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Direct Testimony and Schedules  
Ruth K. Lowenthal

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 Electric Service in Minnesota

Docket No. E002/GR-21-630  
Exhibit\_\_\_\_(RKL-1)

**Employee Compensation and Benefits**

October 25, 2021

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**I. INTRODUCTION**

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Q. PLEASE STATE YOUR NAME AND OCCUPATION.

A. My name is Ruth K. Lowenthal. I am the Vice President, Total Rewards for Xcel Energy Services Inc., which is the service company affiliate of Northern States Power Company, a Minnesota corporation (the Company) and an operating company of Xcel Energy Inc. (Xcel Energy).

Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

A. As Vice President of Total Rewards, I oversee the Company's Total Rewards (Compensation, Employee Benefits, and Recognition), Payroll, and HR Operations functions. My statement of qualifications is included as Exhibit\_\_\_(RKL-1), Schedule 1.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. I support the Company's request to recover in electric rates the costs of our employee compensation and benefits, which are elements of the Xcel Energy Total Rewards Program.

Q. PLEASE PROVIDE A SUMMARY OF YOUR TESTIMONY.

A. To provide safe and reliable electric service for our customers, meet their changing needs, and deliver on our vision of providing 100 percent carbon-free electricity by 2050, the Company must be able to attract, retain, and motivate high-quality employees. To help achieve this goal, the Company is requesting recovery of amounts necessary to provide a market-competitive compensation and benefits package to candidates and employees.

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2 The Company uses a market-based approach to compensation, which ensures  
3 our base pay and incentive compensation is set at a competitive level, creating  
4 a program expense that is necessary and reasonable to attract employees in our  
5 industry.

6  
7 Additionally, the Company provides benefits and retirement programs for  
8 employees that are consistent with market practices. While the cost of these  
9 programs generally has an upward trajectory, the Company continuously looks  
10 at ways to manage those rising costs while providing a competitive benefits  
11 package for employees.

12  
13 In summary, we are requesting to recover the necessary and reasonable costs  
14 required to allow the Company to maintain and invest in our employees, so that  
15 they can provide safe and reliable electric service for our customers.

16  
17 Q. HOW IS YOUR TESTIMONY STRUCTURED?

18 A. In Section II, I describe the Total Rewards Program and the components for  
19 which the Company is, and is not, seeking recovery. In Section III, I provide  
20 information about the evolving utility landscape and basic needs of our  
21 workforce. In Section IV, I provide additional information about base pay,  
22 forms of incentive compensation, and the rationale for eliminating compliance  
23 filings and refund requirements associated with incentive compensation. In  
24 Section V, I describe the Company's cost to provide our active employees with  
25 health and welfare benefits. In Section VI, I describe the retirement benefits  
26 the Company offers.

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1 Q. ARE ANY OTHER WITNESSES ADDRESSING ISSUES RELATED TO COMPENSATION  
2 AND BENEFITS?

3 A. Yes. Company witness Mr. Richard R. Schrubbe is providing testimony related  
4 benefit expenses, and Company witness Mr. Benjamin C. Halama describes  
5 adjustments made to the incentive program expenses.

6

7 **II. OVERVIEW OF RECOVERY REQUEST FOR TOTAL REWARDS**  
8 **PROGRAM**

9

10 Q. WHAT ARE THE ELEMENTS OF THE TOTAL REWARDS PROGRAM?

11 A. The Total Rewards Program includes the following components:

12 • *Total compensation* consisting of base pay, the Annual Incentive Program  
13 (AIP), Long-Term Incentive (LTI) Program, and an employee  
14 recognition program.

15 • *Active employee health and welfare programs* primarily consisting of medical,  
16 pharmacy, dental, disability, vision, and life insurance coverage for our  
17 active (as opposed to retired) employees and their families, plus employee  
18 long-term disability and workers' compensation.

19 • *Retiree benefits* consisting of medical benefits for certain retired employees  
20 as we honor our legacy programs for these employees.

21 • *Retirement package* consisting of a defined benefit pension plan and a  
22 defined contribution 401(k) savings plan.

23 I provide a brief overview of each of these components below.

24

25 Q. WHAT IS THE LEVEL OF COSTS THAT THE COMPANY IS FORECASTING FOR THE  
26 2021 BRIDGE YEAR, 2022 TEST YEAR, AND 2023 AND 2024 PLAN YEARS?

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1 A. Table 1 sets forth Total Rewards Program costs on a Minnesota electric basis  
2 for the 2021 bridge year, 2022 test year, and 2023 and 2024 plan years. The  
3 decrease in Qualified Pension is discussed in Mr. Schrubbe’s Direct Testimony.

4  
5 **Table 1**  
6 **Total Rewards Program Costs**

7

<b>Expense Amount for State of Minnesota Electric Jurisdiction O&amp;M (\$000s)</b>					
<b>Type of Benefit</b>	<b>2020 Actual</b>	<b>2021 Bridge Year</b>	<b>2022 Test Year</b>	<b>2023 Plan Year</b>	<b>2024 Plan Year</b>
AIP*	\$23,813	\$23,478	\$24,005	\$24,750	\$25,524
LTI**	\$10,735	\$7,440	\$7,877	\$8,178	\$8,531
Qualified Pension	\$19,782	\$19,488	\$14,791	\$12,149	\$8,403
401(k)	\$9,285	\$9,008	\$9,130	\$9,353	\$9,626
Active Health	\$29,983	\$32,457	\$33,465	\$33,999	\$35,785
Misc. Ben., Life, LTD	\$3,034	\$3,334	\$3,382	\$3,389	\$3,451
Retiree Medical	\$1,031	\$252	\$224	\$1,189	\$1,383
Recognition	\$1,523	\$1,162	\$1,485	\$1,549	\$1,618

8 \* Amount accounts for limitations we have placed on our request for recovery in this case

9 \*\*Environmental and Time-based LTI. Amounts in years 2021-2024 are based on LTI  
10 budgeted grant amounts (100%).

11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21 Q. HAS THE COMPANY HISTORICALLY RECOVERED ITS MARKET-BASED  
22 COMPENSATION EXPENSES?

23 A. The Company has historically under-recovered these expenses. For that reason,  
24 the Company’s request for recovery of certain compensation expenses in this  
25 case varies from that in some of its previous rate cases.

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1 Q. IS THE COMPANY SEEKING TO INCLUDE ALL OF THE NECESSARY AND  
2 REASONABLE COSTS OF THE TOTAL REWARDS PROGRAM IN ITS TEST YEAR COST  
3 OF SERVICE?

4 A. No. We are not requesting rate recovery of the following elements of the Total  
5 Rewards Program:

- 6 • AIP compensation above target level;
- 7 • AIP exceeding capped levels; and
- 8 • Executive LTI compensation related to Relative Total Shareholder  
9 Return (Relative TSR).

10

11 Q. HOW HAS THE COMPANY LIMITED ITS REQUEST TO RECOVER THE COST OF THE  
12 ANNUAL INCENTIVE PROGRAM (AIP)?

13 A. We have limited our request for AIP cost recovery in two ways. First, consistent  
14 with past practice, we are requesting recovery of only the target-level incentive  
15 amount, subject to capping mechanisms. So, if our employees deliver  
16 performance levels beyond their specific goals and the Company performs  
17 better than the established operational goals, our customers receive this added  
18 benefit at no extra cost to customers. Please see the Direct Testimony of Mr.  
19 Halama for a description of this AIP adjustment.

20

21 Second, we are requesting rate recovery of these incentive compensation costs  
22 subject to a cap of 20 percent of aggregate base pay. This would represent an  
23 increase in the cap amount from the current cap of 15 percent of aggregate base  
24 pay. A 20 percent cap continues to implement the Commission's original intent  
25 in capping AIP by excluding recovery of part of the cost of providing incentive  
26 compensation to executives, while allowing recovery of AIP expenses related to



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1 non-executive employees,<sup>1</sup> as discussed in the Findings of Fact, Conclusions of  
2 Law, and Order dated September 29, 1993 and the Order After Reconsideration  
3 dated January 14, 1994 (1992 Case Reconsideration Order) in Docket No.  
4 E002/GR-92-1185 Order.<sup>2</sup> I will discuss this request for a slight increase in the  
5 AIP cap in greater detail later in my testimony.

6  
7 Q. ARE YOU PROPOSING ANY OTHER CHANGES RELATED TO AIP?

8 A. Yes, we are also proposing the elimination of the annual AIP compliance filing  
9 and associated refund requirement. I describe this proposal in greater detail  
10 later in my testimony.

11  
12 Q. ARE YOU SEEKING RECOVERY OF ANY COSTS FOR LTI COMPENSATION?

13 A. Yes. The Company is seeking recovery of “environmental LTI.” The Company  
14 is also seeking recovery of “time-based LTI” for executives and “time-based  
15 LTI with a performance element” for non-executives. This will be described  
16 collectively as “time-based LTI” throughout the remainder of my testimony.  
17 The Company is not seeking recovery for the executive LTI expense of Relative  
18 TSR.<sup>3</sup> I describe the Company’s request for recovery of a portion of LTI in  
19 greater detail later in my testimony.

20  

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<sup>1</sup> The term “executive” will be used throughout my testimony to describe employees in the jobs who are Business Unit Vice Presidents through the Chief Executive Officer. The term “non-executive” will be used throughout my testimony to describe employees in senior management jobs below the Business Unit Vice President-level.

<sup>2</sup>The Commission issued Orders taking the same action with respect to AIP in the 1992 Gas Rate Case, as well. Docket No. G002/GR-92-1186.

<sup>3</sup> In Direct Testimony, Mr. Halama discusses the approximately \$6.7 million adjustment to the cost of service related to LTI costs for Relative Total Shareholder Return.

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1 Q. WHY IS THE COMPANY LIMITING ITS REQUEST IN THE WAY YOU DESCRIBE?

2 A. The Company is limiting its request in an effort to reduce the number of  
3 contested issues in this case. However, the Company maintains that the target-  
4 level AIP expense is both just and reasonable and directly related to competitive  
5 market-based compensation necessary.

6

7 Q. WHY HAS THE COMPANY DECIDED TO MAKE CHANGES TO ITS RECOVERY  
8 PROPOSAL FROM PAST RATE CASES?

9 A. The Company believes that changes in the Company's structure and practices,  
10 as well as the realities of compensation practices in peer companies, warrants a  
11 revisiting of some of the decisions made with respect to recovery of various  
12 compensation components in past rate cases. With this request, the Company  
13 has endeavored to strike a balance between recognizing the Commission's  
14 expressed concerns around recovery of some elements of executive level  
15 compensation with the Company's interest in lessening the gap between the  
16 Company's market-based compensation expenses and the recovery of those  
17 expenses in rates. I provide more detail on the various aspects of the  
18 Company's request later in my testimony.

19

20 **III. BUSINESS MODEL CHANGES AND WORKFORCE NEEDS**

21

22 **A. Changes in the Company's Business Model**

23 Q. PLEASE BRIEFLY EXPLAIN HOW THE COMPANY'S BUSINESS MODEL IS EVOLVING.

24 A. Customers are already expecting more than just reliable and affordable electric  
25 service. They expect their electric utility to provide a broad array of products  
26 and services that meet their specific electricity needs and the ability to  
27 communicate and interact with the Company through a variety of methods. To

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1 meet these expectations, over the next decade we expect significant changes  
2 across all aspects of our business. For example, we will continue to shift our  
3 power generation mix away from fossil fuels toward carbon-free options. We  
4 will continue to adjust our power grid to include more distributed generation  
5 with two-way power flow and implement programs to serve communities'  
6 electric vehicle needs. These changes will impact our workforce.

7  
8 Q. WHAT IMPACT DO YOU EXPECT THESE CHANGES WILL HAVE ON THE  
9 WORKFORCE?

10 A. Our employees will need to develop new skill sets. As we make the changes  
11 described above, the Company will collect, analyze, and make decisions based  
12 upon increasingly larger sets of data. Accordingly, we will need to ensure that  
13 our workforce includes people that are adept at working with data. And,  
14 because we anticipate that many of our professional positions will increasingly  
15 use automated processes to complete certain repetitive tasks, we will need to  
16 fully train our employees to manage those processes to allow them to focus on  
17 higher-value, more consultative work.

18  
19 Where employees were accustomed to fixing things with their hands,  
20 technology will now be more prominent in managing our generation assets.  
21 Our customer service agents will continue to answer phones and solve  
22 problems, but will also need to be equipped to offer more services and engage  
23 with customers in new ways. We will still need field workers that do  
24 construction, maintenance, storm restoration, and the like. But all of our  
25 employees will need to adapt to perform their jobs in a rapidly changing  
26 environment.

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1 Q. PLEASE DESCRIBE THE COMPANY’S EFFORTS AROUND DIVERSITY, EQUITY, AND  
2 INCLUSION (DEI).

