physical assets such as gas pipelines and compressor stations to provide service; the dollars contributed to the pension trust are real, out-of-pocket dollars provided by investors, just like dollars spent on physical assets; and investors are entitled to a return on those dollars comparable to the return available on other types of investments.

Moreover, there is no valid basis to assert that the prepaid pension asset is different because it is a balance sheet asset, rather than a physical asset. ADIT balances are also non-physical, balance sheet assets, but they are included in rate base as reductions to the balance on which the utility earns a return.

Q. DO YOU ALSO DISAGREE WITH THE RATIONALE THAT THE PREPAID PENSION ASSET ALREADY EARNS AN INVESTMENT RETURN?

A. I agree that the prepaid pension asset earns an investment return, but as I have explained, every dollar of that investment return is used to reduce the pension expense charged to customers. Investors receive no benefit whatsoever from the investment return. The mirror fact that customers benefit from the investment return on the prepaid pension assets does not justify to denying investors an investment return on the prepaid pension asset.

Q. PLEASE TURN NOW TO THE FINAL REASON LISTED EARLIER, WHICH IS THAT IT WOULD BE "IMPRACTICAL, IF NOT IMPOSSIBLE, TO EQUITABLY SEPARATE THE PREPAID AMOUNT ATTRIBUTABLE SOLELY TO [THE UTILITY'S] CONTRIBUTIONS FROM THAT ATTRIBUTABLE TO RATEPAYER CONTRIBUTIONS AND MARKET RETURNS."

A. Whatever validity that reason may have with respect to other Minnesota utilities, it has none insofar as NSPM is concerned because the entire prepaid pension

asset that the Company seeks to include in rate base resulted from investor contributions. As I have explained several times in my testimony, the prepaid pension asset represents the difference between the cumulative contributions by investors and the cumulative recognized pension expense. Market returns are not included in the calculation, and neither are "ratepayer contributions."[14]

Q. IN PRIOR CASES, PARTIES HAVE ARGUED THAT SOME OF THE PREPAID PENSION ASSET MUST BE ATTRIBUTABLE TO MARKET RETURNS OR RATEPAYER CONTRIBUTIONS BECAUSE THE PREPAID PENSION ASSET HAS INCREASED IN YEARS IN WHICH THERE WAS NO COMPANY CONTRIBUTION TO THE PENSION TRUST. IS THAT A VALID ARGUMENT?

A. No. That argument misunderstands the role played by negative pension expense and fails to recognize that negative pension expense does, in fact, represent an investor contribution.

Q. PLEASE EXPLAIN WHAT YOU MEAN WHEN YOU REFER TO "NEGATIVE PENSION EXPENSE."

A. As I explained earlier, annual pension cost is calculated using the following formula:

	Current service cost
+	Interest cost
-	EROA
+/-	Loss (gain) due to difference between expected and actual experience of plan assets or liabilities from prior periods
+	Amortization of unfunded prior service cost
=	Annual pension cost

[14] I have placed quotes around the term "ratepayer contributions" because ratepayers do not make contributions to the pension trust. Only the Company makes contributions, using investors' capital. The only thing NSPM's customers pay is annual pension expense, which is an O&M expense.

If the reductions to annual pension cost (i.e., the EROA and gains due to the differences between prior-period assumptions and actual experience)[15] are larger than the other three elements of cost, the annual pension cost is negative. That reduces the cumulative recognized pension cost and increases the prepaid pension asset.

Q. DOES THE FACT THAT THE NEGATIVE PENSION EXPENSE CAUSED THE PREPAID PENSION ASSET TO BE LARGER THAN IT WOULD OTHERWISE BE MEAN THAT SOMEONE OTHER THAN NSPM SHAREHOLDERS FUNDED THE INCREASE TO THE PREPAID PENSION ASSET?

A. No. NSPM's shareholders funded the entire prepaid pension asset. Consider an example in which the combination of the service cost, interest cost, and amortization of prior unfunded service cost totals $20 million, but the combination of the EROA and prior-period gains totals $30 million. In this example, $10 million of the gain is not needed to fund annual pension expense. In a non-ERISA scenario in which a utility's investments generated $10 million more than needed to fund corresponding liabilities, the utility could take the $10 million and use it for operating expenses or recognize it as earnings. But because ERISA forbids a utility from withdrawing amounts from a pension trust (other than for payment of employee benefits and plan expenses), the utility in this example has no access to the earnings that its prior contributions generated, even though those earnings reduce the utility's revenue requirement. In effect, the utility is forced to forgo collection of $10 million that it would otherwise place in its bank account, and there is no

[15] As I explained earlier, prior-period gains may result from higher-than-expected market returns, but they can also result from liability gains. Liability gains occur when the pension benefit obligation declines for reasons such an increase in the discount rate or mortality changes.

material difference between writing a check for $10 million and being forced to forgo collection of $10 million that investors' contributions earned. Either way, the utility has $10 million less in its bank account. Therefore, to the extent the argument suggests that a utility is not "out of pocket" when negative pension expense reduces the cumulative recognized pension expense, that is wrong.

The suggestion that the utility is not "out of pocket" by any amount as a result of negative pension expense becomes even more obviously untenable when the development of the prepaid pension asset is viewed on a cumulative basis. Suppose that in each of the years in which there was negative pension expense, the NSPM gas department had been allowed to withdraw – and did withdraw – the negative pension expense. In those circumstances, the prepaid pension asset reflected on NSPM's books would largely disappear, but NSPM would have approximately $8.7 million more in its bank account, and customers would be earning a return on $8.7 million less of pension assets. But in reality, the $8.7 million remains in the pension trusts, and customers are earning a return on that $8.7 million. Thus, NSPM and its shareholders have indeed advanced the $8.7 million on which customers are earning a return, and they are entitled to a return on that prepayment.

Those involuntary contributions could be added to the shareholder contribution side of the equation, rather than being reflected as negative pension expense, because that is exactly what they are – involuntary shareholder contributions resulting from the federal law that prohibits withdrawals from the pension trust. Increasing the amount of contributions and leaving the amount of cumulative pension expense the same would lead

to the exact same prepaid pension asset balance that NSPM has calculated in this case.

Q. PLEASE SUMMARIZE YOUR VIEWS REGARDING THE COMMISSION'S REASONS FOR DENYING UTILITIES' REQUESTS TO INCLUDE THEIR PREPAID PENSION ASSET IN RATE BASE IN RECENT CASES.

A. The Commission should approve the Company's request to include its prepaid pension asset in rate base and to earn a WACC return on it since I respectfully submit that the Commission's rationales in prior cases are either based on mistaken premises or grounded on facts that do not apply to NSPM.

E. Precedent from Other Xcel Energy Jurisdictions

Q. DO XCEL ENERGY OPERATING COMPANIES IN OTHER JURISDICTIONS EARN A RETURN ON THEIR PREPAID PENSION ASSETS?

A. Yes. Regulatory commissions in Colorado, New Mexico, and Texas all allow the Xcel Energy operating companies in those jurisdictions to include their prepaid pension assets in rate base and to earn a return on them.

Q. HAS THE ISSUE OF WHETHER TO ALLOW A PREPAID PENSION ASSET TO BE INCLUDED IN RATE BASE AND TO EARN A RETURN BEEN A CONTESTED ISSUE IN THOSE JURISDICTIONS?

A. Yes. It has been a contested issue in all three jurisdictions. I am familiar with the decisions in those jurisdictions because I have been the Xcel Energy operating company's pension witness in all three jurisdictions.

Q. PLEASE DESCRIBE HOW THE ISSUE HAS BEEN ADDRESSED IN COLORADO.

A. In a 2017 gas rate case, the Public Utilities Commission of Colorado denied Public Service's request to include its prepaid pension asset in rate base.[16] Public Service appealed the Colorado commission's decision to state district court. In a decision that was issued in March 2020, the state district court found that Public Service had a constitutional right to earn a return on its prepaid pension asset because the prepaid pension asset was no different from other assets used by the utility to provide service:

> [T]he evidence was undisputed that this defined-benefits pension plan contributed to the service-producing activities of PSC. Any prepayments therefore likewise contributed to the service-producing activities of PSC. Because PSC is constitutionally entitled to a reasonable return on its service-producing assets, it is constitutionally entitled to a reasonable return on its prepayments.[17]

In the wake of that decision, the Colorado commission allowed Public Service's electric department to include its prepaid pension asset in rate base.[18] The Colorado commission also allowed Public Service's gas department to

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[16] *In the Matter of Advice Letter No. 912-Gas Filed by Public Service Company of Colorado to Roll the Pipeline System Integrity Adjustment ("PSIA") Costs Into Base Rates Beginning in 2019 and Increase Rates for All Natural Gas Sales and Transportation Services by Implementing a General Rate Schedule Adjustment ("GRSA") in the Company's Colorado P.U.C. No. 6-Gas Tariff, to Become Effective July 3, 2017*, Decision No. C1800736-I at ¶ 104 (Mailed Aug. 29, 2018).

[17] *Public Service Company of Colorado v. The Public Utilities Commission of the State of Colorado*, Case No. 19CV31427, Order at 18 (Denver County District Court, Mar. 12, 2020). The Colorado commission did not appeal the district court decision to the Colorado Supreme Court.

[18] *In the Matter of Advice Letter No. 1797 Filed by Public Service Company of Colorado to Reset the Currently Effective General Rate Schedule Adjustment ("GRSA") As Applied to Base Rates for All Electric Rate Schedules as Well as Implement a Base Rate KWH Charge, General Rate Schedule Adjustment-Energy ("GRSA-E") to Become Effective June 20, 2019*, Decision No. C20-0505 at ¶ 79 (Decision Mailed July 14, 2020).

include its prepaid pension asset in rate base and to earn a WACC return on that asset.[19]

Q. IS THE PREPAID PENSION ASSET OF NSPM ALSO A "SERVICE-PRODUCING ASSET," AS THAT TERM WAS USED BY THE COLORADO COURT?

A. Yes. The Colorado court found that Public Service's prepaid pension asset was a service-producing asset because it helped reduce rates for customers and because it helped Public Service attract and retain employees. In addition, the court found it significant that Public Service was required by federal law to maintain a certain funding level for the pension plan. All of those things are true of NSPM's prepaid pension asset as well.

Q PLEASE DESCRIBE HOW THE PREPAID PENSION ASSET HAS BEEN TREATED IN NEW MEXICO.