3 A. As a leading business in Minnesota, we are committed to the principles of  
4 greater DEI in our company and community. The unrest and protests around  
5 the nation and in our own communities over the past year and a half have only  
6 strengthened our resolve to find ways we can do more to help our employees  
7 and communities heal, recover, and grow. Our former Chief Executive Officer  
8 (CEO), Ben Fowke, joined more than 50 Minnesota executive leaders in 2020  
9 co-signing a letter released by Children’s Minnesota stating their commitment  
10 to “stand united against acts of racism.”<sup>4</sup>

11

12 Additionally, Xcel Energy has added DEI to the Corporate Scorecard to drive  
13 further accountability for progress in that area. As I discuss later in my  
14 testimony, the Corporate scorecard is used to determine the level of AIP  
15 awarded to employees. In addition, Business Unit Vice Presidents and above  
16 are sponsoring and mentoring the development of high-potential employees  
17 who are different from themselves in some identifiable way. We are also  
18 requiring the use of diverse interview panels in our hiring process and measuring  
19 how included our employees feel using our employee engagement survey. We  
20 have also taken steps to strengthen our workforce development function and  
21 build stronger relationships on that front within our communities.

22

23 Q. WHAT OTHER STEPS IS THE COMPANY TAKING TO ADDRESS DEI ISSUES IN ITS  
24 WORKFORCE?

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<sup>4</sup> <https://www.tdworld.com/careers/article/21133193/utilities-respond-to-national-protests-to-reinforce-commitments-to-diversity-and-inclusivity>

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1 A. The company has included three DEI metrics on its corporate score card to  
2 show accountability for DEI in the workplace especially for leaders. The first  
3 metric is our Inclusion Index which is measured by five questions in our  
4 employee engagement survey under the categories of Empowerment,  
5 Belonging, Recognition, Authenticity, Speak Up, and Appreciating Differences.  
6 The second is a requirement around diverse interview panels. Managers are  
7 required to use diverse panels in interviewing for all open positions for which  
8 they are hiring. Thirdly, there is a requirement for the top 35 senior leaders in  
9 the company to participate in an Executive Sponsorship Program in which each  
10 of these executives sponsors an employee in a leadership role in the company  
11 who is diverse from themselves. All three of these initiatives are being measured  
12 on our corporate scorecard.

13

14 Q. ARE THERE ANY OTHER INITIATIVES UNDERWAY AT THE COMPANY THAT  
15 ADDRESS THESE ISSUES?

16 A. The Company has implemented a number of internal initiatives to create and  
17 maintain focus on addressing these issues, as well as programs to provide a voice  
18 for employees to address issues in our community and workforce, such as:

- 19
- 20 • Promoting a variety of business resource groups that support diversity  
21 within the Company, including: Growth and Retention of Women in  
22 Non-Traditional Roles (GROW); Women's Interests Network (WIN);  
23 Women in Nuclear; General Counsel's Employee Excellence and  
24 Equality Committee (GC EEE); Military Ombudsmen for Veterans and  
25 Employees (MOVE); Pride Alliance, an inclusive group supporting  
26 LGBTQ+ employees; Blacks at Xcel Energy (BLAX); Tribal Wind, an  
27 inclusive group supporting Native American employees; and  
XCELENTE, Xcel Energy's Latino Business Resource Group.

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- 1           • Partnering with organizations like the Center for Energy Workforce  
2           Development, and working with our business resource groups, to  
3           ensure that our workforce continues to diversify the same way our  
4           communities are diversifying.
- 5           • Proposing a Workforce Training and Development Program Pilot that  
6           will offer approximately 150 individuals from traditionally under-  
7           represented communities the opportunity to receive hands-on skills  
8           training through an apprenticeship-readiness program, with completion  
9           of the program designed to coincide with the commencement of  
10          construction on the proposed Sherco solar project.<sup>5</sup>
- 11          • Reviewing our talent processes, from recruiting, to performance  
12          management, to succession planning with a focus on eliminating bias.
- 13          • Educating our employees about micro-inequities and unconscious bias.  
14          As an organization that signed onto the CEO Action for Inclusion and  
15          Diversity, we know this is one of the key tenets to helping continue to  
16          drive an inclusive culture.

17          We recognize that an inclusive and diverse workforce is an integral part of who  
18          we are, how we operate, and how we see our future – and we are committed to  
19          continuing the work necessary to achieve our vision.

20  
21          **B.     Labor Market Competition**

22          Q.   PLEASE DESCRIBE THE CURRENT COMPETITION IN THE UTILITY LABOR MARKET.

23          A.   Prospective employees with the specific skillsets and training required for  
24          technical or specialized careers are in high demand, as other utilities share many

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<sup>5</sup> The Pilot is discussed in detail in Docket No. E,G999/CI-20-492 and E002/M-21-558.

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1 of our priorities and needs for talent. There is a limited pool of utility  
2 candidates, and the Company competes for them on a national, regional, and  
3 local basis. Due to the unique nature of many of our highly technical utility  
4 jobs, we need to hire experienced employees who can perform in their roles  
5 immediately upon starting, as opposed to being able to use entry-level  
6 employees who can grow into their roles.

7  
8 Q. PLEASE DESCRIBE THE LABOR MARKET IN MINNESOTA.

9 A. Among the 30 largest metropolitan areas across the country, the Twin Cities  
10 ranks first in number of Fortune 500 firms per capita, according to the  
11 Minnesota Department of Employment and Economic Development.<sup>6</sup> The  
12 18 Fortune 500 companies in the state include some of the world's most  
13 recognized brands and firms, such as 3M, Best Buy, General Mills, Target, and  
14 UnitedHealth Group, with whom we compete for engineering, information  
15 technology, cyber security, accounting and finance, and other skilled employees.

16  
17 The Company also competes for talent with many other large employers that  
18 have a significant presence in Minnesota but are no longer headquartered in  
19 Minnesota, or are privately held and therefore not included on the Fortune 500  
20 list, such as Medtronic, Mortenson Construction, and Cargill.

21  
22 In addition, there are three other investor-owned electric utilities and three  
23 other investor-owned natural gas utilities that serve Minnesota, as well as more  
24 than 40 cooperatives and more than 20 municipal providers who directly  
25 compete with the Company for utility industry talent.<sup>7</sup>

---

<sup>6</sup> See <https://mn.gov/deed/ed/why-mn/mn-companies/> (accessed on July 30, 2021).

<sup>7</sup> See <https://mn.gov/puc/consumers/help/utility/> (accessed on July 30, 2021).

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2 Q. WHAT IMPACT HAS THE REGIONAL AND NATIONAL LABOR MARKET HAD ON THE  
3 COMPANY?

4 A. Minnesota had a 4.0 percent (preliminary) unemployment rate as recently as  
5 June 2021, below the national average of 5.9 percent, according to the U.S.  
6 Bureau of Labor Statistics.<sup>8</sup> The current economic conditions have not  
7 significantly impacted the labor pool in the utility market, where the June 2021  
8 unemployment rate was 5.1 percent, nationally.<sup>9</sup> As the nation emerges from  
9 the pandemic, our employees continue to be committed to serving the needs of  
10 customers as many of them transition from a full-time work from home and  
11 distance learning environment and employers return to full or hybrid in-person  
12 models. Our employees also continue to meet their obligations in other areas,  
13 such as repairs following storm outages. It is crucial that the Company is able  
14 to provide a market-competitive compensation and benefits package that allows  
15 us to compete for the talent necessary to provide safe and reliable electric  
16 service to customers.

17

18

**IV. TOTAL COMPENSATION**

19

20 Q. HOW ARE BARGAINING EMPLOYEES COMPENSATED?

21 A. Bargaining employees are compensated according to their union contracts  
22 negotiated with the Company. These contracts are collectively negotiated with  
23 representation from both parties to ensure elements of the compensation

---

<sup>8</sup> See <https://data.bls.gov/timeseries/LNS14000000> (accessed on July 30, 2021).

<sup>9</sup> See <https://www.bls.gov/web/empsit/cpseea31.htm>.



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1 offering meet the needs of bargaining employees to ensure competitive wages  
2 are delivered through base wage, overtime, and shift premiums.

3  
4 Q. WHAT IS INCLUDED IN THE 2022 TEST YEAR BUDGET FOR BASE WAGE  
5 INCREASES FOR BARGAINING EMPLOYEES?

6 A. A future base wage increase of 2.5 percent is scheduled for January 1, 2022.

7  
8 Q. HOW IS TOTAL COMPENSATION DETERMINED FOR NON-BARGAINING  
9 EMPLOYEES?

10 A. The Company undertakes a comprehensive evaluation process for each non-  
11 bargaining position using external market data obtained from independent  
12 third-party compensation surveys to ensure its non-bargaining employee  
13 compensation levels are comparable to the market. To develop an apples-to-  
14 apples comparison, the Company must first match the job responsibilities of  
15 the Company's positions to the job responsibilities of the positions within other  
16 companies that compete with the Company for employees. After that, the  
17 Company considers data from a variety of surveys, including data for both utility  
18 and non-utility companies.<sup>10</sup> The 50th percentile (that is, the median) is then  
19 used to determine the appropriate pay range for a position.

20  
21 Q. WHAT COMPENSATION COMPONENTS ARE NON-BARGAINING EMPLOYEES  
22 ELIGIBLE TO RECEIVE?

23 A. Non-bargaining employees are eligible for a compensation package that may  
24 include the following:

---

<sup>10</sup> If the Xcel Energy position is unique to the utility industry, Xcel Energy may restrict its comparison to only the utility-specific data in the surveys.

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- 1           • Base pay;
- 2           • AIP;
- 3           • LTI compensation; and
- 4           • Recognition awards.

5           The respective compensation components vary by employee. However, while  
6           the components of compensation vary, the total compensation for each  
7           position is targeted at the median of the market, with each non-bargaining  
8           employee receiving 100 percent of the market-based compensation, on average,  
9           relative to his or her job.

10  
11   Q.   WHY DO THE COMPENSATION COMPONENTS VARY BY EMPLOYEE?

12   A.   The eligibility for particular components of compensation varies depending on  
13       whether a given non-bargaining employee is considered “non-exempt” or  
14       “exempt” under the Fair Labor Standards Act (FLSA). The FLSA defines non-  
15       exempt employees as those paid on an hourly basis who may receive overtime.  
16       Non-exempt employees are generally eligible for base pay, overtime, and  
17       recognition awards. The FLSA defines exempt employees as those who receive  
18       a salary. In our compensation program design, exempt employees are eligible  
19       for base pay and various types of incentive compensation depending on their  
20       job in the Company.

21  
22   Q.   ARE THE TOTAL COMPENSATION PACKAGES STRUCTURED THE SAME FOR ALL  
23       NON-BARGAINING EMPLOYEES?

24   A.   No. Non-exempt employees, as described above, receive their total  
25       compensation through base pay. Exempt employees receive a portion of their  
26       market-based level of total compensation as incentive. Non-bargaining, exempt  
27       employees are eligible to receive AIP, and a subset of exempt employees are

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1 also eligible to receive LTI. Regardless of the structure of each employee's  
2 compensation, however, each employee's total compensation, including base  
3 pay and incentive, is designed to reach that employee's market-based level of  
4 total compensation.

5  
6 The Company's competitive market-based compensation program design is  
7 similar to that of other employers the Company competes with for employees.  
8 This design reflects an intentional decision to align compensation opportunities  
9 with an employee's level of responsibility and influence on the Company's  
10 operations and results.

11  
12 The compensation structure for all non-bargaining employees is designed to  
13 provide a total compensation package based on the market-competitive  
14 compensation levels and components necessary to attract, retain, and motivate  
15 employees at varying levels.

16  
17 Q. WHAT COSTS FOR COMPENSATION OF NON-BARGAINING EMPLOYEES HAS THE  
18 COMPANY INCLUDED IN THE 2022 TEST YEAR AND 2023 AND 2024 PLAN YEARS?

19 A. The components of compensation included are base pay, AIP, a portion of LTI  
20 (Environmental and Time-based LTI), and our Recognition programs. In  
21 combination, these components compensate and recognize employees at a level  
22 that is consistent with the market median for most employees. I will describe  
23 each of them in the following subsections.

24  
25 **A. Base Pay**

26 Q. HOW ARE BASE PAY AMOUNTS ESTABLISHED FOR NON-BARGAINING  
27 EMPLOYEES?

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1 A. Base pay is one component of total compensation. After an appropriate pay  
2 range is determined, as I described earlier, the components of the total  
3 compensation package are broken up among base pay, AIP, and LTI. As I  
4 discussed previously, non-exempt non-bargaining employees receive all of their  
5 compensation through base pay (with the exception of certain recognition  
6 programs, which I discuss below). Exempt non-bargaining employees will have  
7 a portion of their compensation delivered through base pay, with the remainder  
8 of their compensation provided as incentive. The proportion of base pay to  
9 total compensation, therefore, largely depends on the individual non-bargaining  
10 employee's position in the Company.

11  
12 Q. HOW DOES A NON-BARGAINING EMPLOYEE EARN AN ANNUAL BASE PAY  
13 INCREASE?

14 A. Managers determine the annual base pay increase to award based on an  
15 employee's performance, position in the pay range (an indicator of market), and  
16 comparisons to other employees in the same or similar jobs. These  
17 determinations reflect the Company's philosophies of providing market-  
18 competitive compensation and paying for performance.

19  
20 Because annual base pay increases are based on these factors, some employees  
21 may earn less than the budgeted increase or no increase at all, while some  
22 employees may earn more than the budgeted increase percentage. This process  
23 allows the Company flexibility to make determinations about particular jobs and  
24 employees while remaining within the budget limits. However, on average, the  
25 Company tends to increase overall compensation levels consistent with the  
26 amount budgeted.

27

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1 Q. HOW DOES THE COMPANY DETERMINE THE ANNUAL BUDGET FOR BASE PAY  
2 INCREASES?

3 A. For non-bargaining employees, we initially budget for annual base pay increases  
4 on a five-year, forward-looking basis. Each year, we refine the budget using our  
5 current workforce information (including attrition and attraction estimates) and  
6 each employee's base pay at that time. We then calculate the budgeted annual  
7 base pay increase for the following five years using target percentage values that  
8 are based on several factors, including:

- 9 • Review of external market surveys regarding base pay increases;
- 10 • Comparison of compensation of non-bargaining employees to potential  
11 or negotiated wage increases for our bargaining employees;
- 12 • Economic conditions; and
- 13 • Company performance.

14  
15 By balancing these considerations, we develop a budgeted annual base pay  
16 increase that allows us to meet our hiring and retention challenges while being  
17 fair and reasonable to our employees and customers.

18  
19 For bargaining unit employees, the general wage increases are part of the  
20 negotiation process and are included in the collective bargaining agreements.

21  
22 Q. DOES THE BUDGET INCLUDE PTO?

23 A. Yes. We do not carve out the costs of PTO separately for rate recovery. PTO  
24 is included as a component of an employee's base pay and therefore is in the  
25 base pay cost.

26

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1 Q. WHAT IS INCLUDED IN THE 2022 TEST YEAR AND 2023 AND 2024 PLAN YEAR  
2 BUDGETS FOR BASE PAY INCREASES FOR NON-BARGAINING EMPLOYEES?

3 A. We included the costs budgeted for providing non-bargaining employees with  
4 2022 annual base pay increases equal to a 3.0 percent increase in base pay. Based  
5 on recent trends, we anticipate base pay will continue to rise at approximately  
6 3.0 percent in 2023 and 2024, as well.

7

8 Q. HOW WAS THE BUDGET CALCULATED FOR THE 2022 TEST YEAR AND 2023 AND  
9 2024 PLAN YEARS?

10 A. We used the headcount and base pay in effect as of May 2021 and applied a 3.0  
11 percent increase to those values for each respective year.

12

13 Q. WHY IS A THREE PERCENT BASE PAY INCREASE FOR NON-BARGAINING  
14 EMPLOYEES APPROPRIATE?

15 A. The Company regularly compares its total cash compensation levels, base pay  
16 increases and programs to those of other companies, including other utilities  
17 and non-utilities. Surveys demonstrate that a three percent increase in base pay  
18 is comparable to what the market has been projecting recently. In particular,  
19 five different survey sources<sup>11</sup> projected 2021 base pay increases to fall within  
20 the following ranges:

- 21       • 3.1 - 3.7 percent for all utilities on a national basis; and  
22       • 3.0 - 3.6 percent for all companies on a national basis.

23

---

<sup>11</sup> WorldatWork “2020-2021 Salary Budget Survey”; The Conference Board “2020 Salary Increase Budget Survey Results; Willis Towers Watson, “2020 General Industry Salary Budget Survey”; Mercer “2020/2021 US Compensation Planning Survey Report”; and Aon Hewitt “2020 Salary Increase and Turnover Study-United States.”

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1 These independent surveys include a comprehensive representation of many  
2 companies, both in the utility and general industry. Using numerous salary  
3 increase survey sources provides us with reliable, broad-based data on the salary  
4 increase trends in the market. We may see higher pay increases in the near  
5 future, as the labor market has opened new opportunities and non-traditional  
6 work arrangements, such as work-from-anywhere. These types of opportunities  
7 will create challenges for companies to maintain a workforce in an environment  
8 that has typically required on-site staffing.

9  
10 Q. DOES BASE PAY ALONE PROVIDE COMPENSATION THAT IS COMPETITIVE WITH  
11 THE MARKET FOR THE COMPANY'S EXEMPT, NON-BARGAINING EMPLOYEE  
12 POPULATION?

13 A. No. If base pay alone were compared to total compensation levels, it would lag  
14 significantly. It is only with incentive compensation that the Company's  
15 compensation levels reach a competitive market rate needed to keep and attract  
16 this group of incentive-eligible employees.

17  
18 By designing compensation to include both base pay and incentive components,  
19 the Company can ensure that its total cash compensation levels are comparable  
20 to the market and, thus, that those costs are set a reasonable level.

21  
22 **B. Annual Incentive Program**

23 Q. PLEASE DESCRIBE THE COMPANY'S AIP.

24 A. The Company's AIP is a form of incentive compensation offered to exempt,  
25 non-bargaining employees, subject to certain requirements regarding dates of  
26 employment. Please see Exhibit\_\_\_\_(RKL-1), Schedule 4 for AIP documents  
27 for 2019 – 2021.

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2 Q. PLEASE EXPLAIN THE ROLE OF INCENTIVE COMPENSATION COMPONENTS IN A  
3 WELL-DESIGNED TOTAL COMPENSATION DESIGN.

4 A. Rather than having a single component of compensation, base pay, leading to  
5 100 percent of employee total compensation, current job market compensation  
6 design models include incentive components of compensation. Inclusion of  
7 these incentive components has become more prevalent over the years. While  
8 the value of 100 percent of employee compensation does not change,  
9 companies include incentive opportunity in their compensation design models  
10 to ensure employees remain focused and engaged with their work. Incentive  
11 compensation can be a smaller component for some employees and a significant  
12 component of compensation for other employees, however the goal remains  
13 the same – getting employees to necessary and reasonable target-level total  
14 compensation to remain competitive.

15

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

18 A. Yes. The use of incentive compensation by employers is a standard practice  
19 throughout the United States. According to the 2020 Willis Towers Watson  
20 Compensation Study of investor-owned utility companies, provided as  
21 Exhibit\_\_\_(RKL-1), Schedule 2, 100 percent of companies in both the national  
22 sample and the revenue-based sample maintain an annual incentive plan.

23

24 Q. WHY DO YOU BELIEVE THE USE OF INCENTIVE COMPENSATION IS SO COMMON?

25 A. I believe the widespread use of incentive compensation is due to two  
26 fundamental benefits: (1) it promotes superior employee performance; and (2)  
27 it reduces fixed labor costs.



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2 Q. HOW DOES INCENTIVE COMPENSATION PROMOTE SUPERIOR EMPLOYEE  
3 PERFORMANCE?

4 A. Incentive pay aligns compensation with results and positively affects  
5 performance when employees see the connection between their performance  
6 and their pay.<sup>12</sup> In particular, for incentive compensation to be effective, it must  
7 be possible for the incentive amount to be reduced or eliminated, resulting in  
8 below-market cash compensation when an employee fails to meet performance  
9 metrics. This structure motivates employees to perform at a higher level  
10 because they are compensated at their competitive market-level for doing so.

11

12 Q. HOW DOES THE COMPANY'S AIP PROMOTE SUPERIOR PERFORMANCE FROM  
13 EMPLOYEES?

14 A. Providing safe, reliable electric service to our customers is the Company's most  
15 important objective. Our AIP program directly aligns Company objectives and  
16 customers' interests by awarding incentive compensation when employees, and  
17 the Company as a whole, achieve goals regarding safety, reliability, and overall  
18 customer satisfaction.

19

20 Q. HOW DOES INCENTIVE COMPENSATION REDUCE FIXED LABOR COSTS?

21 A. The use of incentive compensation reduces labor costs by lowering the base pay  
22 amount to which annual escalation rates are applied. For example, if a non-  
23 bargaining employee's total compensation were \$80,000 in year one and all of  
24 the compensation were in the form of base pay, a 3.0 percent base pay increase

---

<sup>12</sup> See [http://www.shrm.org/hrdisciplines/compensation/articles/pages/cms\\_005592.aspx](http://www.shrm.org/hrdisciplines/compensation/articles/pages/cms_005592.aspx).

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1 would lead to a base pay increase of \$2,400 in year two and a new base pay of  
2 \$82,400.

3  
4 In contrast, customers benefit if total compensation is structured with base pay  
5 and 20 percent incentive compensation opportunity (variable pay) to reach total  
6 compensation. In this example, a base pay of \$66,700 with a target-level payout  
7 of 20 percent would reach the market-based total compensation of \$80,040.  
8 The difference between base pay and total compensation would need to be re-  
9 earned annually through AIP. Additionally, unlike the fixed cost described  
10 above when total compensation is delivered in base pay, the 3.0 percent base  
11 pay increase would lead to an increase of \$2,001 in year two ( $\$66,700 + 3.0\% =$   
12  $\$2,001$ ) and a new base pay of \$68,701. Thus, by moving a portion of each  
13 employee's pay from base pay to incentive pay, the Company reduces overall  
14 fixed labor costs (base pay) by avoiding the compounding effect of annual base  
15 pay increases on the higher base pay amount, as noted in Figure 1 below.

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**Figure 1**

**Example Fixed Cost and Variable Pay (AIP)**

	<b>Total Compensation without AIP</b>	<b>Total Compensation with AIP</b>
<b>Competitive Market Median Total Compensation</b>	<b>\$80,000</b>	
Fixed Cost - Base Pay	\$80,000	\$66,700
AIP Target Opportunity	0%	20%
AIP Paid at Target-level Performance	\$0	\$13,340
<b>Total Compensation</b>	<b>\$80,000</b>	<b>\$80,040</b>
Base Pay Increase (3.0%)	\$2,400	\$2,001
<b>Fixed Cost plus Base Pay Increase</b>	<b>\$82,400</b>	<b>\$68,701</b>

Furthermore, fixed costs associated with base pay affect a variety of benefit-related expenses, such as 401(k) match, life insurance premiums, long-term disability premiums, and short-term disability expenses. If total compensation were provided through base pay at 100 percent, the additional fixed costs would correspondingly increase benefit-related expenses. In contrast, variable pay expenses associated with incentive compensation do not affect all benefit expenses, and variable pay may fluctuate from year to year. These factors, along with prorated awards and eligibility requirements for payout, also contribute to incentive design savings.

In summary, by utilizing base pay and incentive components in the compensation program, the Company reduces costs for our customers, while offering employees market-based, target-level total cash compensation.

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1 Q. DO YOU BELIEVE IT IS APPROPRIATE TO RECOVER AIP COSTS IN RATES?

2 A. Yes. AIP is an essential component of total compensation for our exempt, non-  
3 bargaining employees. First, if we were to rely on current base pay alone,  
4 excluding the value of AIP, the Company's compensation levels would be well  
5 below market levels of total compensation. This would negatively impact the  
6 Company's ability to attract, retain, and motivate employees. Second, raising  
7 employee base pay to make up the difference to market-based total  
8 compensation creates an immediate impact on fixed costs and additional  
9 expense related to associated benefits, as described above. This would increase  
10 rates by solidifying higher fixed costs impacting compensation of several  
11 benefits that are calculated using base pay. Finally, including the AIP  
12 component in compensation design is a market competitive best practice for  
13 companies to reach total cash compensation levels for employees.

14

15 *1. AIP Expense*

16 Q. WHAT IS THE AIP EXPENSE IN THE 2022 TEST YEAR AND 2023 AND 2024 PLAN  
17 YEARS?

18 A. For the State of Minnesota, Electric Jurisdiction, the AIP costs included in the  
19 stated years are as follows: 2022 test year, \$27.7 million; 2023 plan year, \$28.7  
20 million; and 2024 plan year, \$29.7 million.

21

22 Q. THE COMPANY IS REQUESTING RECOVERY OF TARGET LEVEL AIP PAYOUT.  
23 WHAT HAPPENS WHEN THE COMPANY PAYOUT IS GREATER THAN 100 PERCENT  
24 IN AN AIP PERFORMANCE YEAR?

25 A. When payout levels are greater than 100 percent, it indicates that the Company  
26 employees have achieved higher than expected performance results. However,  
27 the Company limits its requested recovery to the target level (*i.e.*, 100 percent).

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1 As a result, in such situations, customers continue to receive the benefit of  
2 exceptional service and employees performing at levels higher than the  
3 established goal targets without paying anything additional. This has been the  
4 case in each of the last three years, as shown in Table 2 below.

5  
6 Q. DOES THE COMPANY TEND TO PAY OUT OVER OR UNDER TARGET BUDGET FOR  
7 AIP?

8 A. Our budgeting process, which sets the 100 percent target level, has historically  
9 resulted in AIP budgets lower than the actual level of AIP paid. (See Table 2  
10 below.)