A. In a 2014 order, the New Mexico Public Regulation Commission allowed SPS to include its prepaid pension asset in rate base and to earn a return on it. The New Mexico Attorney General appealed that issue to the New Mexico Supreme Court, which upheld the New Mexico commission's decision to include the prepaid pension asset in rate base:

> It is uncontested that SPS investors made contributions to the pension fund that are required by law. These contributions exceeded expenses and generating earnings that effectively reduced SPS's – and consequently the ratepayers' – pension expense. Had the ratepayers advanced the contributions to the pension fund, their contributions would not have been included

[19] *In the Matter of Advice Letter No. 912-Gas Filed by Public Service Company of Colorado to Roll the Pipeline System Integrity Adjustment ("PSIA") Costs Into Base Rates Beginning in 2019 and Increase Rates for All Natural Gas Sales and Transportation Services by Implementing a General Rate Schedule Adjustment ("GRSA") in the Company's Colorado P.U.C. No. 6-Gas Tariff, to Become Effective July 3, 2017*, Decision No. C21-0406 (Mailed July 12, 2021).

> in rate base. [Citation omitted]. However, because the ratepayers did not make the contributions, the investors, not the ratepayers, absorbed the cost of funding the pension program, and therefore the net prepaid pension asset was property included in the rate base.[20]

Q. IS THERE ANY MATERIAL DIFFERENCE BETWEEN THE PREPAID PENSION ASSET AT ISSUE IN THE NEW MEXICO CASE AND NSPM'S PREPAID PENSION ASSET?

A. No. Both the SPS and NSPM prepaid pension assets represent investor contributions that reduce the pension expense included in rates and that help attract and retain employees. Therefore, both should be included in rate base.

Q. PLEASE DESCRIBE HOW THE PUBLIC UTILITY COMMISSION OF TEXAS HAS TREATED SPS'S PREPAID PENSION ASSET.

A. In a 2015 base rate case, parties challenged SPS's request to include its prepaid pension asset in rate base and to earn a WACC return on that asset. The Texas commission rejected those challenges:

> Accounting in accordance with GAAP requires that the amount by which the cash contributions made to the pension trust exceed the accumulated pension cost to be recorded as a prepaid pension asset.
>
> Investment income on the prepaid pension asset reduces qualified pension costs calculated under FAS 87, which benefits customers by reducing the amount of pension costs included in base rates.

[20] *New Mexico Attorney General v. New Mexico Public Regulation Comm'n*, 2015-NMSC-032 at ¶ 21.

The prepaid pension asset is appropriately included in rate base because it represents a prepayment by SPS.[21]

Q. IS THERE ANY MATERIAL DIFFERENCE BETWEEN THE PREPAID PENSION ASSET AT ISSUE IN THE TEXAS CASE AND NSPM'S PREPAID PENSION ASSET?

A. No. Just like the New Mexico prepaid pension asset, the Texas prepaid pension asset was created by investor contributions that reduced the pension expense included in rates. The Texas prepaid pension asset also helped SPS attract and retain employees. All of those things are true of the NSPM prepaid pension asset as well. Therefore, it should be included in rate base.

VIII. ACTIVE HEALTH AND WELFARE COSTS

Q. WHAT IS THE ACTIVE HEALTH AND WELFARE COST FOR 2022?

A. The 2022 health and welfare expense amount is approximately $3.7 million.

Q. WHAT TYPES OF BENEFIT COSTS ARE INCLUDED IN ACTIVE HEALTH AND WELFARE?

A. Active health and welfare costs can be broken down into three categories. The first and largest category is for active healthcare costs; the second category is for miscellaneous benefit programs and costs; and the third category contains life, LTD, and business travel insurance premiums.

[21] *Application of Southwestern Public Service Company for Authority to Change Rates*, Docket No. 43695, Order on Rehearing at 23 (Feb. 23, 2016).

Q. SINCE ACTIVE HEALTH AND WELFARE CONSISTS OF THREE CATEGORIES OF COSTS, CAN YOU PROVIDE A FURTHER BREAKDOWN OF COSTS IN THE TEST YEAR?

A. Yes. Exhibit___(RRS-1), Schedule 11, shows the components that are included in each category and the amount for each component in the test year. The active healthcare category makes up nearly 90 percent of the total health and welfare costs.

Q. WHAT TYPES OF COSTS ARE INCLUDED IN ACTIVE HEALTHCARE?

A. Active healthcare costs are all costs associated with providing healthcare coverage to our employees. As explained in more detail by Ms. Lowenthal, active healthcare benefits include medical, pharmacy, dental and vision claims, administrative fees, employee withholdings, pharmacy rebates, Health Savings Account (HSA) contributions, transitional reinsurance fees, trustee fees, interest income and opt-out finding.

Q. DID THE COMPANY MAKE ANY ADJUSTMENTS TO THE PER BOOK AMOUNTS FOR ACTIVE HEALTHCARE CLAIMS?

A. Yes. Table 14 below shows both the per book and actual incurred amounts of active health and welfare claims for the five years prior to the test year and for the 2022 test year.

Table 14
Active Health Care
Per Book and Actual Incurred Claims
NSPM Gas O&M State of MN ($)

Year	Per Book Amount	IBNR Adjustment	Actual Incurred Claims
2018	3,191,097	(35,422)	3,155,675
2019	2,850,239	205,474	3,055,713
2020	2,961,235	(62,253)	2,898,982
2021 Forecast	3,235,114	(14,474)	3,220,640
2022 Test Year	n/a	n/a	3,332,430

Q. WHY WAS IT NECESSARY TO MAKE AN ADJUSTMENT TO THE PER BOOK CLAIMS AMOUNT?

A. This adjustment is necessary to reflect actual costs incurred in each year. The per book amounts for active healthcare include estimates because there is generally an average lag of approximately 30 days between when healthcare is provided and when the Company receives a bill for that care. Therefore, the actual amount of active healthcare expense was not available at the time the Company recorded its per book amount at the end of each month. Because the Company needs to close its books at the end of each reporting period before it receives all of those healthcare claims, it takes the actual amounts recorded through a certain point in the year and estimates the additional amount that will be incurred but not reported (IBNR) by the end of the reporting period. This accrual estimate is called the IBNR reserve. During the following period, the Company receives the actual amounts attributable to care provided in the last part of the prior period, and at that time it trues up the IBNR estimate to the

actual incurred amount. Therefore, the per book amounts need to be adjusted so that they reflect the actual incurred claim amounts during that period. After the adjustment, the periods include only the actual amounts incurred for the twelve months.

Q. HOW WERE THE 2022 ACTIVE HEALTHCARE COSTS DETERMINED?

A. The Company's actuary, Willis Towers Watson, calculated the 2022 test year medical and pharmacy amounts by using the actual experience from the following periods and weighting them.

An 80 percent weighting was applied to:

- Medical claims incurred January 1, 2019 through December 31, 2019, paid through February 29, 2021.
- Pharmacy claims incurred January 1, 2019 through December 31, 2019, paid through February 29, 2021.

A 20 percent weighting was applied to:

- Medical claims incurred January 1, 2020 through December 31, 2020, paid through February 29, 2021.
- Pharmacy claims incurred January 1, 2020 through December 31, 2020, paid through February 29, 2021.

Willis Towers Watson then adjusted for changes in plan design, regulations, administrative fees, etc., and it trended the data forward to 2022 using inflation factors. These costs are calculated at a plan level, meaning all companies with employees in that plan are calculated together. Willis Towers Watson then adjusts this estimate to account for actual claims experience by company.

Q. WHAT PERCENTAGE DOES TOTAL HEALTH AND WELFARE COSTS INCREASE IN 2022 BASED ON THE METHODOLOGY DESCRIBED ABOVE?

A. As shown in Table 15 below, the amounts reflect an average increase of 3.47 percent, which is right in line with the expected healthcare trend.

Table 15
Active Health Care Expense
NSPM Gas O&M State of MN

	2021 Forecast	2022 Test Year
Active Healthcare ($)	3,220,640	3,332,430
Year-Over-Year Change		3.47%

Q. IS THE COMPANY'S HEALTHCARE COST INCREASE REASONABLE?

A. Yes. Exhibit___(RRS-1), Schedule 12 shows Willis Towers Watson's overall expectation of healthcare cost increases based on survey averages, carrier information, and an analysis of the broad healthcare market. This study is from June 2021 and is focused on 2022 expected cost increases. The information is intended to support the trend assumptions used in Xcel Energy's 2022 active healthcare budgeting done by Willis Towers Watson. Overall, the Willis Towers Watson survey data indicates each pricing group has a different split of the total cost between medical and pharmacy cost, but they expect the total trend to be between 4.00 percent and 7.00 percent as documented in the trend surveys. PricewaterhouseCoopers (PwC) estimates that medical and pharmacy costs will rise 6.00 percent in 2021. This information, which was gathered by PwC's Health Research Institute, was based on PwC's own internal research and input

from health plan actuaries, industry leaders, analyst reports, and employer surveys. Finally, the Aon Carrier Trend Report expects 2021 medical costs to increase by 7.00 percent.

Q. DO YOU BELIEVE THE COMPANY'S ESTIMATE OF HEALTHCARE COSTS IS REPRESENTATIVE OF COSTS THE COMPANY EXPECTS TO INCUR IN FUTURE YEARS?

A. Yes. As shown in Table 15 above, the Company's active healthcare costs are currently forecasted to grow approximately 3.5 percent per year for 2022. This growth rate is typical as compared to other organizations, as demonstrated by the attachment referred to above. The Company has implemented several plan design changes to help control the pace of growth, as discussed by Ms. Lowenthal. However, active healthcare costs have continued to increase, and the Company's forecast through 2022 are reasonable.

Q. HOW HAS THE PANDEMIC OF 2020 IMPACTED HEALTH CARE COSTS?

A. Due to the nationwide shutdown and ongoing COVID-19 concerns, the Company has seen lower-than-anticipated health care costs in 2020 and for the first half of 2021. Based on discussions Willis Towers Watson has had with health care systems, the expectation is that the systems will see a portion of this delayed care (e.g., elective surgeries) eventually made up. This potential for deferred care carrying over into late 2021, 2022 or even thereafter could make our existing 2022 test year health care amount too low, and therefore our assumptions regarding health care costs may be conservative.

Q. WHY IS IT REASONABLE FOR CUSTOMERS TO PAY ACTIVE HEALTH AND WELFARE COSTS INCURRED BY THE COMPANY?

A. It is appropriate that customers pay for these benefits because they reflect a reasonable and necessary level of expense. Employees expect their employer to provide a reasonable level of health and welfare benefits, and any employer that does not do so is at a significant disadvantage in the labor market. Thus, our compensation plans and benefits are required to attract, retain, and motivate employees needed to perform the work necessary to provide quality services for NSPM customers.

Q. WHAT TYPES OF COSTS ARE INCLUDED IN MISC BEN PROGRAMS, LIFE, LTD?

A. As mentioned above active health and welfare costs can be broken down into three categories. The first and largest category is for active healthcare costs; the second category is for miscellaneous benefit programs and costs; and the third category contains life, LTD, and business travel insurance premiums. Schedule 11, shows a breakout of all the components that are included in each category and the amount for each component in the test year. The majority of the costs included with in the second and third categories mentioned above are not material on an individual basis. However, third-party LTD insurance premiums make up nearly half of the costs included in the two categories for the Test Year. The Company has included $189,760 in third-party insured LTD benefit in the Test Year.