11  
12 **Table 2**  
13 **NSPM Budgeted versus Actual AIP\***

14

15 <b>Year</b>	<b>100% Target (Budget) AIP (\$000s)</b>	<b>Actual AIP (\$000s)</b>	<b>Amount Recovered in Rates Based on Cap Calculation</b>
16 2018	\$30,436	\$32,420	\$19,805
17 2019	\$30,418	\$31,982	\$19,993
18 2020	\$28,426	\$30,831	\$20,428
19 2021 Bridge Year	\$29,555	TBD	TBD
20 2022 Test Year	\$29,489	TBD	TBD
21 2023 Plan Year	\$30,487	TBD	TBD
22 2024 Plan Year	\$31,533	TBD	TBD

23 \*Includes electric and gas jurisdictions

24  
25 In light of the Company's conservative budgeting process and taking into  
26 account the Company's proposed 20 percent cap on AIP, the Company's AIP

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1 expense recovery will almost certainly be lower than the amount the Company  
2 actually pays out to AIP eligible employees.

3  
4 2. *Structure of the Company's AIP*

5 Q. WHICH EMPLOYEES ARE ELIGIBLE TO PARTICIPATE IN THE AIP?

6 A. The AIP applies to all exempt, non-bargaining employees, subject to certain  
7 restrictions related to employment dates. An employee must be employed by  
8 October 1 of a particular year to be eligible for a prorated year-end portion of  
9 the AIP compensation for that program year. With limited exceptions, a person  
10 must also be actively employed by the Company on the date that the year-end  
11 award payments are made in order to receive an incentive award.<sup>13</sup>

12  
13 Q. IS THE AIP AN EMPLOYEE "BONUS?"

14 A. No. This is a misconception. If the goals are achieved and AIP is paid at target,  
15 the employee's compensation for that year is *just then* meeting market levels.  
16 Anything less than 100 percent of the full AIP amount (target payout) generally  
17 puts the employee at a compensation level below what other companies and  
18 utilities are paying, as detailed elsewhere in my testimony. The Company's AIP  
19 is a market-based incentive program with written goals and measurements  
20 related to the payout. It is a crucial component of the Company's market-based  
21 compensation system.

22  
23 Q. PLEASE DESCRIBE HOW THE EMPLOYEE EARNS AIP.

24 A. Each eligible employee has a targeted annual incentive opportunity expressed  
25 as a percentage of base pay. The employee receives the incentive for

---

<sup>13</sup> The exceptions are involuntary termination with severance, retirement, death, disability, or qualified leave of absence.

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1 achievement related to pre-determined individual performance goals and for the  
2 Company's achievement of Corporate Key Performance Indicators (KPIs).

3  
4 The percentage of base pay (AIP target percentage) is determined by third-party  
5 market data and the employee's position within the organization. When AIP is  
6 combined with the employee's base pay, the sum of these delivers a market-  
7 competitive level of total cash compensation. If an individual employee has  
8 failed to meet the employee's agreed-upon goals for the year, he or she may not  
9 receive an incentive award, regardless of corporate performance.

10  
11 Employees are also eligible to earn an award through the "I Deliver" and  
12 "Innovator" programs, which are addressed later in my testimony.

13  
14 Q. PLEASE DESCRIBE THE CORPORATE KPI COMPONENTS OF THE 2021 AIP.

15 A. Each year, Xcel Energy develops a Corporate scorecard that identifies certain  
16 priorities for the year. In 2021, for example, the Corporate KPIs are focused  
17 on four priorities: (1) leading the clean energy transition; (2) enhancing the  
18 customer experience; (3) keeping bills low; and (4) promoting safety and  
19 reliability. As shown in Figure 2, those four priorities resulted in six Corporate  
20 KPIs for the year:

21

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**Figure 2**

**2021 Corporate Scorecard**

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

13 Q. WHAT DO THESE 2021 CORPORATE GOALS MEASURE?

14 A. The Customer Satisfaction goal measures the satisfaction of residential  
15 customers, using the Company’s year-over-year results from the J.D. Power  
16 Customer Satisfaction Survey. The Public Safety goal measures how quickly the  
17 Company responds to situations to reduce hazards and maintain service  
18 reliability. The SAIDI (System Average Interruption Duration Index) goal  
19 measures the reliability of the power the Company provides to customers. The  
20 Employee Safety goal focuses on maintaining a safe-work mentality and injury-  
21 free work environment and is measured using questions on employee sentiment  
22 towards safety culture in the Glint Employee Engagement Survey. The DEI  
23 goal measures success in attracting, retaining, and engaging diverse  
24 talents. Finally, the Wind Availability goal measures the availability of wind  
25 assets and their ability to generate energy when the wind is blowing.



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1 Q. IS THE AIP CORPORATE SCORECARD FOR 2021 REPRESENTATIVE OF THE  
2 SCORECARDS XCEL ENERGY EXPECTS TO USE ON A PROSPECTIVE BASIS?

3 A. Yes. The Company will continue to be customer-focused by driving operational  
4 and cost efficiencies to deliver safe and reliable electric service to our customers.  
5 Although the specific KPIs and measures may change to reflect specific  
6 objectives from year to year, the safety of the communities we serve and our  
7 employees along with the provision of reliable service and outstanding customer  
8 service, will continue to be our core priorities.

9

10 Q. HOW DOES THE ACHIEVEMENT OF A KPI LEAD TO AN AIP AWARD?

11 A. An employee can receive a portion of their AIP based on the year-end  
12 measurement on each of the Corporate KPIs, calculated on the employee's  
13 specific breakdown of corporate versus individual goal achievement. For  
14 example, if the corporate portion of the AIP is 30 percent of the overall target  
15 amount for an employee, each target met at 100 percent would equate to three  
16 or six percent of the overall total payout for this employee, as each 2021 KPI is  
17 weighted at 10 or 20 percent.

18

19 Q. PLEASE TURN NOW TO THE INDIVIDUAL COMPONENT OF THE AIP AND EXPLAIN  
20 HOW THAT IS EVALUATED.

21 A. The purpose of the individual component is to focus an employee on individual  
22 goals and to reward that employee for his or her achievement of those goals.  
23 Including an individual component allows managers to recognize and reward  
24 employees based on their levels of contribution and performance, consistent  
25 with Xcel Energy's pay-for-performance philosophy. Most employees have an  
26 individual goal weighting between 60 percent to 90 percent of the overall target  
27 opportunity. Each manager has discretion to determine the year-end individual

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1 component award within a range of 0 to 150 percent based on the employee's  
2 contributions and performance during the year, while remaining within their  
3 budget.

4  
5 Q. HOW DOES THE AIP DESIGN REFLECT THE COMPANY'S PAY-FOR-  
6 PERFORMANCE PHILOSOPHY?

7 A. The Company's long-standing pay-for-performance philosophy further  
8 correlates rewards with work expectations, behaviors, and performance,  
9 creating an even greater distinction between typical and exceptional work.  
10 Consequently, those employees who are performing below their respective  
11 target level will receive a lower AIP payout or no payout. This philosophy  
12 serves to motivate higher performance, set clearer expectations, and recognize  
13 and drive continuous improvement. We believe practicing greater pay  
14 differentiation and spending our compensation resources strategically will help  
15 motivate employees and raise performance levels.

16  
17 Q. DOES THE COMPANY MONITOR ITS AIP DESIGN TO DETERMINE WHETHER IT  
18 SHOULD MAKE IMPROVEMENTS?

19 A. Yes. The Company regularly examines its compensation programs to determine  
20 whether the programs are effectively motivating employees and meeting  
21 competitive levels of compensation, including the AIP component.

22  
23 Q. HAS THE COMPANY MADE ANY DESIGN CHANGES TO THE COMPENSATION  
24 PORTION OF THE TOTAL REWARDS PROGRAM SINCE ITS 2015 RATE CASE?<sup>14</sup>

25 A. Yes. We changed the structure of the AIP program in 2017.

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<sup>14</sup> Docket No. E002/GR-15-826.

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2 Q. IN WHAT WAYS HAS THE COMPANY CHANGED THE AIP DESIGN?

3 A. Prior to 2017, AIP compensation was based upon performance in three areas:  
4 Corporate, Business Area, and Individual. In 2017, Xcel Energy redesigned the  
5 program by assigning more weight to the Individual performance area and  
6 eliminating the Business Area component. As a result, the Individual  
7 performance component is the most consequential for most employees eligible  
8 for AIP. This change created a clearer “line of sight” between an employee’s  
9 individual performance and the employee’s AIP compensation. This means  
10 most employees earn the majority of their incentive compensation based on the  
11 successful completion of individual goals that are written with the Corporate  
12 KPIs as their focal point. Furthermore, the addition of the I Deliver and  
13 Innovator programs, which I discuss below, allow leaders to reward employees  
14 during the program year, rather than only at the end of the year. This design  
15 change allowed more flexibility without increasing the expense of the program.

16

17 Q. PLEASE EXPLAIN THE I DELIVER AND INNOVATOR PROGRAMS.

18 A. The Company added the “I Deliver” and “Innovator” awards to the AIP in the  
19 2017 performance year. An employee can earn one or more of these awards by  
20 delivering greater than expected results for a team or a department, or by  
21 implementing innovative, high-impact solutions or processes that deliver  
22 significant benefits Company wide.

23

24 These awards give leaders a mechanism to reward employees who generate  
25 positive outcomes for customers and Xcel Energy at a time when it would be  
26 most meaningful to the employee rather than waiting for the year-end payout.

27 These award options within the construct of the AIP were designed to address

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1 our changing workforce and their expectation for real-time recognition of their  
2 accomplishments.

3  
4 Payments from these two elements of the AIP are separate from the year-end  
5 incentive compensation payouts, but do not result in additional AIP expenses  
6 because they are included in the overall market-based AIP budget. Xcel Energy  
7 sets a portion of this budget aside to allow for these real-time awards.

8  
9 Q. IS AN EMPLOYEE'S ANNUAL INCENTIVE COMPENSATION TARGET OPPORTUNITY  
10 STILL EXPRESSED AS A PERCENTAGE OF BASE PAY?

11 A. Yes. The employee's incentive target opportunity continues to be a percentage  
12 of base pay.

13  
14 Q. DID THE TARGET-LEVEL AIP COSTS CHANGE IN LIGHT OF THE 2017 AIP  
15 DESIGN CHANGES?

16 A. No. As described previously, the target-level AIP costs continue to be  
17 calculated using the individual target opportunity levels of incentive pay in the  
18 market.

19  
20 *3. AIP Recovery Cap*

21 Q. WHY IS THE COMPANY PROPOSING TO CHANGE THE AIP RECOVERY CAP FROM  
22 THE 15 PERCENT THAT HAS BEEN IN PLACE FOR MANY YEARS TO 20 PERCENT IN  
23 THIS RATE CASE?

24 A. The Company is proposing to raise the cap on AIP cost recovery from 15  
25 percent to 20 percent to move recovery of compensation closer to the amount  
26 the Company spends on market-based total cash compensation. In the 2015  
27 Rate Case, the Company agreed to cap AIP cost recovery at 15 percent of

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1 aggregate base pay in order to limit disputed issues. Capping AIP recovery at  
2 that level, though, has created a situation in which we are continually, and  
3 materially, not recovering reasonable and necessary employee compensation  
4 expenses. The current cap limitation does not align with our obligation to  
5 attract, retain, and motivate employees by compensating them competitively to  
6 provide safe and reliable electrical service to our customers. This situation is  
7 not sustainable nor is it representative of recovering just and reasonable O&M  
8 expenses.

9  
10 Maintenance of a 15 percent cap will impact the Company's recovery of  
11 compensation costs for over 250 non-executive employees, including non-  
12 management individual contributors. The market-based incentive pay  
13 component of total cash compensation for these jobs is targeted at 20-45  
14 percent of these employees' base pay. The current 15 percent cap removes five  
15 to 30 percent of the AIP target opportunity dollars from the Company's  
16 recovery request for this non-executive group of employees. As I have  
17 previously described, the use of AIP, and the total AIP target opportunity and  
18 associated expense, is necessary to attract and retain these employees in our  
19 competitive job market and, therefore, it is necessary to recover a greater  
20 portion of these target-level expenses going forward to address the under-  
21 recovery that has resulted from the 15 percent cap.

22  
23 Q. ARE YOU AWARE OF OTHER EXAMPLES OF MINNESOTA UTILITIES RECOVERING  
24 SHORT-TERM INCENTIVE AT LEVELS OVER 15 PERCENT?

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1 A. Yes. In Minnesota Power’s last litigated rate case,<sup>15</sup> the Commission approved  
2 that company’s proposed short-term incentive capped at 20 percent of base  
3 salaries. As the Commission noted, “[p]articularly important is the fact that,  
4 without AIP, Minnesota Power’s total cash compensation for eligible employees  
5 would be below the market rate.” As detailed further below, that is precisely  
6 the Company’s situation at this time.

7  
8 Past levels of Commission-approved short-term incentive compensation have  
9 been even higher. For example, in 2016, the Commission allowed CenterPoint  
10 Energy to recover short-term incentive compensation capped at 25 percent of  
11 base pay.<sup>16, 17</sup> As recently as 2010, the Company received 25 percent AIP in  
12 rate recovery.<sup>18</sup>

13  
14 Q. WHY SHOULD THE COMMISSION APPROVE THE COMPANY’S REQUEST TO  
15 INCREASE THE AIP RECOVERY CAP TO 20 PERCENT?

16 A. The Company should be permitted to recover its reasonable costs associated  
17 with providing electrical service, which include market-based total  
18 compensation. As discussed above, the Company has been under-recovering  
19 its compensation expense for a number of years, in part as a result of caps to  
20 incentive recovery.

21  
22 The vast majority of companies, both in the utility sector and in other sectors,  
23 provide some form of short-term incentive as a component of their total

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<sup>15</sup> Docket No. E015/GR-16-664.

<sup>16</sup> Docket No. G008/GR-15-424.

<sup>17</sup> The recent trend towards setting a 15 percent cap on AIP has largely been the result of settlement, rather than fully litigated rate cases.

<sup>18</sup> 2010 Compliance Filing dated May 31, 2011 in Docket No. E002/GR-92-1185.

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1 compensation. The Company's provision of AIP is market-based and is a  
2 critical component of our market-based total compensation program.

3  
4 Just as job types, responsibilities, and technology have changed in the past 30  
5 years, so have the compensation design structures used to pay a wide variety of  
6 employees. Since the early 1990s, compensation design models have shifted  
7 from base-pay-centric compensation to designs including an increasing  
8 percentage of incentive pay. In the early 1990s, the Company's incentive target  
9 opportunities were eight percent for exempt, non-management, non-bargaining  
10 employees to 13 percent for exempt management, non-bargaining employees.  
11 Today, market-based incentive target opportunities can reach 45 percent for  
12 non-executive jobs. The key consideration here is that, although the percentage  
13 of compensation composed of incentive compensation has increased, the  
14 Company's total cash compensation (base pay plus incentive opportunity)  
15 remains targeted at the market median. The use of incentives is a standard  
16 practice in today's competitive job market, based on a variety of robust third-  
17 party compensation surveys and external consultation.

18  
19 In summary, recovery of short-term incentive costs capped at 20 percent of  
20 base pay moves the Company towards a more reasonable level of recovery for  
21 non-executive employees, although it is still not the full amount necessary to  
22 cover the Company's market-competitive AIP compensation expenses for all  
23 employees. This request represents a reasonable adjustment to reflect changing  
24 compensation models and is in line with past Commission reasoning on this  
25 issue.

26

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1           4.     *AIP Compliance Filing*

2     Q.   WHAT ANNUAL COMPLIANCE OBLIGATIONS DOES THE COMPANY HAVE WITH  
3         RESPECT TO AIP?

4     A.   The annual AIP compliance filing was established by the Commission in the  
5         early 1990s in connection with the Company's 1992 Rate Case. In that case, the  
6         Commission's original Order denied all incentive compensation because it  
7         believed the Company's overall compensation of employees, which was over  
8         105 percent of the market median, was too high and the comparison study  
9         group was "not genuinely comparable." Upon reconsideration, however, the  
10        Commission disallowed only that portion of incentive compensation greater  
11        than 15 percent of base compensation while continuing to limit the recovery of  
12        total compensation to 105 percent of the market median, but established the  
13        compliance filing and refund requirement to ensure customers were not paying  
14        for incentives the Company did not provide to its employees.<sup>19</sup> These  
15        requirements were established early in the Commission's use of future test years  
16        to set rates in part to "prevent erosion of the test year concept."<sup>20</sup>

17  
18        The Company's AIP compliance filing has evolved over the past 25-plus years  
19        to include a variety of explanations, charts, examples and calculations that go  
20        well beyond the requirements described in the Commission's 1992 Case Order  
21        on Reconsideration. The original requirement required the Company to  
22        provide "an accounting of all amounts paid under the plan, all amounts  
23        recorded as earned but not paid, and an evaluation of the plan's success in

---

<sup>19</sup> September 29, 1993 Order and January 14, 1994 Order After Reconsideration, Docket No. E002/GR-92-1185.

<sup>20</sup> January 14, 1994 Order After Reconsideration, Docket No. E002/GR-92-1185.



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1 meeting its stated goals, including controlling overall employee compensation  
2 costs.”

3  
4 The current filing, by contrast, involves participation of five or more  
5 departments to gather, calculate, analyze, draft and review the various elements  
6 of the filing. This is because while all awards are based on the same Corporate  
7 Scorecard, the final award information is not administered in the same manner  
8 for all participants.

9  
10 Q. WHAT IS THE COMPANY PROPOSING WITH REGARDS TO THE YEARLY AIP  
11 COMPLIANCE FILING?

12 A. The Company is proposing eliminating the yearly AIP compliance filing  
13 requirement and any associated reports regarding the AIP once rates have been  
14 established at the conclusion of this rate proceeding. The Company is also  
15 proposing elimination of the AIP refund.

16  
17 Q. WHY IS THE COMPANY PROPOSING THE ELIMINATION OF THE ANNUAL AIP  
18 COMPLIANCE FILING?

19 A. The rationale for the AIP compliance filing set forth in the 1992 Case Order on  
20 Reconsideration has not been revisited over the years. but in that same time the  
21 future test year has become a standardized concept in Minnesota ratemaking,  
22 and compensation practices and the Company itself have evolved and  
23 experienced considerable amounts of change. As I have discussed, AIP is not  
24 a bonus; it is a fundamental component of our market-based compensation  
25 system. It is a crucial component in delivering our employees the appropriate  
26 level of compensation needed to attract and retain those employees. For that

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1 reason, AIP should be treated as any other reasonable, recoverable cost of  
2 operating an electric utility.

3  
4 Q. WHAT IS THE COMPANY'S BASIS FOR THIS PROPOSAL?

5 A. The AIP compliance filing stems from the 1992 Case Order on Reconsideration  
6 described above that was designed to both limit the Company's overall  
7 compensation levels recovered in rates and the portion of that compensation  
8 directed to executives based on incentives, and also to ensure customers rates  
9 do not include incentive compensation that is not paid. Times have changed.  
10 The circumstances that supported the Commission's decision to implement  
11 these requirements in the early 1990s no longer exist. Incentive compensation  
12 has become an increasingly important part of both the Company's and all  
13 similarly situated companies' overall compensation packages, and the test year  
14 concept has proven durable. As discussed above, the Company has historically  
15 spent more on AIP than budgeted. At the same time, the Company agrees that  
16 its recovery of AIP should be limited to the target opportunity level. As a result,  
17 there is very little risk that customers will overpay for compensation in rates.

18  
19 Q. HAS THE COMPANY REPORTED AVERAGE TOTAL COMPENSATION LEVELS  
20 ABOVE 105 PERCENT IN ANY YEAR SINCE THE INCEPTION OF THE YEARLY AIP  
21 COMPLIANCE FILING?

22 A. No. Figure 3, below, shows the data from the Company's 2021 compliance  
23 filing, which compares the sum of employee base pay plus target AIP  
24 opportunity to the base pay and incentive targets found in the job market.

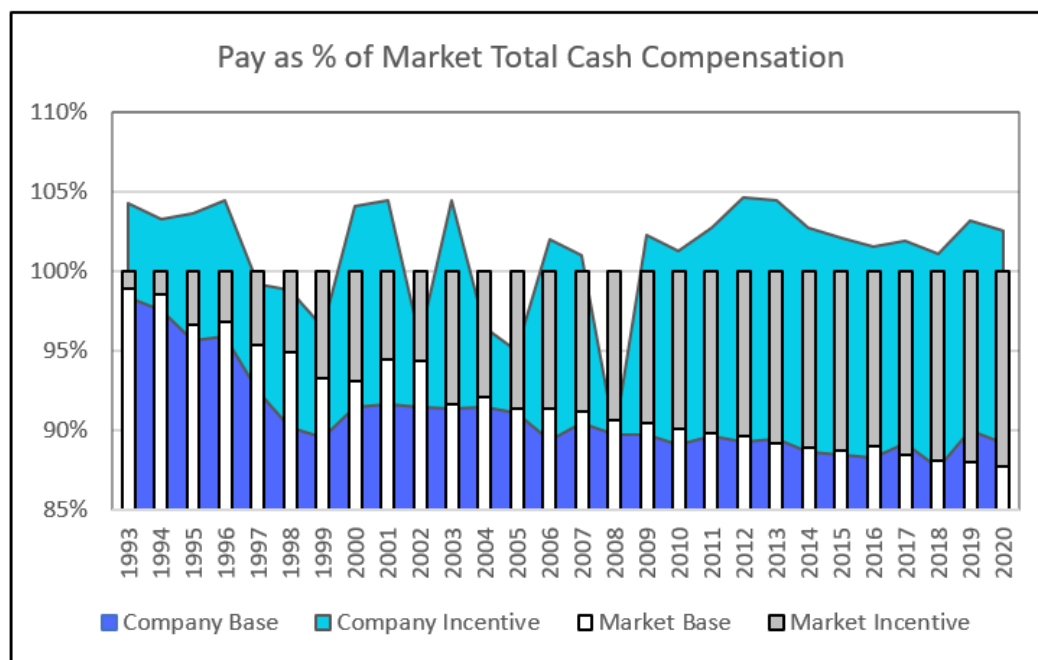
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**Figure 3**

**Xcel Energy Cash Compensation versus Market**



3  
4

5 Q. REGARDING THE AMOUNTS OVER 100 PERCENT FOUND IN FIGURE 3 ABOVE,  
6 ARE CUSTOMERS RESPONSIBLE FOR THOSE AMOUNTS?

7 No. Customers are only responsible for compensation amounts up to the 100  
8 percent (target level). Any incentive amounts above the budgeted target level  
9 are incurred by shareholders.

10

11 Q. SHOULD THE COMMISSION BE CONCERNED THAT THE METHOD BY WHICH THE  
12 COMPANY CALCULATES ITS AIP EXPENSES WILL LEAD TO AN OVER-RECOVERY  
13 OF THOSE EXPENSES?

14 A. No. The Company uses the most current estimations available based on the  
15 number of eligible employees, anticipated known and measurable increases and  
16 target-level (100 percent) performance achievement to estimate AIP expenses.  
17 As shown above in Table 2, the Company has historically paid out more than it

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1 has recovered. The Company's budgeting process, coupled with the proposed  
2 20 percent cap, will function to avoid over-recovery.

3  
4 Q. DO YOU HAVE OTHER CONCERNS REGARDING THE COMPLIANCE FILING?

5 A. Yes. The AIP requirement in our annual compliance filing requires that AIP  
6 payout be compared to each employee's individual AIP target, rather than being  
7 applied in the aggregate. This puts an additional constraint on the Company,  
8 over and above the approved AIP cap amount. This additional calculation has  
9 and will continue to result in a reduction to the Company's recovery of actual  
10 expenses even that imposed by the AIP cap, unless all participants receive full  
11 target payouts. Administering the AIP in this manner, rather than an aggregate  
12 methodology, undermines this performance-based incentive program, because  
13 many individual employees will perform above or below their target levels.

14  
15 If an employee has an AIP target-level equal to the restricted cap, each dollar  
16 related to performance above or below that specific target amount is lost to the  
17 Company through rate recovery. The individual-level AIP calculation has  
18 contributed to the Company's continued under-recovery of this critical  
19 compensation expense, which was approved in customer base rates. In the last  
20 three years (2018-2020 program years), this process has resulted in customer  
21 refunds in the amount of \$5.97 million, see Table 3 below. This amount is in  
22 addition to \$10.7 million of actual AIP expense above the designated AIP cap  
23 the Company did not recover during this same period. In essence,  
24 administering a pay-for-performance compensation program and calculating a  
25 refund at the individual employee level penalizes the Company for effectively  
26 differentiating pay among its incentive-eligible employees. Customers receive  
27 the benefit of the work being accomplished by the Company's employees

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1 throughout the year. However, since employee performance will vary,  
2 customers are currently not required to pay the full incentive for those who are  
3 paid below the current cap with a target of 15 percent nor for the amount of  
4 those exceptional employees who are paid above this cap with a 15 percent AIP  
5 target.

6  
7 **Table 3**  
8 **Comparison of AIP Paid versus Recovery Allowed**  
9 **State of Minnesota Electric Jurisdiction**

AIP Program Year	2018	2019	2020	Total Not Recovered or Refunded
Total AIP Paid (Electric)	\$24,870,532	\$24,605,846	\$24,324,699	
Total Amount Approved in Rates	<u>\$20,589,135</u>	<u>\$21,219,170</u>	<u>\$21,291,285</u>	
<b>Difference (actual)</b>	<b>\$4,281,397</b>	<b>\$3,386,676</b>	<b>\$3,033,414</b>	<b>\$10,701,487</b>
Eligible Based on 15% Cap	<u>\$18,817,638</u>	<u>\$19,124,625</u>	<u>\$19,189,700</u>	
<b>Refund (Based on Cap)</b>	<b>(\$1,771,497)</b>	<b>(\$2,094,545)</b>	<b>(\$2,101,585)</b>	<b>(\$5,967,627)</b>

10  
11  
12  
13  
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16  
17  
18 Figure 4 below, shows a simple example of how the current Compliance Filing  
19 calculation can negatively impact recovery of reasonable compensation that has  
20 been approved through rates. The two employees in this example have the  
21 same base pay and same AIP target opportunity (15 percent, which is the  
22 current AIP cap), but have differing levels of performance during the year. This  
23 pay-for-performance differentiation results in a refund to customers.