IX. WORKERS' COMPENSATION FERC 925 COSTS

Q. WHAT TYPES OF COSTS ARE INCLUDED IN FERC ACCOUNT 925, INJURIES AND DAMAGES?

A. FERC Account 925 is composed of workers' compensation coverage and other liability insurance costs. The workers' compensation benefit covers work-related injury costs for medical claims, permanent or partial disability, lost time, rehabilitation costs, prescription drugs, etc. The other liability insurance includes coverage for general liability, excess liability, fiduciary insurance, and directors' and officers' insurance. Because my area of responsibility is in benefits accounting, my testimony is limited to the workers' compensation costs.

Q. PLEASE EXPLAIN HOW WORKERS' COMPENSATION COSTS ARE DETERMINED.

A. Similar to LTD costs, the accounting treatment for workers' compensation differs for the self-insured and fully-insured portions of the plan. The workers' compensation benefit is self-insured for any active bargaining or non-bargaining employee who was injured before August 1, 2001, and it is fully insured for any employee who was injured on or after that date. The Company is required to accrue for self-insured workers' compensation costs under FAS 112. The fully-insured portion is the cost of the insurance premiums that the Company must pay each year.

Q. WHAT HAS BEEN THE TREND FOR THE WORKERS' COMPENSATION COSTS OVER THE LAST SEVERAL YEARS AND FOR THE TEST YEAR?

A. Table 16 below compares the workers' compensation benefit costs from 2018 through 2022.

Table 16
Workers' Compensation Expense

NSPM Gas O&M State of MN ($)			
Year	**FAS 112**	**Insurance Premiums & Other**	**Total Workers' Compensation**
2018	24,091	282,828	306,919
2019	(110,490)	293,368	182,878
2020	48,720	255,867	304,587
2021 Forecast	25,714	258,599	284,313
2022 Test Year	12,083	276,536	288,619

Q. HOW DID YOU CALCULATE THE WORKERS' COMPENSATION AMOUNTS FOR 2022?

A. The FAS 112 amounts are based on the 2022 projected cost amounts from the Willis Towers Watson actuarial calculation provided in June 2021. The insurance premium amounts were based on the actual premiums paid through October 2020 and held flat through 2022.

Q. WHAT CAUSES THE FLUCTUATIONS IN THESE COSTS FROM YEAR TO YEAR?

A. The FAS 112 workers compensation self-insured costs fluctuate from year to year because of changes to the discount rate or demographic adjustments, similar to FAS 112 LTD costs, which were discussed above. The workers compensation premium portion remained relatively stable from 2018 to 2022, with the big swing in costs being driven by the captive distribution. Captive distributions are distributions (refunds) from the captive insurance account that are received from time to time. Company witness Mr. Robert Miller discusses captive distributions in more detail.

Q. HAS THE COMPANY PROVIDED THE ACTUARIAL STUDY AND DERIVATION OF THE JURISDICTIONAL AMOUNT?

A. Yes. The Company has included Schedule 8, which is an actuarial study that supports the FAS 112 workers compensation costs in 2021-2022. Schedule 9 shows the conversion of the 2022 total cost amounts to the NSPM gas O&M, State of Minnesota amount.

Q. IS THE COMPANY SEEKING TO RECOVER THE FORECASTED WORKERS' COMPENSATION EXPENSE AS SHOWN IN TABLE 17 AS PART OF ITS TEST YEAR?

A. Yes. Mr. Halama has incorporated the budgeted amounts into the 2022 test year revenue requirements. These costs are calculated in accordance with accounting rules and standards and are based on actuarial assumptions specific to the Company.

X. CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY AND RECOMMENDATIONS.

A. The assumptions that the Company has used to determine the test year pension expense are reasonable, as shown by comparison with other utilities' pension assumptions. In addition, we are proposing to use a five-year average discount rate – as the Commission approved in a prior Company case – to reduce the potential number of disputed issues in this current case. Our annual qualified pension expense decreased from 2020 actuals compared to the 2022 test year, in part due to the benefit plan design changes that have reduced employee benefit levels.

The Company should be allowed to recover the costs of its FAS 106 post-retirement medical benefit and its FAS 112 benefit. Those are reasonable costs that are part of the total compensation package the Company needs to attract and retain good employees.

The Company should also be allowed to include its prepaid pension asset in rate base and to earn a return on that asset at the Company's WACC. The gains from that asset help reduce pension expense in the test year, but shareholders have no access to those gains. The Company requests that the prepaid pension asset be included in rate base and that it earn a return, similar to other prepayments.

Regarding healthcare costs, we have implemented measures to help control the pace of growth in our healthcare costs, and the result is reflected in a lower inflation factor during the test year period than that recommended by our actuaries and PwC.

Finally, our workers' compensation costs are necessary, and the forecasted amounts presented in my testimony should be approved for recovery in rates.

In summary, and as discussed in more detail by Ms. Lowenthal, the non-cash employee benefits discussed in my testimony are part of the Company's overall compensation and benefits package and are necessary to attract and retain the employees required to provide high-quality service to our customers. The forecasted amounts of pension and benefits costs I present are reasonable and accurately reflect our expected pensions and benefits expense in the test year

period. As such, I recommend that the Commission approve these levels of expense to be included in rates.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

Statement of Qualifications
Richard R. Schrubbe

Current Responsibilities

As Area Vice President, Financial Planning and Analysis, I am responsible for overseeing the business area leaders of Energy Supply, Transmission, Distribution, Gas Engineering & Operations and Corporate Services with respect to budget planning, reporting, and analysis. I oversee the accounting for all employee benefits programs, playing a liaison role with the Human Resources department, external actuaries, and senior management with benefit fiduciary roles. I am also responsible for coordinating the benefits operations and maintenance ("O&M") and capital budgeting and forecasting processes, as well as the monthly analysis of actual results against these budgets and forecasts.

Experience

2007 – Present	Xcel Energy Inc.	Area Vice President, Financial Planning & Analysis

Education

1996	Bachelor of Science – Business Admin, Finance	Marquette University

Benefit Costs

NSPM Total Company Gas O&M

	2018 Actuals	2019 Actuals	2020 Forecast	2021 Forecast	2022 Forecast
Retirement					
401K Match	818,443	862,012	916,983	979,745	1,032,720
Qualified Pension	3,024,790	3,040,560	2,714,954	2,705,158	2,209,299
Deferred Compensation Plan	3,604	3,419	2,836	3,936	3,108
Retirement & Compensation Consulting	58,487	35,175	18,281	24,344	38,061
Other	-	-	-	-	
Total Retirement	3,905,324	3,941,166	3,653,054	3,713,183	3,283,189
Health & Welfare					
Active Health Care	3,603,561	3,207,562	3,338,341	3,649,324	3,759,099
Adjust to Incurred Claims	(40,001)	231,233	(70,181)	(16,327)	-
Life & LTD insurance, Misc Ben Programs	450,713	406,978	353,037	406,492	453,520
FAS 106 Retiree Medical	205,228	154,105	88,962	67,549	53,555
FAS 112 LTD (long-term disability)	762	(12,481)	43,472	47,088	10,552
Other	-	-	-	-	-
Total Health & Welfare	4,220,263	3,987,397	3,753,631	4,154,125	4,276,726
Total Benefits	8,125,587	7,928,563	7,406,685	7,867,308	7,559,915

NSPM Gas O&M for Minnesota Jurisdiction

	2018 Actuals	2019 Actuals	2020 Forecast	2021 Forecast	2022 Forecast
Retirement					
401K Match	724,764	765,984	813,399	868,541	915,504
Qualified Pension	2,678,573	2,701,842	2,408,267	2,398,115	1,958,537
Deferred Compensation Plan	3,191	3,038	2,516	3,489	2,756
Retirement & Compensation Consulting	51,793	31,257	16,216	21,581	33,741
Other	-	-	-	-	-
Total Retirement	3,458,321	3,502,120	3,240,398	3,291,726	2,910,537
Health & Welfare					
Active Health Care	3,191,097	2,850,239	2,961,235	3,235,114	3,332,430
Adjust to Incurred Claims	(35,422)	205,474	(62,253)	(14,474)	-
Life & LTD insurance, Misc Ben Programs	399,124	361,641	313,157	360,354	402,044
FAS 106 Retiree Medical	181,738	136,938	78,913	59,882	47,477
FAS 112 LTD (long-term disability)	675	(11,091)	38,561	41,744	9,354
Other	-	-	-	-	-
Total Health & Welfare	3,737,212	3,543,201	3,329,613	3,682,619	3,791,305
Total Benefits	7,195,533	7,045,321	6,570,011	6,974,345	6,701,842

Benefit Costs

NSPM TOTAL COSTS (O&M, Capital, COGS, Clearing, Deferred)

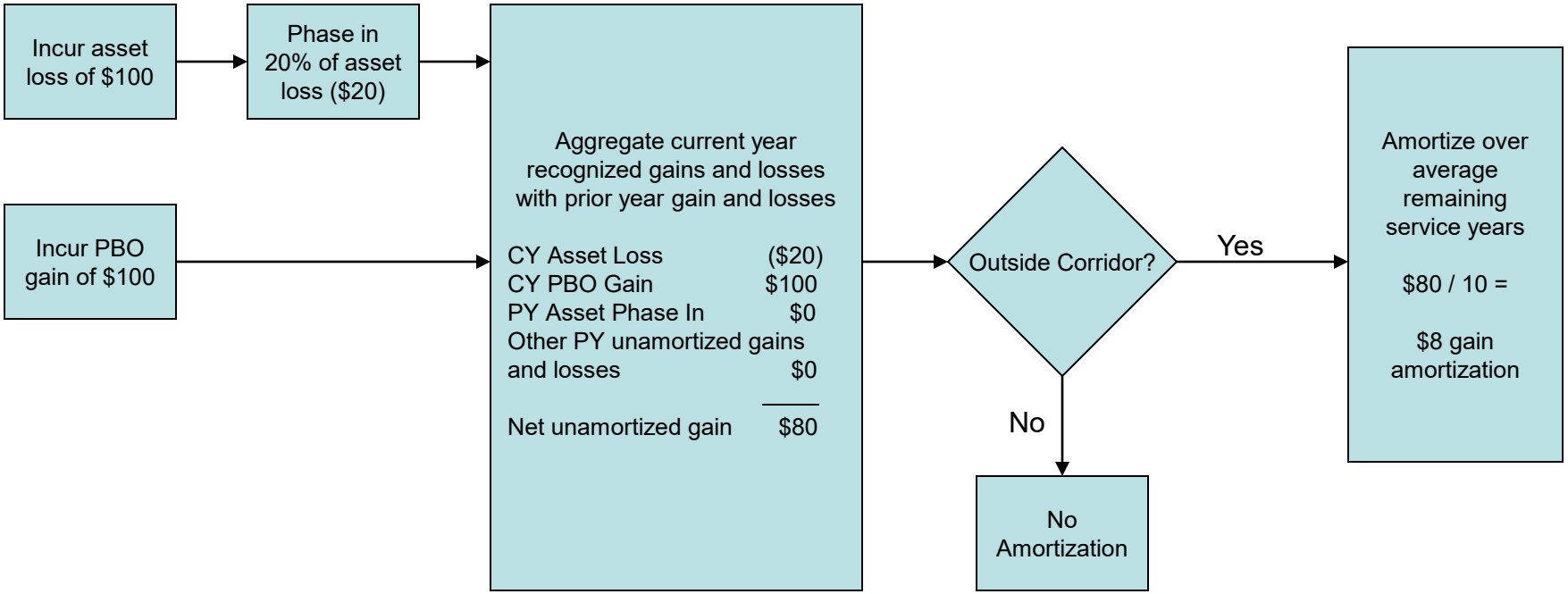
	2018 Actuals	2019 Actuals	2020 Actuals	2021 Forecast	2022 Forecast
Retirement					
401K Match	6,755,747	7,083,682	7,544,388	8,441,705	8,260,414
Qualified Pension	30,891,000	30,873,000	27,855,000	28,136,000	21,710,000
Deferred Compensation Plan	4,946	5,376	(2,385)	3,050	4,876
Retirement & Compensation Consulting	110,120	(157,715)	(200,735)	80,577	125,071
FAS 88 nonqualified settlement	-	-	-	-	-
Other	-	-	-	-	-
Total Retirement	37,761,813	37,804,343	35,196,268	36,661,333	30,100,361
Health & Welfare					
Active Health Care	32,797,437	28,750,990	29,075,610	34,260,646	35,610,774
Life & LTD insurance, Misc Ben Programs	3,710,716	3,176,290	2,745,637	3,455,806	3,522,972
FAS 106 Retiree Medical	2,116,000	1,522,000	759,000	515,000	284,000
FAS 112 LTD (long-term disability)	(22,000)	(153,000)	516,000	579,000	129,000
Other	-	-	-	-	-
Total Health & Welfare	38,602,153	33,296,280	33,096,247	38,810,452	39,546,746
Total Benefits	76,363,966	71,100,623	68,292,515	75,471,784	69,647,107

XES TOTAL COSTS (O&M, Capital, COGS, Clearing, Deferred)

	2018 Actuals	2019 Actuals	2020 Actuals	2021 Forecast	2022 Forecast
Retirement					
401K Match	10,899,361	12,033,361	13,284,082	13,676,921	14,095,235
Qualified Pension	23,352,000	21,759,000	20,625,000	22,848,000	17,565,000
Deferred Compensation Plan	118,874	127,547	128,250	150,294	104,732
Retirement & Compensation Consulting	1,843,994	2,059,498	1,455,198	738,912	1,078,618
FAS 88 qualified settlement	22,259,000	(124,000)	-	-	-
FAS 88 nonqualified settlement	-	-	1,791,000	-	-
Other	-	-	-	-	-
Total Retirement	58,473,229	35,855,406	37,283,530	37,414,126	32,843,585
Health & Welfare					
Active Health Care	39,265,443	36,914,180	42,220,236	46,133,238	49,846,920
Life & LTD insurance, Misc Ben Programs	6,029,821	6,270,684	5,653,178	5,818,525	6,515,964
FAS 106 Retiree Medical	1,527,000	1,253,000	1,197,000	1,150,000	1,181,000
FAS 112 LTD (long-term disability)	91,000	3,000	93,000	122,000	5,000
Other	-	-	-	-	-
Total Health & Welfare	46,913,264	44,440,864	49,163,414	53,223,763	57,548,884
Total Benefits	105,386,492	80,296,270	86,446,944	90,637,889	90,392,469

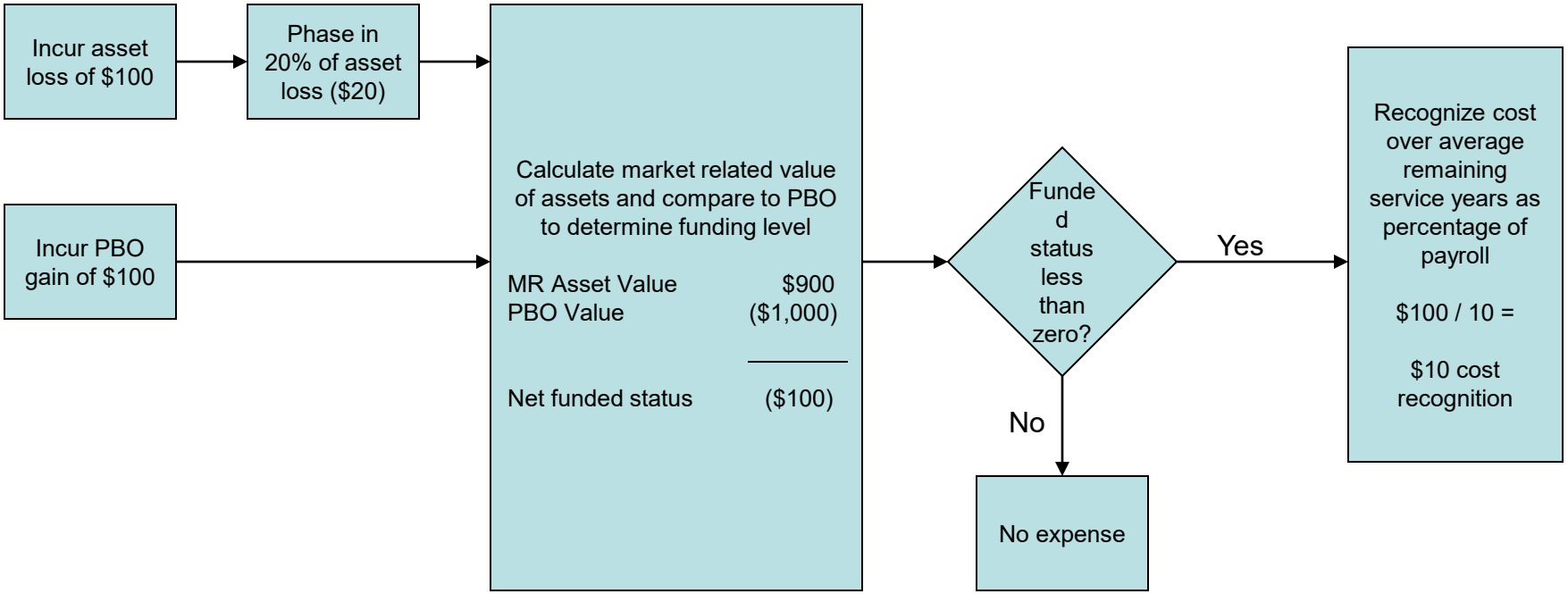
SFAS 87 Amortization

Assumes no prior year gain or loss balance



ACM Amortization

Beginning of year balances:
MR Asset Value $920
PBO Value ($1,100)



Description of Components and Calculations Under Aggregate Cost Method (ACM) and SFAS 87 (ASC 715)

A. Aggregate Cost Method

1. Components of the Aggregate Cost Method

The costs are determined using the following components:

a) the value of pension benefits expected to be paid in all future years (the "Present Value Of Future Benefits");
b) the value of plan assets (the "Valuation Assets");
c) the value of expected future compensation to be paid to active employees (the "Present Value Of Future Compensation");
d) the discount rate to be applied to all compensation expected to be paid to current employees (the "Aggregate Cost Discount Rate"); and
e) the rate of return equal to the expected long-term rate of return on plan assets (the "Aggregate Cost Rate of Return").

Under the Aggregate Cost Method, the pension cost represents an amount that would need to be paid into the pension fund each year to pay all future benefits under the plan. The difference between the Present Value of Future Benefits and the Valuation Assets determines the unfunded benefits as of the valuation date. The unfunded benefits are divided by the Present Value of Future Compensation to determine the annual percentage of compensation that would need to be paid into the pension fund each year to fully fund all future benefits. The pension cost is equal to this percentage multiplied by the compensation expected to be paid to active employees in the upcoming year.

2. Present Value of Future Benefits

The Present Value of Future Benefits is determined by projecting into the future all benefits expected to be paid to plan participants. This projection requires future assumptions regarding mortality, when participants will leave the company and future salary increases. The benefits expected to be paid are discounted back to the valuation date by the Aggregate Cost Discount Rate.

3. Valuation Assets

Valuation Assets are based on adjusted market value of assets, which is a calculated value that recognizes changes in fair value in a systematic and rational manner over not more than five years. The adjusted market value is subject to restriction that it be not less than 80 percent and not more than 120 percent of the market value of assets. Contributions that have been included in prior costs but have not been contributed to the pension fund are added to the Valuation Assets. Contributions that have been contributed to the pension fund but have not been included in prior costs are subtracted from the Valuation Assets.

4. Present Value Of Future Compensation

The Present Value of Future Compensation is determined by projecting into the future all compensation expected to be paid to current employees. This projection requires future assumptions regarding mortality, termination and retirement rates and future salary increases. The compensation expected to be paid is then discounted back to the valuation date using the Aggregate Cost Discount Rate.

5. Aggregate Rate of Return

The Company develops the Aggregate Cost Rate of Return based on expectations provided by Pacific Global, the pension fund manager. These expectations are based on the composition of plan assets.

6. Aggregate Cost Discount Rate

The Aggregate Cost Discount Rate is equal to the expected long-term rate of return on plan assets.

7. Validation of Reasonableness of the Assumptions

The Company's independent actuary, Towers Watson, calculates the expense and obligations under the Aggregate Cost Method based on actual experience and company demographics, along with assumptions for the Aggregate Cost Discount Rate and Aggregate Cost Rate of Return. Towers Watson also provides results of surveys of discount rates and rates of return for review. In addition, all material assumptions are

reviewed by Deloitte and Touche, the Company's external auditor, for reasonableness.

B. FAS 87 (ASC 715)

1. Components of the ASC 715 Method

Under FAS 87, pension cost is made up of several components including:

a) the value of pension benefits that employees will earn during the current year ("Service Cost");
b) increases in the present value of the pension benefits that plan participants have earned in previous years ("Interest Cost");
c) investment earnings on the pension plan assets that are expected to be earned during the year ("Expected Return On Assets");
d) recognition of costs (or income) from experience that differs from the assumptions (*e.g.*, investment earnings different than assumed) ("Amortization Of Unrecognized Gains And Losses"); and
e) recognition of the cost of benefit changes the plan sponsor provides for service the employees have already performed ("Amortization Of Unrecognized Prior Service Cost").

2. Service Cost

The Service Cost is the actuarial present value of benefits attributed by the pension benefit formula to current employees' service during that period. Actuarial assumptions are used to reflect the time-value of money (the discount rate) and the probability of payment (assumptions as to mortality, turnover, early retirement, and others).