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**Figure 4**

**Current AIP Compliance Filing Calculation**

	<b>Employee 1</b>	<b>Employee 2</b>
Base Pay	\$80,000	\$80,000
AIP Target Opportunity %	15%	15%
AIP Target Amount	\$12,000	\$12,000
Amount Approved for Recovery in Rates (AIP Cap at 15% at Target-level)	\$24,000	
AIP Pay-for-Performance % Paid	18%	12%
AIP Pay-for-Performance Amount Paid	\$14,400	\$9,600
Amount Spent on AIP	\$24,000	
Amount Recovered in Rates based on Individual (line-item) AIP Calculation at 15% Cap	\$21,600	
Amount not Recovered and Refunded to Customers	(\$2,400)	

16 Q. WHAT DO YOU CONCLUDE REGARDING THE AIP COMPLIANCE FILING?

17 A. The 1992 Case Reconsideration Order limited the Company's recovery of  
18 incentive compensation by changing the parameters of the plan as eligible for  
19 rate recovery. Since that time, the Company has consistently followed market-  
20 based compensation practices targeting the market median, as noted above and  
21 through over 25 years of compliance filings. The Company is only requesting  
22 recovery of target-level expenses as set forth in the Company's rate case. The  
23 standard the Company has set regarding its compensation program's  
24 development and execution have made the compliance filing exercise obsolete.

25  
26 The Company's AIP expense should be treated in a manner similar to other  
27 program and project expenses, because the Company's budgeted total

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1 compensation, including AIP, is market-based and reasonable. Other  
2 mechanisms (the limit to target levels and the proposed 20 percent cap) assure  
3 that over-recovery will not occur. AIP is a reasonable and appropriate  
4 component of total compensation and should be treated as such in rate  
5 proceedings.

6  
7 **C. Long-Term Incentive Program**

8 Q. PLEASE DESCRIBE THE COMPANY'S LTI PROGRAM.

9 A. The Company offers a long-term incentive program with grants based on: (1)  
10 Total Shareholder Return (relative to our peer group); (2) two forms of  
11 retention, known as "Time-Based;" and (3) environmental activities, which I  
12 refer to as the "environmental LTI." Executives receive LTI based on all three  
13 types, while non-executives receive only one form of LTI, which is time-based.

14  
15 Like the base pay and AIP, the LTI program is intended to attract, retain, and  
16 motivate employees, and it is necessary to ensure compensation levels and mix  
17 are competitive with the external market.

18  
19 LTI differs from AIP and other types of compensation as it is generally granted  
20 to a limited group of employees, including both executives and non-executive  
21 employees. However, like base pay and AIP, LTI is an essential market-based  
22 component of compensation design necessary to achieve a competitive level of  
23 pay for this group of employees.

24  
25 The employees who typically receive LTI tend to have a higher level of influence  
26 on the Company's direction, strategy, and innovation. The leadership and  
27 decisions made by the employees who receive LTI, and the direction and

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1 policies that they put in place, have greater potential to have a significant impact  
2 on our customers. Retaining these experienced employees is critical to  
3 maintaining longer-term focus and leadership to serve the critical service needs  
4 of customers. As a result, it is imperative that the compensation value and  
5 design for these employees are comparable to the options available in the labor  
6 market for employees in similar roles at other companies.

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

9 A. Yes. LTI programs are widely used compensation vehicles for both executives  
10 and non-executive employees, according to the 2020 Willis Towers Watson  
11 study that I discuss in greater detail later in my testimony. One hundred percent  
12 of the companies in the Willis Towers Watson study provided LTI as a  
13 component of pay for their executives, and nearly 75 percent provided LTI to  
14 non-executives. These programs create an incentive for eligible employees to  
15 engage in high-level innovation, planning, and execution that will lead to  
16 customer and environmental benefits over the long term. It also encourages  
17 those employees to remain with the Company to follow through on longer-term  
18 initiatives and projects to receive this portion of their total compensation.

19  
20 Like the necessary and reasonable target-level recovery of AIP for these  
21 employees, target-level recovery of time-based LTI supports a competitive  
22 market-based compensation program to attract, retain, and motivate this group  
23 of employees. Without the inclusion of LTI, this group of employees falls far  
24 short of meeting competitive market compensation levels. As shown by the  
25 market-based information provided by the Willis Towers Watson Study below,  
26 and similar to AIP, LTI is not compensation in addition to market-based



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1 compensation levels, it is a component of compensation that is used to reach  
2 market-based compensation levels for executive and non-executive leaders.

3  
4 Q. IS THE COMPANY SEEKING RECOVERY OF ALL OF THE LTI COMPENSATION PAID  
5 TO ELIGIBLE EMPLOYEES?

6 A. No. The Company is not seeking expense recovery for the relative TSR LTI in  
7 this proceeding, which equates to 54 percent of the LTI grant value in 2020.<sup>21</sup>  
8 The Company is requesting recovery of only the environmental and time-based  
9 LTI.

10  
11 Q. PLEASE GENERALLY DESCRIBE THE ENVIRONMENTAL LTI.

12 A. Xcel Energy is leading the clean energy transition with a goal to reduce carbon  
13 emissions from the Company's electric service from 2005 levels by 80 percent  
14 by 2030, and a longer-term vision to serve our customers with 100 percent  
15 carbon-free electricity by 2050. We are well on our way to achieving our interim  
16 goal, and well ahead of the rest of the industry. The environmental LTI is tied  
17 to achieving this vision and ensures strong environmental stewardship.

18  
19 This compensation component recognizes our commitment to reduced carbon  
20 emissions in line with state policy goals. The state has established the goal of  
21 reducing statewide greenhouse gas emissions from 2005 levels by 15 percent by  
22 2015, by 30 percent by 2025, and 80 percent by 2050.<sup>22</sup> The Company is a  
23 significant contributor to these efforts.

---

<sup>21</sup> More than \$6.7 million from the test year cost of service related to LTI costs for relative Total Shareholder Return have been removed.

<sup>22</sup> Minn. Stat. § 216H.02, subd. 1.

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1 The measurement for the environmental LTI is the reduction in carbon dioxide  
2 emissions below 2005 levels associated with the Company's electric service, as  
3 measured in the third year of a grant cycle. The types of activities that affect  
4 the results are implementing renewable energy resources, promoting energy  
5 efficiency programs, and improving plant operations to reduce carbon output,  
6 among others.

7  
8 Q. IS IT REASONABLE TO GRANT RATE RECOVERY OF LTI COSTS RELATED TO  
9 ENVIRONMENTAL LTI?

10 A. Yes. The Company has set aggressive carbon reduction goals and is an industry  
11 leader. The achievement of the environmental goal directly benefits customers  
12 and the broader public through prudently reducing carbon emissions and their  
13 impact on the environment. Establishing and paying environmental LTI aligns  
14 the long-term incentives of our leadership with these goals and incents our  
15 efforts toward carbon emission reductions.

16  
17 Q. PLEASE GENERALLY DESCRIBE THE TIME-BASED LTI.

18 A. The time-based LTI is used to ensure that eligible employees engage in long-  
19 term planning for the benefit of the Company, and that they remain with Xcel  
20 Energy long enough to implement those long-term plans. Xcel Energy  
21 accomplishes that goal by requiring a three-year vesting period for the LTI  
22 payment. While time-based LTI makes up one of the three LTI grants for the  
23 executive level employees, time-based LTI is the sole form of LTI provided to  
24 eligible non-executive employees.

25  
26 Q. WHAT ARE THE TIME-BASED LTI REQUIREMENTS FOR PAYMENT?

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- 1 A. In order to receive time-based LTI, the employee must remain with the  
2 Company through the vesting period of each associated grant.  
3
- 4 Q. HOW DOES THE THREE-YEAR PERFORMANCE PERIOD AFFECT THE LTI EXPENSE  
5 FOR THE COST OF SERVICE?
- 6 A. LTI expense occurs ratably over a three-year period and, therefore, reflects LTI  
7 plans in effect during each of the three years. Therefore, costs for the 2020,  
8 2021 and 2022 LTI years are included in the cost of service for the 2022 test  
9 year.  
10
- 11 Q. DOES THE TIME-BASED LTI DIFFER BETWEEN NON-EXECUTIVES AND  
12 EXECUTIVES? IF SO, HOW?
- 13 A. Yes. The non-executive time-based LTI payout is based on the end-of-the-  
14 three performance years of Company performance. The actual award earned  
15 and paid is increased or decreased from the target amount based on a  
16 performance goal, which is total shareholder return relative to a peer group for  
17 each individual vesting year. All non-executives receive the same increase or  
18 decrease. Time-based LTI provided to executives does not include this  
19 performance element.  
20
- 21 Q. WHAT AMOUNTS FOR THE LTI PROGRAM ARE INCLUDED IN THE 2022 TEST  
22 YEAR AND 2023 AND 2024 PLAN YEARS?
- 23 A. The respective accrual amounts are as follows in Table 4:

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**Table 4  
Environmental & Time-based LTI (\$000s)  
State of Minnesota Electric Jurisdiction**

<b>Year</b>	<b>Environmental</b>	<b>Time-Based</b>	<b>Combined Total</b>
2018 Actual	\$4,480	\$5,378	\$9,857
2019 Actual	\$3,641	\$6,150	\$9,791
2020 Actual	\$3,569	\$5,847	\$9,416
2021 Bridge Year*	\$2,134	\$5,306	\$7,440
2022 Test Year*	\$2,210	\$5,668	\$7,877
2023 Plan Year*	\$2,218	\$5,960	\$8,178
2024 Plan Year*	\$2,329	\$6,202	\$8,531

\*Amounts at grant level (100%)

- Q. HOW DOES LTI FIT INTO THE BROADER TOTAL REWARDS PROGRAM PICTURE?
- A. The Company can achieve its goal of attracting and retaining employees at higher levels within the Company and Xcel Energy only by offering LTI. The design of the LTI program and the levels of LTI offered to select groups of employees are market-based and require a greater level of commitment from these employees. Without this element of compensation, employees in these eligible positions would not have access to a competitively designed compensation package, the Company would be misaligned with market best practices regarding compensation plan design, as confirmed by the Willis Towers Watson Study (Exhibit\_\_\_\_(RKL-1), Schedule 2), and the Company would be at a great risk of not being able to attract or retain employees in these positions.

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1 Offering 100 percent of compensation to employees at this level through base  
2 pay would result in higher fixed costs for the Company and a negative impact  
3 on customer rates, as base pay is a fixed expense. Conversely, incentive pay  
4 (represented by AIP and LTI) is variable, based on several employee eligibility  
5 requirements and performance measures. If the Company removes these  
6 variable elements, we would also lose the motivational tool that incentive pay  
7 provides, and would not have the ability to vary employee compensation based  
8 on performance of the Company or the employee.

9  
10 **D. Recognition Programs**

11 Q. PLEASE SUMMARIZE XCEL ENERGY'S RECOGNITION PROGRAMS.

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

22  
23 Q. WHAT AMOUNTS FOR THE RECOGNITION PROGRAMS ARE INCLUDED IN THE  
24 2022 TEST YEAR AND 2023 AND 2024 PLAN YEARS?

25 A. The program amounts are as follows in Table 5:  
26

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**Table 5:  
Recognition Expense O&M  
State of Minnesota Electric Jurisdiction**

<b>Year</b>	<b>Recognition Total</b>
2018 Actual	\$1,010,462
2019 Actual	\$1,539,221
2020 Actual	\$1,522,965
2021 Bridge Year	\$1,161,722
2022 Test Year	\$1,484,958
2023 Plan Year	\$1,548,599
2024 Plan Year	\$1,617,991

**E. Compensation Study**

Q. HOW DOES THE COMPANY ESTABLISH THAT ITS COMPENSATION PROGRAMS ARE NECESSARY AND REASONABLE?

A. The Company uses industry-wide third-party compensation studies to benchmark against companies with whom we compete for talent. I have already referenced the independent Willis Towers Watson Compensation Study in my testimony with respect to AIP and LTI.

Q. DOES THE WILLIS TOWERS WATSON STUDY DEMONSTRATE THAT THE COMPANY'S TOTAL REWARDS PROGRAM IS CONSISTENT WITH MARKET VALUES?

A. Yes, the independent Willis Towers Watson Compensation Study demonstrates the reasonableness of the Company's total compensation given the labor market. I provide the 2020 study as Exhibit\_\_\_(RKL-1), Schedule 2.

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

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- 1 A. The 2020 Willis Towers Watson Compensation Study analyzed the following  
2 elements:
- 3 • Xcel Energy’s base salary compared to competitive market total cash  
4 compensation levels;
  - 5 • Xcel Energy’s total cash compensation (base salary + target annual  
6 incentive) compared to competitive market target total cash  
7 compensation;
  - 8 • Xcel Energy’s total direct compensation (base salary + target annual  
9 incentive + long-term incentive) compared to competitive market target  
10 total direct compensation.
  - 11 • Xcel Energy’s annual incentive targets compared to market annual  
12 incentive targets;
  - 13 • Xcel Energy’s long-term incentive targets compared to market long-term  
14 incentive targets; and
  - 15 • Xcel Energy’s level of compensation compared to the median and  
16 average levels of compensation paid by the comparison groups.
- 17
- 18 Q. WHAT COMPARISON GROUPS DID THE 2020 WILLIS TOWERS WATSON  
19 COMPENSATION STUDY USE?
- 20 A. There were two comparison groups. The first group was composed of a large  
21 number of investor-owned utilities across the nation, including utilities both  
22 smaller and larger than Xcel Energy. The second group was composed of  
23 investor-owned utilities similar in revenue to Xcel Energy (51 companies  
24 responded to this survey at the management and professional job levels and 52  
25 companies responded at the executive level).
- 26

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1 Q. ON WHAT INFORMATION IS THE WILLIS TOWERS WATSON COMPENSATION  
2 STUDY BASED?

3 A. Willis Towers Watson conducts surveys from March through May of each year  
4 to gather information about base pay and incentive compensation. The  
5 Company submitted information in effect as of March 2020, in accordance with  
6 the survey's request.

7

8 Q. WHAT WAS THE PERCENTAGE INCREASE REFLECTED IN THE COMPANY'S  
9 SALARY INFORMATION SUBMITTED TO WILLIS TOWERS WATSON AS COMPARED  
10 TO THE PREVIOUS YEAR'S STUDY?

11 A. We provided Willis Towers Watson the pay rates that were in effect as of March  
12 16, 2020, which reflected a 3.0 percent average increase over the pay rates  
13 effective March 2019.

14

15 Q. WHAT WERE THE RESULTS OF THE 2020 WILLIS TOWERS WATSON  
16 COMPENSATION STUDY?

17 A. As shown on Table 6, the 2020 Willis Towers Watson Compensation Study  
18 found that, with the inclusion of AIP, the Company's median total cash  
19 compensation levels are generally in line with other utilities. Without the target-  
20 level AIP, however, the median total cash compensation provided would be  
21 well below the overall utility market and would put the Company at a material  
22 disadvantage in the competition for employees.

23

24 Similarly, our compensation would be below market for executive and non-  
25 executive leadership without the LTI value of total compensation. LTI can be  
26 a significant portion of the compensation package offered to attract, retain, and



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1 motivate this group of employees to design, organize, lead, and manage a large-  
 2 scale public utility.

3 **Table 6**  
 4 **Compensation Study Comparison**

<b>Components of Xcel Energy Compensation</b>	<b>Compared to Base Salaries and Incentives of Utilities with Similar Revenues (Revenue Sample)*</b>	<b>Compared to Base Salaries and Incentives of Utilities Across the Nation (National Sample)</b>
XE Base Salary vs. Market Base Salary	Below Market by 1.1%	Below Market by 0.2%
Base Salary Only (excludes Target AIP)	Below Market by 15.1%	Below Market by 13.4%
Target Total Cash Compensation (Base Salary + Target AIP)	Below Market by 2.0%	At Market
Target Total Direct Compensation (Base Salary + Target AIP + Target LTI)	Below Market by 1.9%	Above Market by 1.9%

17 \* Primary comparison group using median pay components

18  
 19 Q. WHAT DO YOU CONCLUDE FROM THE 2020 WILLIS TOWERS WATSON  
 20 COMPENSATION STUDY?

21 A. The 2020 Willis Towers Watson Compensation Study illustrates that Xcel  
 22 Energy's compensation structure provides a market level of compensation,  
 23 which confirms that the Company's requested compensation expense in the test  
 24 year is appropriate and reasonable. The study also confirms that the target level  
 25 annual incentives provided to employees through the AIP are aligned with those  
 26 for similar positions in the competitive market.

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1 Without the AIP, however, the Company's total cash compensation would lag  
2 its market peers (*i.e.*, large utilities) by 15.1 percent on average, which would put  
3 the Company at a material disadvantage when competing for skilled employees.

4  
5 Additionally, the study confirms that the level of LTI offered to eligible  
6 employees is both in line with the market for utilities of our size and is necessary  
7 compensation for executives and non-executive leadership to reach a market-  
8 competitive level of compensation. The Company is requesting recovery for  
9 the amount related to the environmental grants which have and will continue  
10 to play a part in our energy transition, as well as the time-based grants necessary  
11 to reach the total compensation value for many non-executive leadership  
12 employees.

13  
14 Q. IS THE WILLIS TOWERS WATSON COMPENSATION STUDY THE ONLY STUDY THE  
15 COMPANY RELIES UPON FOR PURPOSES OF BENCHMARKING?

16 A. No. The Company routinely uses a number of additional third-party surveys to  
17 compare its total compensation levels, non-bargaining base pay increases, and  
18 other programs to those of other employers, including utilities and non-utilities.  
19 The compensation study provided with my Direct Testimony was created as a  
20 comparison summary of our compensation levels with those companies in the  
21 electric and gas utility market.

22  
23 Q. HOW SPECIFICALLY DOES XCEL ENERGY USE THIRD-PARTY COMPENSATION  
24 SURVEY DATA?

25 A. We use the compensation survey data to determine the internal pay grade of  
26 our non-bargaining positions. An employee's compensation within the pay  
27 grade range will be individually determined based on several factors, including

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1 experience, skills, and performance. The Company also sets AIP and LTI  
2 compensation targets for eligible positions, based on incentive levels and best  
3 practice compensation design. We obtain refreshed survey data annually to  
4 ensure our base pay structures and incentive opportunities remain competitive  
5 in the market.

6  
7 Q. PLEASE RE-STATE THE MARKET-BASED COMPENSATION DESIGN COMPONENTS  
8 USED TO COMPENSATE THE COMPANY'S NON-BARGAINING EMPLOYEES.

9 A. The Company uses a combination of base pay, AIP, and LTI, as applicable, to  
10 reach the market-based total compensation levels for employees.

11  
12 Q. BASED ON THE WILLIS TOWERS WATSON COMPENSATION STUDY, COULD ONE  
13 REASONABLY CONCLUDE THE COMPANY IS PAYING TOTAL COMPENSATION  
14 RATES AT MARKET COMPETITIVE LEVELS OF BASE PAY, AIP, AND LTI, AS  
15 APPLICABLE?

16 A. Yes.

17  
18 Q. BASED ON THE RECOVERY REQUEST TO LIMIT PORTIONS OF INCENTIVE  
19 COMPENSATION EXPENSES, AIP CAPPED AT 20 PERCENT, AND LTI EXCLUDING  
20 THE RELATIVE TSR EXPENSES, WOULD IT BE REASONABLE TO CONCLUDE  
21 CUSTOMERS ARE NOT BEARING THE FULL BURDEN OF NECESSARY AND  
22 REASONABLE EMPLOYEE COMPENSATION EXPENSES?

23 A. Yes.

24  
25 Q. ARE THERE IMPACTS TO THE COMPANY'S OPERATIONS IF THE COMPANY DOES  
26 NOT RECOVER THE COSTS OF THE TOTAL REWARDS PROGRAM AS REQUESTED?

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1 A. Yes. As I have noted, we make every effort to control the costs of the Total  
2 Rewards Program while seeking to ensure that our compensation and benefits  
3 align with the market for talent. This approach allows us to act in a prudent  
4 business manner while attracting and retaining the skilled employees necessary  
5 to provide safe and reliable service as well as to help propel us into a carbon-  
6 free future.

7

8 With that said, we are under-recovering the necessary and reasonable  
9 compensation and benefits costs needed to attract and retain talent. To the  
10 extent we are not fully recovering the amounts requested, we must go beyond  
11 our cost control efforts and seek to find ways to further reduce compensation  
12 levels in ways that can affect our ability to attract and retain talented employees.  
13 I note, however, that these mitigation measures are not necessarily a dollar-for-  
14 dollar reduction in the compensation areas where we under-recover. Rather,  
15 we seek to find ways to address under-recovery in the least impactful way  
16 possible. Over time, this will negatively impact our ability to meet the  
17 compensation and benefits requirements needed to maintain a qualified  
18 workforce.

19

20 Q. WHAT DO YOU CONCLUDE ABOUT YOUR TOTAL REWARDS PROGRAM COST  
21 RECOVERY REQUEST IN THIS CASE?

22 A. The Company's request is just and reasonable. The Company must incur the  
23 costs of the Total Rewards Program to attract, retain, and motivate the  
24 employees needed to provide safe, reliable and increasingly carbon-free electric  
25 service to our customers. The various elements of compensation comprising  
26 the Total Rewards Program are each competitively aligned with the dollar value  
27 and design found in the utility industry and follow best practices. Additionally,

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1 as I discuss later in my Direct Testimony, the Company continually undertakes  
2 initiatives to align the costs of its compensation and benefits with the overall  
3 marketplace and to reduce costs for our customers. As a result of these efforts,  
4 the costs associated with the Total Rewards Program are comparable to those  
5 incurred by companies across the industry and represent reasonable costs of  
6 providing service to the Company's customers.

7  
8 Q. ON WHAT DO YOU BASE YOUR CONCLUSION?

9 A. As discussed previously in my Direct Testimony, the Company benchmarks its  
10 compensation and health and benefit plans to the industry to determine if it is  
11 paying competitive compensation. The results of these studies indicate that the  
12 Company's compensation is in line with the market median, but only when all  
13 components of compensation are paid at the target level. This demonstrates  
14 not only that our costs are reasonable, but also that our recovery request is  
15 reasonable.

16  
17 **V. HEALTH AND WELFARE PROGRAMS AND COSTS**

18  
19 Q. WHAT DO YOU DISCUSS IN THIS SECTION OF YOUR TESTIMONY?

20 A. I describe the healthcare and welfare programs that the Company offers to  
21 eligible employees.

22  
23 **A. Active Health and Welfare Benefits**

24 Q. WHAT ACTIVE HEALTH AND WELFARE PROGRAMS DOES THE COMPANY OFFER?

25 A. The Company's active health and welfare programs primarily consist of  
26 providing medical, pharmacy, dental, disability, vision, and life insurance  
27 coverage to our bargaining and non-bargaining employees and their families.

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2 Q. PLEASE DESCRIBE THE COMPANY'S MEDICAL AND PHARMACY PLAN FOR  
3 EMPLOYEES AND THEIR FAMILIES.

4 A. The Company offers employees one medical plan option, the High Deductible  
5 Health Plan (HDHP) with a Health Savings Account (HSA), along with  
6 pharmacy coverage. All plan participants are subject to an annual deductible  
7 for either single or family coverage. After a plan participant satisfies that  
8 deductible, the Plan begins to share any additional costs. The HSA is a tax-  
9 advantaged medical savings account that the Company offers to employees to  
10 provide a vehicle for them to save for their out-of-pocket costs under the Plan.

11

12 Q. WHAT IS THE SHARING RATIO AFTER THE DEDUCTIBLE IS MET?

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

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1 combination of 25 percent of the total cost per employee, and 30 percent of the  
2 total cost for non-bargaining dependents.

3  
4 Q. PLEASE DESCRIBE BRIEFLY THE NATURE AND STRUCTURE OF THE OTHER  
5 HEALTHCARE BENEFITS OFFERED TO EMPLOYEES AND THEIR FAMILIES.

6 A. I provide a brief description of the Company's dental and vision plans as well  
7 as the disability benefits and life insurance in Exhibit\_\_\_(RKL-1), Schedule 5.

8  
9 Q. WHAT IS THE REQUESTED LEVEL OF ACTIVE HEALTH COSTS IN THE 2022 TEST  
10 YEAR AND 2023 AND 2024 PLAN YEARS?

11 A. This expense, and our budgeting process for the test year and plan years, are  
12 discussed in Mr. Schrubbe's Direct Testimony.

13  
14 Q. ARE CUSTOMERS BEARING THE ENTIRE COST OF ACTIVE EMPLOYEE  
15 HEALTHCARE?

16 A. No. As I testified earlier, employees are responsible for healthcare costs  
17 through the use of monthly premiums, surcharges for eligible non-bargaining  
18 employees, upfront deductibles, and cost sharing after deductibles have been  
19 met. Bargaining employees cover 25 percent of active healthcare costs for  
20 themselves and dependents; non-bargaining employees cover 25 percent of  
21 active healthcare costs for themselves, and 30 percent for their dependents.

22  
23 Q. WHY IS IT IMPORTANT FOR XCEL ENERGY TO OFFER HEALTH AND WELFARE  
24 BENEFITS FOR EMPLOYEES AND THEIR FAMILIES?

25 A. The active health and welfare benefits that the Company offers to its employees  
26 are important elements of the Total Rewards Program. Without health and  
27 welfare benefits that are comparable to those offered by other utilities and other

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1 companies against which we compete for employees, it would be very difficult  
2 for the Company to attract, retain, and motivate qualified employees, including  
3 current employees with many years of training whose expertise benefits the  
4 Company and its customers. Therefore, the Company and its customers share  
5 an interest in ensuring that the Company is able to offer a competitive package  
6 of health and welfare benefits.