3. Interest Cost

The Interest Cost recognized in a fiscal year is determined as the increase in the projected benefit obligation due to the passage of time. Measuring the projected benefit obligation as a present value requires accrual of an Interest Cost at a rate equal to the assumed discount rate. The Interest Cost identifies the time value of money by recognizing that anticipated pension benefit payments are one year closer to being paid from the pension plan.

4. Expected Return On Assets

The Expected Return On Assets is determined based on the expected long-term rate of return on plan assets and the market-related value of plan assets. The marketrelated value of plan assets can be either fair market value or a calculated value that recognizes changes in fair value in a systematic and rational manner over not more than five years.

5. Amortization Of Unrecognized Gains And Losses

Gains and losses are changes in the amount of either the projected benefit obligation or plan assets resulting from experience different from that assumed or from changes in assumptions. ASC 715 does not distinguish between sources of gains and losses. Asset gains and losses are the differences between the actual return on assets during a period and the expected return on assets for that period. Liability gains and losses are the differences between the actual liability at the end of a measurement period and the expected liability at the end of a measurement period. FAS 87 does not require recognition of gains and losses as a component of net pension cost in the period in which they arise.
Amortization Of Unrecognized Net Gains Or Losses must be included as a
component of net periodic pension cost for a year if, as of the beginning of the year, the unrecognized net gain or loss exceeds a "corridor," which is 10 percent of the greater of the projected benefit obligation or the market-related value of plan assets. If Amortization Of Unrecognized Net Gains Or Losses is required, the amortization amount is equal to the amount of the Unrecognized Gain Or Loss in excess of the corridor divided by the average remaining future service of the active participants in the plan.

6. Amortization Of Unrecognized Prior Service Cost

Plan amendments can change benefits based on services rendered in prior periods. FAS 87 does not generally require the cost of providing such retroactive benefits (prior service cost) to be included in net periodic pension cost entirely in the year of the amendment but provides for recognition over the future years. Unrecognized prior service cost is amortized in the same manner as unrecognized gains and losses with the exception of the 10 percent corridor.

7. FAS 87 Rate of Return

The Company develops the FAS 87 Rate of Return based on expectations provided by JP Morgan, the pension fund manager. These expectations are based on the composition of plan assets.

8. FAS 87 Discount Rate

The FAS 87 Discount Rate is based on a bond matching approach which is
recalculated on an annual basis to most accurately value the liability at a point in time.

9. Validation of Reasonableness Of The Assumptions Used

The Company's independent actuary, Towers Watson, calculates the expense and obligations under ASC 715 based on actual experience and company demographics, along with assumptions for the FAS 87 Discount Rate and FAS 87 Rate of Return. Towers Watson also provides results of surveys of discount rates and rates of return for review. All material assumptions are also reviewed for reasonableness by Deloitte and Touche, the Company's external auditor.

C. Accounting Standards and Example of the Phase In of Pension Asset Losses Over Five Years

The company "phases in" losses over 5 years and then amortizes these losses over the average years to retirement. SFAS 87 allows the company to use a calculation referred to as the "market-related value of plan assets" to recognize changes in asset values over a period not to exceed 5 years. For example assume the company had plan assets with a fair value of $3,000,000 and those assets then lost $1,000,000 in value. The accounting standard allows the company to recognize the change in the value of these assets through the market related value of these assets. As a result, the company would recognize only $200,000 ($1,000,000 x 1/5) of market loss per year for a period of five years. In the year of the losses, the market related value of assets would be $2,800,000 ($3,000,000 – $200,000) The $200,000 represents 1/5 of the actual

losses. This loss would then be amortized over the average remaining years of service (10 years). As a result, in year 1 loss amortization would be $200,000 divided by 10, or $20,000. The table below shows how losses would be phased in and then amortized.

Event	Fair Value of Assets	Market Related Value of Assets	Total Recognized	Year 1 Amort	Year 2 Amort	Year 3 Amort	Year 4 Amort	Year 5 Amort	Year 6 Amort
Beg Year 0	3,000,000	3,000,000	0						
Yr 0 Asset loss	2,000,000	2,800,000	200,000	20,000	20,000	20,000	20,000	20,000	20,000
	2,000,000	2,600,000-	400,000		20,000	20,000	20,000	20,000	20,000
	2,000,000	2,400,000	600,000			20,000	20,000	20,000	20,000
	2,000,000	2,200,000	800,000				20,000	20,000	20,000
	2,000,000	2,000,000	1,000,000					20,000	20,000
	Total Amortization			20,000	40,000	60,000	80,000	100,000	100,000

The accounting standard that allows the Company to smooth in the pension asset gains or losses over a five-year period is the Statement of Financial Accounting Standard ("SFAS") 87, Employers' Accounting for Pensions. The specific guidance can be found on page 14, paragraph 30 and 31, which I have copied below for your reference. The relevant reference is bolded and underlined.

> 30. The expected return on plan assets shall be determined based on the expected long-term rate of return on plan assets and the market-related value of plan assets. **The market-related value of plan assets shall be either fair value or a calculated value that recognizes changes in fair value in a systematic and rational manner over not more than five years.** Different ways of calculating market-related value may be used for different classes of assets (for example, an employer might use fair value for bonds and a five-year-moving-average value for equities), but the manner of determining market-related value shall be applied consistently from year to year for each asset class.
>
> 31. Asset gains and losses are differences between the actual return on assets during a period and the expected return on assets

for that period. Asset gains and losses include both (a) changes reflected in the market-related value of assets and (b) changes not yet reflected in the market-related value (that is, the difference between the fair value of assets and the market-related value). Asset gains and losses not yet reflected in market-related value are not required to be amortized under paragraphs 32 and 33.

Schedule 5
XEPP Fund Analysis
(Amounts in Thousands)

Year	Beginning of Year Market Value	Contributions	Earnings on Fund Investments	Pension Payments	Acquisitions/Transfers	Settlements	End of Year Market Value	Return on Assets
1950	-	1,023	(17)	(16)	-		989	-3.46%
1951	989	2,185	13	(145)	-		3,043	0.63%
1952	3,043	2,184	316	(200)	-		5,342	7.83%
1953	5,342	2,394	8	(263)	-		7,481	0.13%
1954	7,481	2,626	1,266	(346)	-		11,026	14.67%
1955	11,026	2,851	1,544	(444)	-		14,977	12.61%
1956	14,977	2,841	879	(534)	-		18,163	5.45%
1957	18,163	3,511	97	(772)	-		21,000	0.50%
1958	21,000	3,715	1,528	(958)	-		25,284	6.83%
1959	25,284	4,045	3,929	(1,135)	-		32,123	14.69%
1960	32,123	4,267	2,571	(1,359)	-		37,602	7.65%
1961	37,602	4,716	4,121	(1,557)	-		44,882	10.51%
1962	44,882	5,047	(4,158)	(1,785)	-		43,987	-8.94%
1963	43,987	5,219	7,373	(2,094)	-		54,485	16.18%
1964	54,485	5,469	6,666	(2,442)	-		64,177	11.90%
1965	64,177	5,749	3,023	(2,763)	-		70,186	4.60%
1966	70,186	5,690	3,252	(3,269)	-		75,860	4.56%
1967	75,860	5,650	5,727	(3,631)	-		83,606	7.45%
1968	83,606	5,647	7,919	(4,017)	-		93,154	9.38%
1969	93,154	5,785	(2,745)	(4,590)	-		91,604	-2.93%
1970	91,604	5,857	(11,557)	(5,267)	-		80,637	-12.57%
1971	80,637	6,203	18,077	(5,743)	-		99,174	22.34%
1972	99,174	6,939	13,010	(5,967)	-		113,157	13.05%
1973	113,157	7,533	(3,960)	(6,767)	-		109,963	-3.49%
1974	109,963	7,138	(10,668)	(7,590)	-		98,842	-9.72%
1975	98,842	8,967	16,770	(8,079)	-		116,500	16.88%
1976	116,500	10,790	12,240	(8,823)	-		130,707	10.40%
1977	130,707	13,128	5,803	(10,136)	-		139,503	4.38%
1978	139,503	16,308	7,166	(10,037)	-		152,940	5.02%
1979	152,940	18,071	26,014	(10,609)	-		186,416	16.59%
1980	186,416	20,523	41,250	(11,590)	-		236,599	21.59%
1981	236,599	23,131	(15,502)	(12,705)	-		231,523	-6.41%
1982	231,523	27,270	59,048	(14,242)	-		303,599	24.80%
1983	303,599	27,740	66,064	(5,743)	-		391,659	21.37%
1984	391,659	28,520	24,017	(19,084)	-		425,113	6.06%
1985	425,113	27,633	115,267	(22,959)	-		545,054	26.97%
1986	545,054	26,360	89,279	(24,836)	-		635,857	16.36%
1987	635,857	23,621	48,170	(27,898)	-		679,750	7.60%
1988	679,750	22,583	83,165	(40,645)	-		744,853	12.40%
1989	744,853	22,154	192,138	(44,303)	-		914,842	26.18%
1990	914,842	20,224	(11,273)	(56,827)	-		866,966	-1.26%
1991	866,966	22,248	248,374	(57,966)	-		1,079,623	29.25%
1992	1,079,623	21,516	121,945	(66,077)	-		1,157,007	11.53%
1993	1,157,007	-	153,083	(65,818)	-		1,244,272	13.62%
1994	1,244,272	-	15,665	(94,120)	-		1,165,817	1.31%
1995	1,165,817	-	345,631	(54,811)	-		1,456,637	30.36%
1996	1,456,637	-	274,978	(96,827)	-		1,634,787	19.53%
1997	1,634,787	-	428,004	(84,201)	-		1,978,590	26.87%
1998	1,978,590	-	330,836	(87,526)	-		2,221,900	17.10%
1999	2,221,900	-	305,501	(108,764)	-		2,418,637	13.98%
2000	2,418,637	-	89,651	(135,462)	38,412		2,411,238	6.90%
2001	2,411,238	-	(204,933)	(115,459)	-		2,090,846	-8.31%
2002	2,090,846	912	(318,389)	(155,606)	157,157	(994)	1,773,926	-10.90%
2003	1,773,926	1,712	372,354	(169,645)	-	(9,546)	1,968,801	22.61%
2004	1,968,801	-	179,697	(161,054)	-	(27,627)	1,959,817	9.34%
2005	1,959,817	-	160,630	(168,429)	-		1,952,018	8.73%
2006	1,952,018	-	189,246	(175,904)	-		1,965,360	10.24%
2007	1,965,360	-	121,057	(153,335)	-		1,933,082	6.60%
2008	1,933,082	-	(479,747)	(164,179)	-		1,289,156	-25.26%
2009	1,289,156	-	132,142	(113,427)	-		1,307,871	11.94%
2010	1,307,871	34,132	145,913	(147,452)	-		1,340,464	12.77%
2011	1,340,464	70,635	78,696	(153,274)	-		1,336,521	6.28%
2012	1,336,521	142,581	164,743	(146,248)	-		1,497,597	11.64%
2013	1,497,597	125,175	105,333	(178,392)	(14,931)		1,534,782	7.08%
2014	1,534,782	90,029	108,591	(184,049)	12,950		1,562,303	7.22%
2015	1,562,303	58,057	(17,038)	(154,384)	5,874		1,454,812	-1.25%
2016	1,454,812	90,050	92,086	(190,440)	12,415		1,458,923	6.66%
2017	1,458,923	120,308	216,751	(234,403)	1,378		1,562,957	15.29%
2018	1,562,957	120,000	(69,515)	(237,016)	(2,444)		1,373,982	-4.51%
2019	1,373,982	90,188	284,993	(162,284)	3,928		1,590,807	20.91%
2020	1,590,807	85,000	267,124	(174,129)	8,721		1,777,523	17.49%
Totals		1,523,848	4,651,234	(4,582,852)	223,460	(38,167)	55,725,158	

EEI Pension and OPEB Survey 2020-21

Company	Expected Discount Rate		Yield Curve / Model (Firm)	Yield Curve / Model (Specific)	Long-Run Expected Return		Expected Return CY (2020)		Expected Return CY+1 (2021)	
	Pension	OPEB			Pension	OPEB	Pension	OPEB	Pension	OPEB
EEI-1	2.39%	2.51%	Aon Hewitt	AA Above Median	5.90%	5.80%	17.90%	15.00%	5.30%	5.66%
EEI-2	2.57%	2.58%	Aon Hewitt	AA Above Median	7.10%	7.20%	17.60%	12.60%	7.00%	6.70%
EEI-3	2.75%	3.05%	Willis Towers Watson	BOND:Link	6.75%		5.11%		6.75%	
EEI-4	2.77%	2.62%	Aon Hewitt	AA Above Median	7.00%	6.50%			6.75%	6.25%
EEI-5	3.44%	3.42%	Willis Towers Watson	BOND:Link	5.50%	4.75%	17.80%	12.50%	10.50%	6.40%
EEI-6	2.78%	2.75%	Mercer	Bond Model	6.88%		11.37%		6.51%	
EEI-7	2.66%	2.76%	Willis Towers Watson	Rate:Link	7.00%	7.85%	7.00%	7.85%	7.00%	7.85%
EEI-8	2.74%	2.39%	Willis Towers Watson	BOND:Link	5.91%					
EEI-9	3.25%		Willis Towers Watson	BOND:Link	5.50%		5.50%			
EEI-10	2.77%	2.73%	Willis Towers Watson	Rate:Link	5.70%	5.07%	13.90%	12.25%	5.10%	4.57%
EEI-11	2.50%	2.50%	Citigroup	Pension Discount	7.40%	7.40%	9.00%	9.00%	8.00%	8.00%
EEI-12	2.25%	2.34%	Willis Towers Watson	BOND:Link	7.60%	5.40%	12.50%	9.00%	7.10%	4.50%
EEI-13	2.38%	2.67%	Aon Hewitt	AA Only Bond Universe	6.00%	5.00%	16.60%	13.80%	5.50%	4.00%
EEI-14	2.68%	2.60%	Willis Towers Watson	BOND:Link	6.87%	7.00%	12.09%	11.96%	6.87%	7.00%
EEI-15	2.39%	2.58%	Aon Hewitt	AA-AAA Bond Universe	5.22%	5.90%	15.50%	16.00%	4.57%	5.24%
EEI-16	2.63%	2.56%	Aon Hewitt	AA Only Above Median	8.25%	8.25%	11.60%	14.50%	8.25%	8.25%
EEI-17	2.92%	2.84%	Willis Towers Watson	BOND:Link	7.25%	6.00%	21.00%		7.25%	6.00%
EEI-18	2.74%	2.56%	Willis Towers Watson	BOND:Link	6.50%	3.70%	16.00%	9.00%	6.50%	3.70%
EEI-19	2.84%	2.56%	Aon Hewitt	AA Above Median	8.35%	4.50%	14.30%		8.35%	4.10%
EEI-20	2.56%	2.41%	Aon Hewitt	AA Above Median	4.55%		5.25%	2.35%	4.50%	1.80%
EEI-21	2.57%	2.69%	Aon Hewitt	AA Above Median	6.75%	6.75%	15.00%	15.00%	6.75%	6.75%
EEI-22	2.32%	3.03%	Other	Actuarial	6.25%	5.75%			6.00%	5.50%
EEI-23	2.45%	2.50%	Aon Hewitt	AA Above Median	5.75%	3.95%	12.50%	9.50%	5.00%	3.20%
EEI-24	2.75%	2.77%	Mercer	Bond Model	6.75%	6.75%	11.60%	11.60%	6.50%	6.50%
EEI-25	3.33%	2.97%	Willis Towers Watson	Rate:Link	5.75%		12.50%		5.75%	
EEI-26	2.71%	2.65%	Willis Towers Watson	BOND:Link	6.87%	4.50%	15.15%	7.08%	6.49%	4.10%
EEI-27		2.38%	Citigroup	Pension Discount		7.10%		9.60%		10.00%
EEI-28	2.55%	2.25%	Other	Actuarial	7.00%	6.80%	12.00%	14.73%	7.00%	6.80%
EEI-29	3.34%	3.31%	Willis Towers Watson	Rate:Link	7.30%	6.80%	14.60%	9.30%	7.20%	6.90%
EEI-30	2.64%		Willis Towers Watson	BOND:Link	7.00%		16.40%	8.80%	6.88%	6.88%
EEI-31	2.75%	2.75%	Willis Towers Watson	BOND:Link	7.00%	7.00%	26.00%	17.00%	6.50%	6.50%
EEI-32	2.67%	2.45%	Aon Hewitt	AA Above Median	7.50%	7.50%	14.80%	13.20%	7.50%	7.50%
EEI-33	2.53%	2.63%	Willis Towers Watson	Rate:Link	5.75%	5.00%	19.83%	17.97%	5.30%	5.05%
EEI-34	2.70%	2.52%	Prudential	Above Mean	7.00%	7.00%	7.00%	7.00%	7.00%	7.00%
EEI-35	2.84%	2.75%	Willis Towers Watson	BOND:Link	8.60%	8.50%				
EEI-36	2.50%	2.55%	Willis Towers Watson	BOND:Link	4.75%	4.75%	16.70%	16.00%	4.75%	4.75%
EEI-37	2.53%	2.24%	Aon Hewitt	AA Only Bond Universe	7.75%	6.55%	16.40%	18.00%	7.75%	6.30%
EEI-38	2.80%	2.70%	Other	Bond model	7.40%	6.50%	15.20%	14.00%	7.40%	6.00%
EEI-39	2.92%	2.83%	Willis Towers Watson	BOND:Link	7.25%	7.25%	17.40%	14.70%	7.00%	7.00%
EEI-40	2.90%	2.54%	Willis Towers Watson	BOND:Link	6.60%	4.10%			6.48%	4.38%
EEI-41	2.20%	2.14%	Other	Actuarial			14.00%		7.00%	3.75%
EEI-42	2.60%	2.60%	Willis Towers Watson	BOND:Link	6.85%	6.85%	11.50%	11.50%	6.50%	6.50%
EEI-43	2.92%	2.57%	Willis Towers Watson	Rate:Link	6.75%	7.00%	7.22%	7.41%	6.75%	7.00%
2020-21 Results										
Average	**2.70%**	**2.64%**			**6.68%**	**6.19%**	**13.67%**	**11.88%**	**6.65%**	**5.90%**
Quartile 0% (Min)	2.20%	2.14%			4.55%	3.70%	5.11%	2.35%	4.50%	1.80%
Quartile 25%	2.54%	2.51%			5.91%	5.03%	11.60%	9.00%	6.24%	4.57%
Quartile 50% (Medi	**2.69%**	**2.60%**			**6.87%**	**6.55%**	**14.30%**	**12.25%**	**6.75%**	**6.30%**
Quartile 75%	2.80%	2.75%			7.25%	7.00%	16.40%	14.72%	7.05%	6.90%
Quartile 100% (Max	3.44%	3.42%			8.60%	8.50%	26.00%	18.00%	10.50%	10.00%
# Responses	**42**	**41**	**43**	**43**	**41**	**35**	**37**	**31**	**39**	**37**
2020 Median	2.69%	2.60%			6.87%	6.55%	14.30%	12.25%	6.75%	6.30%
2019 Median	3.36%				7.00%		20.00%		7.00%	
2018 Median	4.35%				7.00%		-4.40%		7.00%	
2017 Median	3.70%				7.25%		14.00%		7.10%	
2016 Median	4.20%				7.33%		7.50%		7.00%	
2015 Median	4.50%				7.05%		0.00%		7.00%	
2014 Median	4.11%				7.25%		7.50%			
2013 Median	4.94%				7.25%		9.88%			
2012 Median	4.10%				7.50%		12.30%			
2011 Median	4.82%				7.75%		3.50%			
2010 Median	5.40%				7.88%		8.75%			
2009 Median	5.75%				8.44%		17.00%			

Xcel Energy Discount Rate Benchmarks

	December 31, 2019 Bond Matching[1]	December 31, 2020 Bond Matching[1]	Change From December 31, 2019
Xcel Energy Pension Plan	3.48%	2.65%	(0.83%)
NCE Non-bargaining Plan	3.39%	2.50%	(0.89%)
SPS Bargaining Plan	3.58%	2.84%	(0.74%)
PSCo Bargaining Plan	3.58%	2.83%	(0.75%)
All Pension Plans Combined	3.49%	2.71%	(0.78%)
Nonqualified Pension	3.33%	2.47%	(0.86%)
Post-Retirement Medical Plan	3.47%	2.65%	(0.82%)
Workers Compensation and LTD[2]	3.46%	2.53%	(0.93%)
Merrill Lynch Corporate (AA-AAA) 15+ Bond Index	3.16%	2.47%	(0.69%)
10-Year Treasuries	1.92%	0.93%	(0.99%)
30-Year Treasuries	2.39%	1.65%	(0.74%)

1 Based on Willis Towers Watson BOND:Link model. The December 31, 2020 results are based on the bond model parameters summarized in our December 18, 2019 memo.

2 Fiscal year 2021 budget estimates will use a discount rate of 2.53% until 2021 census data is available to determine actual discount rate for 2021 cost

Xcel Energy Inc.
2021 Expected Return on Assets (EROA) Analysis[1]

Modeled Asset Class[2]	Willis Towers Watson October 1, 2020 Capital Market Assumptions[2] 10-Yr Arithmetic Returns	20-Yr Arithmetic Returns	30-Yr Arithmetic Returns	2021 Target Asset Allocations XEPP	PSCO	SPS	NCE	MPT	VEBA (Includes EIS Allocation)[3]
Large Cap Stocks	8.39%	8.48%	8.41%	20.0%	18.0%	18.0%	20.0%	18.9%	2.2%
Small Cap Stocks	8.60%	8.75%	8.73%	2.0%	1.5%	1.5%	2.0%	1.9%	1.1%
All US Stocks	8.52%	8.57%	8.46%	0.0%	0.0%	0.0%	0.0%	0.0%	6.5%
International Stocks	8.91%	8.91%	8.80%	9.0%	8.0%	8.0%	9.0%	8.6%	0.0%
Emerging Market Stocks	11.55%	11.61%	11.62%	5.5%	5.0%	5.0%	5.5%	5.2%	5.2%
High-Yield Bonds	3.50%	4.54%	5.10%	4.5%	4.0%	4.0%	4.5%	4.5%	6.1%
Emerging Market Debt	4.54%	5.60%	6.16%	8.0%	8.0%	8.0%	8.0%	8.2%	5.5%
Hedge Fund of Funds	4.97%	5.50%	5.80%	3.5%	3.0%	3.0%	3.5%	3.1%	8.5%
Private Equity	13.31%	13.35%	13.34%	5.0%	5.0%	5.0%	5.0%	5.0%	0.0%
Private Credit[4]	3.50%	4.54%	5.10%	2.5%	2.5%	2.5%	2.5%	2.5%	0.0%
Real Estate	5.92%	5.94%	5.94%	5.0%	5.0%	5.0%	5.0%	5.0%	0.0%
Aggregate Bonds	1.17%	2.43%	3.16%	0.0%	0.0%	0.0%	0.0%	0.0%	60.8%
Long High Quality Bonds[5]	1.78%	3.39%	4.36%	23.5%	27.0%	27.0%	23.5%	25.0%	0.0%
25-Year Zero Coupon Bonds[5]	-0.90%	2.16%	3.99%	9.5%	11.0%	11.0%	9.5%	10.1%	0.0%
Cash Equivalents	1.37%	2.08%	2.52%	2.0%	2.0%	2.0%	2.0%	2.0%	4.1%
Total				100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

	XEPP	PSCO	SPS	NCE	MPT	VEBA
Expected Geometric Portfolio Returns (before administrative expenses)						
WTW - 10-year - passive	4.86%	4.49%	4.49%	4.86%	4.70%	2.84%
WTW - 20-year - passive	5.67%	5.41%	5.41%	5.67%	5.56%	3.67%
WTW - 30-year - passive	6.08%	5.86%	5.86%	6.08%	6.00%	4.17%
Expected 2021 Administrative Expenses[6]	-0.22%	-0.20%	-0.20%	-0.24%	-0.21%	-0.08%
2020 EROA Assumption	7.10%	6.50%	6.75%	6.90%	6.87%	4.50%
Increase/(Decrease) from Asset Allocation change (20-year basis)	-0.31%	-0.27%	-0.27%	-0.31%	-0.30%	0.00%
Increase/(Decrease) in WTW Model Returns from 2020 (20-year basis)	-0.27%	-0.32%	-0.32%	-0.27%	-0.27%	-0.52%
Decrease/(Increase) in Administrative Expenses from 2020	0.04%	0.29%	0.03%	0.31%	0.14%	0.00%
Combined Changes from 2020	-0.54%	-0.30%	-0.56%	-0.27%	-0.43%	-0.52%
2021 EROA Assumption Selected by Xcel Energy[7]	**6.60%**	**6.35%**	**6.35%**	**6.60%**	**6.49%**	**4.10%**
Change in EROA assumption	-0.50%	-0.15%	-0.40%	-0.30%	-0.38%	-0.40%

[1] All returns are net of investment expenses, and assume passive investments (i.e., do not include alpha)
[2] See Willis Towers Watson Expected Return Estimator U.S. Capita Market Assumptions as of October 1, 2020 for more details
[3] EIS portfolio allocations baseed on information received from Xcel Energy on October 22, 2019
[4] Private credit modeled as high-yield bonds
[5] Immunizing portfolio allocated between long high quality bonds and 25-year zero coupon bonds based on information received from Xcel Energy on October 29, 2019
[6] ASC 715 expected return assumption is net of administrative expenses as these are paid from plan assets. Expected administrative expenses equal annualized amounts paid through September 2019 plus expected changes in PBGC premiums. VEBA assumption is a high-level estimate. See estimated 2021 administrative fee details exhibit for more information.
[7] See Xcel Energy assumption memo for more information on the assumption selection process and additional information considered.

XCEL ENERGY INC. - Qualified Pension Plans
Cost by Legal Entity
($ in Thousands)

EXHIBIT I
Page 2 of 6

2022	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	Settlement Charge [1]	Aggregate Cost Compensation Method	Aggregate Cost 20-year Amortization Method	January 1 Prepaid (Accrued)	Contribution	PBO
Xcel Energy Pension Plan (XEPP)												
Discontinued Operations[2]	-	1,955	(4,293)	-	3,188	850	-	N/A	N/A	39,165	1,937	76,154
Xcel Energy Nuclear	5,768	2,875	(6,306)	(214)	672	2,795	-	2,962	2,913	(6,867)	2,875	113,047
NSP - MN	23,032	20,852	(45,682)	179	28,076	26,457	-	21,710	21,354	324,382	21,068	828,522
NSP - WI	5,113	3,822	(8,385)	(24)	4,225	4,751	-	N/A	N/A	44,828	3,827	150,478
Xcel Services[3]	26,412	18,283	(40,111)	(985)	13,966	17,565	-	N/A	N/A	110,522	18,280	718,819
XEPC (former EMI)	-	13	(29)	-	7	(9)	-	N/A	N/A	35	13	515
Total XEPP	60,325	47,800	(104,806)	(1,044)	50,134	52,409	-	24,672	24,267	512,065	48,000	1,887,535

[1] Settlement accounting may be required if lump sum benefit payments exceed the sum of service cost and interest on a plan by plan basis. No settlements have been estimated at this time.
[2] Includes NRG, BMG, Viking, Natro Gas, Utility Engineering, Seren, Quixx, Crockett, QPS and MEC
[3] Includes Eloigne

Assumptions

Discount Rate - U.S. GAAP	
XEPP	2.65%
NCE	2.50%
SPS	2.84%
PSCo	2.83%
Discount Rate - Aggregate Normal Cost	6.60%
Salary Scale	3.75%
Expected Return on Assets	
XEPP	6.60%
NCE	6.60%
SPS	6.35%
PSCo	6.35%
Assumed Mortality Table	
Bargaining Participants	Pri-2012 Blue Collar, as adjusted for 2019 Xcel Energy mortality study, projected with generational mortality improvements using an adjusted SOA MP-2020 methodology
Non-bargaining Participants	Pri-2012 White Collar, as adjusted for 2019 Xcel Energy mortality study, projected with generational mortality improvements using an adjusted SOA MP-2020 methodology

See June 4, 2021 letter for additional information on data, assumptions, methods, models and plan provisions.
Contributions are allocated based on PBO for each legal entity.

XCEL ENERGY INC. - Postretirement Benefits
U.S. GAAP Cost Estimates by Legal Entity
($ in Thousands)

EXHIBIT III
Page 2 of 6

2022	Service Cost	Interest Cost	Amortizations: Expected Return on Assets	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	January 1 Prepaid (Accrued)	Contribution
Discontinued Operations[1]	-	160	(66)	(88)	47	53	(3,711)	570
Xcel Energy Nuclear	9	26	-	95	(11)	119	(1,145)	24
NSP - MN[2]	160	1,692	(70)	(3,014)	1,516	284	(33,476)	5,913
NSP - WI	40	305	(9)	(337)	283	282	(5,584)	935
PSCo	682	10,137	(15,434)	(2,316)	3,339	(3,592)	69,196	-
SPS[3]	812	956	(1,728)	(425)	(730)	(1,115)	(11,392)	-
Xcel Services[3]	34	722	(7)	(278)	710	1,181	(11,656)	1,527
XEPC (former EMI)	-	1	-	-	(4)	(3)	(108)	1
Total Xcel Energy	1,737	13,999	(17,314)	(6,363)	5,150	(2,791)	2,124	8,970

[1]Includes NRG, BMG, Viking, Natrogas, Cheyenne, Quixx and UE.

[2]Includes Eloigne and Seren.

[3]Includes Executive Life Insurance benefits.

Assumptions

Discount Rate	2.65%	
Expected Return on Assets	4.10%	
Medical Trend	Pre-65	Post-65
Initial (2021)	5.50%	5.00%
Ultimate	4.50%	4.50%
Year Ultimate Reached	2026	2026

Assumed Mortality Table

Bargaining: PriH-2012 Blue Collar headcount-weighted table adjusted for Xcel Energy mortality study, projected with generational mortality improvements using an adjusted SOA MP-2020 methodology.

Non-bargaining: PriH-2012 White Collar headcount-weighted table adjusted for Xcel Energy mortality study, projected with generational mortality improvements using an adjusted SOA MP-2020 methodology.

Contributions for PSCo and SPS are assumed equal to the net cost, but not less than zero. Contributions for other legal entities are assumed equal to the expected benefit payments.
See June 4, 2021 letter for additional information on data, assumptions, models, methods, and plan provisions.

Xcel Energy Inc. - LTD and Workers' Compensation Benefit Cost Estimates by Legal Entity ($ in Thousands)

Fiscal Year Ending	2020	2021	2022	2023	2024	2025	2026
U.S. GAAP	Actual	Actual	Budget	Budget	Budget	Budget	Budget
Discount Rate- Workers' Compensation	3.41%	2.53%	2.53%	2.53%	2.53%	2.53%	2.53%
Former NSP - Workers' Compensation [1]							
MN/SD	707	355	160	148	137	128	119
MI/WI	(46)	117	2	2	3	1	1
Subtotal	661	472	162	150	140	129	120
Former NCE - Workers' Compensation [1]							
Colorado - PSCo	95	59	29	28	27	26	23
Deductible States - Workers' Compensation							
Deductible States - SPS (KS, OK, NM, and TX)	-	-	-	-	-	-	-
Total Xcel Energy Workers' Compensation	**756**	**531**	**191**	**178**	**167**	**155**	**143**
Discount Rate - LTD Income	3.41%	2.53%	2.53%	2.53%	2.53%	2.53%	2.53%
LTD Income							
Discontinued Operations - Cheyenne	(27)	(16)	2	1	-	1	-
Discontinued Operations [2]	93	62	15	13	13	12	11
NSP-MN	516	579	129	122	114	107	99
NSP-WI	(54)	148	28	27	24	23	22
PSCo	177	91	16	14	11	9	7
SPS	79	29	5	3	2	1	-
Utility Engineering	(3)	(2)	-	1	1	1	-
Xcel Services	93	122	5	3	4	3	2
XEPC	-	2	-	-	-	-	-
Total Xcel Energy LTD Income	**874**	**1,015**	**200**	**184**	**169**	**157**	**141**
Total Xcel Energy U.S. GAAP	**1,630**	**1,546**	**391**	**362**	**336**	**312**	**284**

[1] *Results for former NSP states include income replacement and medical benefits as well as reserve for bankrupt insurers. Colorado results include reserve for bankrupt insurers.*

[2] *Includes NRG, BMG, Viking and Natrogas.*

The LTD and Workers' Compensation plan results reflect the final discount rate and 2021 census data.

See June 4, 2021 letter for additional information on data, assumptions, models, methods, and plan provisions.

Schedule 9
Actuarial Costs
2022 Test Year

	Qualified Pension	Retiree Medical	FAS 112 Long-Term Disability	FAS 112 Workers Compensation
NSPM				
Total Cost from Actuarial Report	21,710,000	284,000	129,000	160,000
Percent to NSPM Gas O&M	8.08%	8.08%	8.08%	7.55%
Amount to NSPM Gas O&M	1,754,037	22,945	10,422	12,083
Percent to State of Minnesota	88.65%	88.65%	88.65%	88.65%
Amount to State of Minnesota	1,554,948	20,341	9,239	10,712
Xcel Energy Services				
Total Cost from Actuarial Report	17,565,000	1,181,000	5,000	
Percent to NSPM Gas O&M	2.59%	2.59%	2.59%	
Amount to NSPM Gas O&M	455,259	30,610	130	
Percent to State of Minnesota	88.65%	88.65%	88.65%	
Amount to State of Minnesota	403,586	27,135	115	
Affiliate Charges	3	-	-	-
Total NSPM Gas O&M, State of Minnesota	**1,958,537**	**47,477**	**9,354**	**10,712**

Northern Sates Power Company Minnesota
Prepaid Pension Asset

Line No		2017	2018	2019	2020	2021	2022
1							
2	**Beginning Asset (Liability) Balance**	129,569,692	154,828,347	183,510,347	195,621,202	208,196,202	209,528,202
3	Recognized Expense	(34,862,000)	(34,465,000)	(34,707,000)	(31,384,000)	(31,811,000)	(24,672,000)
4	Cash Contributions	60,740,655	63,147,000	46,817,855	43,959,000	33,143,000	23,943,000
5	Other	(620,000)					
6	**Ending Asset (Liability) Balance**	154,828,347	183,510,347	195,621,202	208,196,202	209,528,202	208,799,202
7							
8							

9		2022 Test Year												
10		**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**TOTAL**
11	**Beginning Asset (Liability) Balance**	209,528,202	231,415,202	229,359,202	227,303,202	225,247,202	223,191,202	221,135,202	219,079,202	217,023,202	214,967,202	212,911,202	210,855,202	209,528,202
12	Recognized Expense	(2,056,000)	(2,056,000)	(2,056,000)	(2,056,000)	(2,056,000)	(2,056,000)	(2,056,000)	(2,056,000)	(2,056,000)	(2,056,000)	(2,056,000)	(2,056,000)	(24,672,000)
13	Cash Contributions	23,943,000												23,943,000
14	**Ending Asset (Liability) Balance**	231,415,202	229,359,202	227,303,202	225,247,202	223,191,202	221,135,202	219,079,202	217,023,202	214,967,202	212,911,202	210,855,202	208,799,202	208,799,202
15														
16	**Beginning Asset (Liability) Balance**	209,528,202												208,799,202
17	ADIT Percent	-28.00%												-28.00%
18	ADIT Amount	(58,670,201)												(58,466,073)
19	Net Prepaid Pension Asset	150,858,001												150,333,129
20	% to MN Electric	7.30%												7.30%
21	**Actual Total**	11,015,097												10,976,773
22												**2022 Forecast BOY & EOY Average**		**10,995,935**

Schedule 11
2022 Test Year Active Health Care O&M Costs by Category

Allocation Percentages		
Company	MN Gas O&M	MN Gas O&M State of MN
NSPM	8.08%	88.65%
XES	2.59%	88.65%

	NSPM			XES			Totals	
	Total Cost	MN Gas O&M	MN Gas O&M State of MN	Total Cost	MN Gas O&M	MN Gas O&M State of MN	MN Gas O&M	MN Gas O&M State of MN
Misc Benefit Programs & Costs								
Adoption Assistance	2,470	200	177	4,455	115	102	315	279
HR Service Center	34,512	2,788	2,472	823,575	21,346	18,923	24,134	21,395
Communications, Printing & Postage	51,045	4,124	3,656	92,057	2,386	2,115	6,510	5,771
Ergonomists for field workers		-	-	120,000	3,110	2,757	3,110	2,757
Return to Work (STD/LTD)	24,451	1,975	1,751	348,220	9,025	8,001	11,001	9,752
Financial Planning	0	0	0	12,700	329	292	329	292
Cobra Admin Fees	21,094	1,704	1,511	38,042	986	874	2,690	2,385
H&W Audit Fees	15,809	1,277	1,132	28,512	739	655	2,016	1,787
Flex Spending - Admin Fees (HCRA, DCRA, TRA)	-	-	-	-	-	-	-	-
Bus Pass Subsidy	85,000	6,867	6,088	600,000	15,551	13,786	22,419	19,874
Employee Assistance Program	62,730	5,068	4,493	95,273	2,469	2,189	7,538	6,682
Tuition Reimbursement Program	247,993	20,036	17,762	447,242	11,592	10,276	31,628	28,038
STD and LTD admin fees	92,160	7,446	6,601	125,760	3,260	2,890	10,705	9,490
Wellness Clinics / Programs	200,842	16,227	14,385	362,211	9,388	8,322	25,615	22,707
WTW H&W admin fees payable from VEBA trust	124,161	10,031	8,893	223,919	5,804	5,145	15,835	14,038
WTW H&W admin fees not payable from VEBA trust	161,814	13,074	11,590	291,825	7,564	6,705	20,637	18,295
Total Misc Benefit Programs & Costs	**1,124,081**	**90,819**	**80,511**	**3,613,791**	**93,664**	**83,033**	**184,483**	**163,544**
Active Health Care								
VEBA Paid Claims MEDICAL	29,887,441	2,004,730	1,777,187	44,055,889	1,141,864	1,012,259	3,146,593	2,789,446
VEBA Paid Claims PHARMACY	7,713,330	623,190	552,456	9,791,590	253,784	224,978	876,974	777,435
VEBA Paid Claims DENTAL	1,879,754	151,873	134,635	3,217,371	83,390	73,925	235,262	208,559
VEBA Paid Claims VISION		-	-		-	-	-	-
HSA Funding	30,359	2,453	2,174	230,693	5,979	5,301	8,432	7,475
Employee Withholdings	(3,439,220)	(277,868)	(246,329)	(6,784,485)	(175,844)	(155,885)	(453,712)	(402,214)
Pharmacy Rebates	(1,642,264)	(132,685)	(117,625)	(2,793,097)	(72,393)	(64,176)	(205,078)	(181,801)
Administration Fees	1,177,374	95,125	84,328	2,068,959	53,624	47,538	148,749	131,866
Opt-out Funding, Affordable Care Act	4,000	323	286	60,000	1,555	1,379	1,878	1,665
Total Active Health Care	**35,610,774**	**2,467,140**	**2,187,113**	**49,846,920**	**1,291,959**	**1,145,317**	**3,759,099**	**3,332,430**
Life, LTD & Business Travel Ins								
Life Insurance	2,402,953	194,144	172,108	3,182,675	82,490	73,127	276,634	245,236
Life insurance withholdings	(1,919,188)	(155,059)	(137,459)	(2,661,420)	(68,980)	(61,151)	(224,039)	(198,610)
Business Travel Insurance	18,698	1,511	1,339	33,722	874	775	2,385	2,114
LTD insurance premiums	1,896,428	153,220	135,829	2,347,196	60,836	53,931	214,056	189,760
Total Life, LTD & Business Travel Ins	**2,398,891**	**193,816**	**171,817**	**2,902,173**	**75,220**	**66,682**	**269,036**	**238,500**
Total	**39,133,746**	**2,751,775**	**2,439,441**	**56,362,884**	**1,460,843**	**1,295,033**	**4,212,618**	**3,734,473**
Affiliate Charges		1	1				1	1
Grand Total	**39,133,746**	**2,751,776**	**2,439,442**	**56,362,884**	**1,460,843**	**1,295,033**	**4,212,619**	**3,734,474**

Trend Assumptions
Medical

Medical Pharmacy Trend

Medical underwriting trend encompasses several components. It is not solely the price inflation for a given medical service unit. The components found in trend include the following:

- **Unit price inflation**: Annual price inflation for a fixed "market basket" of services
- **Technology and intensity**: The additional cost of newer, more expensive technology and services (advanced imaging, advancements in prescription drugs, etc.).
- **Utilization**: Greater use of medical services over time. Driven by an aging population and the availability of greater medical technology.
- **Cost-shifting**: Typically occurs as a result of costs being held down (fixed fee schedules for government programs such as Medicare and Medicaid) which are passed on to private payers, notably employer-sponsored medical plans.
- **Plan design leveraging (high deductible plans)**: When plans with high member cost sharing (such as deductibles >$1,000) don't periodically increase their fixed cost elements (deductibles, out-of-pocket maximums), they tend to experience a "leveraged" (higher) trend due to medical trend pushing more people above deductibles and out-of-pocket maximums each year.
- **Impact of large claims**: The incidence of large claims in a population is another factor affecting observed trend.

The factors above in large part explain why observed medical trends have exceeded historical CPI increases by a significant margin. Currently, medical trends are still roughly twice the rate of CPI.

Survey data shows that medical cost is expected to rise between 4% and 7% in 2021

1. Pricewaterhouse Coopers medical cost trend: Behind the numbers 2021

- Expected medical and Rx cost increase 6%

https://www.pwc.com/us/en/industries/health-industries/library/assets/hri-behind-the-numbers-2021.pdf

2. Aon Carrier Trend Report

- Expected medical cost increase 7%

https://www.aon.com/unitedkingdom/employee-benefits/resources/whitepapers/2021-global-medical-trend-rates-report.jsp

3. Willis Towers Watson Emerging from the Pandemic Survey

- Expected medical and pharmacy cost increase 4.2%

https://www.willistowerswatson.com/en-US/Insights/2021/02/2021-emerging-from-the-pandemic-survey

Summary

The total cost trend is based on expected cost increases for medical, specialty pharmacy and non-specialty pharmacy as they have different expected cost increases:

- Based on our analysis we expect medical cost trend to be 5% and pharmacy trend in total to be 10%,
  - 10% pharmacy trend is made up of a Specialty pharmacy trend of 13% and a Non-specialty pharmacy trend of 3%
- Each pricing group has a different split of the total cost between medical and pharmacy cost, but we expect the total trend to fall between 5.5% and 6.0%