7  
8 Q. WHY IS IT REASONABLE FOR CUSTOMERS TO BEAR PART OF THE COSTS FOR  
9 ACTIVE HEALTH AND WELFARE BENEFITS FOR EMPLOYEES AND THEIR  
10 FAMILIES?

11 A. Large companies, like Xcel Energy, are required by the Patient Protection and  
12 Affordable Care Act to offer full-time employees health insurance. Even before  
13 the passage of this Act, however, the vast majority of large employers offered  
14 their employees health insurance as a standard and expected part of any  
15 employment package. By providing these types of benefits, the Company is  
16 providing a competitive package to attract, retain, and motivate the current and  
17 future employees the Company will need to provide safe, reliable electric service  
18 to customers.

19  
20 Q. PLEASE DESCRIBE PROGRAM DESIGN CHANGES THE COMPANY HAS  
21 IMPLEMENTED SINCE THE COMPANY'S 2015 RATE CASE TO MANAGE THE COSTS  
22 OF THE HEALTH AND WELFARE BENEFITS.

23 A. The Company is always working to control costs without increasing costs to  
24 employees.

- 25 • Contracts with benefit vendors are monitored and renegotiated on an  
26 ongoing basis. These negotiations focus on administrative fee reductions,  
27 better performance guarantees and rebates, and improved discounts on



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1 provider networks. All of these efforts contribute to Xcel Energy’s ability  
2 to minimize rising healthcare costs and benefit administration costs  
3 charged by third parties.

- 4 • We examined emerging benefit designs that would continue to drive our  
5 employees and their covered family members to high quality, cost-  
6 efficient healthcare providers. We also continuously assess programs that  
7 will provide more cost-effective opportunities for employees and help  
8 drive healthy behaviors. For example, we offer a telemedicine or virtual  
9 visit option for routine medical visits, a personalized diabetes  
10 management program for non-bargaining employees, and an online  
11 program to help employees manage stress. These non-traditional visits  
12 with a trained physician or other provider are convenient and provide a  
13 less expensive option for employees and the Company. In addition, the  
14 plan provides lower levels of benefits coverage for using out-of-network  
15 medical providers in order to encourage members to use in-network  
16 providers when possible.

17  
18 Q. HAS THE COMPANY TAKEN OTHER STEPS TO MANAGE THE COST OF HEALTH  
19 AND WELFARE BENEFITS?

20 A. Yes. Here are some examples of program design changes that also help reduce  
21 program costs:

- 22 • Xcel Energy offers a HDHP medical plan to encourage participating  
23 employees to make (1) healthier lifestyle choices; and (2) informed  
24 consumer choices when utilizing healthcare providers;
- 25 • To help mitigate pharmacy costs, Xcel Energy’s pharmacy coverage  
26 mandates that employees fill prescriptions with generic drugs when  
27 available, unless there is medical need to use a brand name;

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- 1           • Effective January 2018, Xcel Energy introduced a monthly surcharge for  
2           non-bargaining employees and spouses and domestic partners who are  
3           tobacco users enrolled in the medical plan. This group of participants  
4           tend to have higher healthcare expenses than non-tobacco users; and
- 5           • Effective January 2017, Xcel Energy introduced a monthly surcharge for  
6           non-bargaining employees for coverage of a spouse or domestic partner  
7           when that spouse or partner’s employer offers medical coverage.

8  
9    Q.   WHAT HAS BEEN THE EFFECT OF THESE CHANGES?

10   A.   These changes have allowed the Company to better manage overall healthcare  
11       costs and the rate at which our costs increase. These changes have helped keep  
12       overall employee contributions to health and welfare benefits low, and the ways  
13       in which our employees access healthcare and consume healthcare services have  
14       improved. For example, we have seen improved use of urgent care facilities as  
15       opposed to hospital emergency room visits for acute injuries and illness, and we  
16       also have a very high rate of generic prescription drug use. This change in  
17       behavior has the potential to mitigate healthcare cost increases for the Company  
18       as well as our employees.

19  
20       Although it is difficult to identify direct savings from these changes, the intent  
21       of the plan modifications was to mitigate cost increases on a long-term basis, in  
22       part by motivating employees to be more cost-conscious consumers of medical  
23       and dental care, and also to live healthier lifestyles. We also know that it can  
24       take time to see cost impacts resulting from program design changes. Based  
25       upon the cost trends discussed in Mr. Schrubbe’s Direct Testimony, it appears  
26       that our efforts to slow the pace of healthcare cost increases are succeeding.

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**VI. EMPLOYEE RETIREMENT PROGRAMS**

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Q. WHAT RETIREMENT BENEFITS DOES XCEL ENERGY OFFER ITS EMPLOYEES?

A. Xcel Energy provides eligible employees the following retirement benefits:

- A defined benefit pension plan, which is also referred to as a “qualified” pension plan;
- A 401(k) defined contribution plan;
- A non-qualified benefits plan, which is the same as the qualified pension plan, but maintains a consistent level of benefit to that of the qualified defined pension benefit for employee wages over the IRS wage limitations in effect. This plan is commonly referred to as a “restoration” plan because it restores to affected employees benefits that would have been provided under the qualified plan but for the limits imposed by the IRS; and
- Retiree medical benefits for certain employees who retired before 2000.

We summarize changes made to the retirement plan in Exhibit\_\_(RKL-1), Schedule 3.

Q. IS THE COMPANY SEEKING RECOVERY OF COSTS ASSOCIATED WITH ALL OF THE RETIREMENT BENEFITS THAT IT OFFERS?

A. No. Although the Company believes that it is appropriate and reasonable to incur these costs as part of operating an electric utility, the Company is not seeking recovery of costs associated with its non-qualified benefits plan in an effort to reduce the number of contested issues in this case. Because the Company is not seeking recovery of these costs, I will not provide additional detail about this plan in my testimony.

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**A. Defined Benefit Plan**

Q. PLEASE DESCRIBE THE COMPANY'S DEFINED BENEFIT PLAN.

A. We offer newly hired employees a five Percent Cash Balance formula, under which the Company contributes five percent of the employee's eligible annual pay into a notional account. This account has interest credited to it annually based on the 30-year Treasury rates. This plan is similar to a savings account or a 401(k) plan, so employees easily understand the plan value. Non-bargaining employees hired prior to January 1, 2012 and bargaining employees hired prior to January 1, 2011 are eligible for the 10 percent Pension Equity Plan (PEP) formula, which results in employees receiving 10 percent of their highest 48 months of consecutive pension eligible earnings per year of service.

Q. WOULD IT BE REASONABLE TO ELIMINATE THE DEFINED BENEFIT PENSION PLAN AND RELY ENTIRELY ON A DEFINED CONTRIBUTION PLAN?

A. No. Our retirement program is cost-effective and helps us manage our workforce appropriately for the following reasons:

- The defined benefit pension plan, along with our defined contribution plan, aligns with our Total Rewards Program strategy to provide a shared responsibility between employee and employer to accumulate retirement assets.
- By providing a pension plan in which the employee can count on a defined amount of retirement benefits, we are able to manage an orderly transition of employees into retirement. This provides Xcel Energy an opportunity to effectively manage our workforce at the end of the employees' careers, appropriately prepare for knowledge transfer, and manage our training and succession planning.

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- 1           • Given the same benefit levels, pension plans can be a less expensive  
2           vehicle for delivering retirement benefits than a defined contribution  
3           plan, in both the short-term and the long-term. That is because the  
4           Company is able to utilize investment earnings to fund future benefit  
5           obligations, which reduces future cash flow requirements. In a defined  
6           contribution plan, those earnings on the Company's contributions  
7           belong to the employee.
- 8           • Studies show more employees, including younger employees, value the  
9           security of retirement benefits.<sup>23</sup>

10

11       **B.     Defined Contribution Plan**

12    Q.   PLEASE DESCRIBE THE COMPANY'S DEFINED CONTRIBUTION PLAN.

13    A.   The Company's defined contribution plan, which is a 401(k) savings plan,  
14       provides an employer contribution equal to a maximum of four percent of an  
15       employee's base pay. The Company matches 50 cents on the dollar up to eight  
16       percent of an employee's contribution. Mr. Schrubbe has outlined the 401(k)  
17       expenses in his Direct Testimony.

18

19       **C.     Retiree Medical Expense**

20    Q.   PLEASE DESCRIBE THE COMPANY'S RETIREE MEDICAL BENEFIT.

21    A.   For bargaining employees who retired prior to 2000 and non-bargaining  
22       employees who retired prior to 1999, the Company provides subsidized medical  
23       and pharmacy coverage at varying levels based on the year in which the  
24       employee retired. Employees who retired after those dates receive access to

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<sup>23</sup> <https://www.willistowerswatson.com/-/media/WTW/Insights/2020/02/GBAS-2019-2020-GlobalReport.pdf> (accessed on August 18, 2021).

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1 medical coverage but are responsible for 100 percent of the cost. Mr. Schrubbe  
2 has outlined the retiree medical expenses in his Direct Testimony.

3  
4 Q. WHY IS IT REASONABLE FOR RETIREE MEDICAL EXPENSE TO BE INCLUDED IN  
5 RATES?

6 A. Our retirees contributed greatly to the success and reliability of our Company  
7 and to the products, services, and infrastructure that our customers use today.  
8 The current expense for retiree medical benefits is a legacy from prior programs.  
9 The Company continues to pursue aggressive benefit designs that manage or  
10 reduce our retiree expenses while fulfilling our obligations to them for their past  
11 service with the Company and to our customers.

12  
13 Q. WHAT DO YOU CONCLUDE REGARDING THE COMPANY'S RETIREMENT  
14 PROGRAM?

15 A. The Company provides a retirement program that is comparable to the relevant  
16 market in which we compete for talent, but it reflects considerable cost savings  
17 as a result of plan changes the Company has been able to achieve through the  
18 measures discussed in my Direct Testimony, while maintaining the ability to  
19 attract and retain employees. Minnesota customers have benefitted from those  
20 changes.

**VII. CONCLUSION**

21  
22  
23  
24 Q. PLEASE SUMMARIZE YOUR TESTIMONY AND RECOMMENDATIONS.

25 A. The Company offers a conservative, yet comprehensive, Total Rewards package  
26 to employees with the goal of providing market competitive levels of  
27 compensation and benefits. The Company follows industry best practices

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1 related to the design and maintenance of its compensation programs. Base pay  
2 and incentives are rooted at the market median pay level, indicating they are  
3 reasonable expenses, which are necessary to attract, retain and motivate our  
4 employees.

5  
6 Similarly, the Company's health and welfare programs provide our employees  
7 with health coverage and retirement options that are comparable in our  
8 industry. These programs support our employees through a variety of life's  
9 stages and situations, which are expected by employees of their employer.

10  
11 Finally, I recommend the Commission approve the Total Rewards expenses  
12 outlined in Table 1 to support the Company in providing customers with the  
13 safe, reliable service and energy they deserve and expect from our Company.

14  
15 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

16 A. Yes, it does.

**Statement of Qualifications**  
**Ruth K. Lowenthal**  
**Vice President, Total Rewards**

I received my Bachelor of Arts degree in Government and Politics from the University of Maryland and my Juris Doctor degree from the University of Maryland School of Law. I also have Certified Compensation Professional and Certified Benefits Professional designations from WorldatWork. I am on the Board of Directors for the American Benefits Council and an advisory Board member for WorldatWork.

My current position with Xcel Energy Services is Vice President, Total Rewards. In my current role, I have responsibility for Employee Benefits for Retirement and Health and Well-Being, Compensation, Payroll, HR Operations, and HR Technology. I provide leadership and have strategic responsibility for designing, developing, and implementing a Total Rewards Program that aligns with other employers with whom the Company competes for employees, and enhances Xcel Energy's ability to attract, motivate, and retain talent at all levels through the organization.

In addition, I am responsible for ensuring that our HR programs and services are administered accurately, cost-effectively, and efficiently. I have been employed by Xcel Energy with growing responsibility since 2011.

Before coming to Xcel Energy Services, I was employed by Target Corporation for twenty years with various positions including Director of Human Resources, Analytics, and Business Intelligence; Director of Human Resources, Strategy; Director of Benefits; and Director of Executive Compensation. Before serving in Target Corporation's Human Resources Department, I was an attorney at Target Corporation. Among other things, I was responsible for directing a team that provided legal counsel to management on a wide range of benefits, compensation, and other business matters including FMLA, ERISA, HIPAA, ADA.



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**Schedule 2 – Willis Towers Watson Study on Competitive Annual  
Incentive and Total Cash Compensation Analysis With Nuclear  
Positions**

The Company has designated Schedule 2 as Not Public information in its entirety as defined by Minn. Stat. § 13.37, subd. 1(b). Because it derives independent economic value from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, Xcel Energy maintains this information as a trade secret pursuant to Minn. Rule 7829.0500, subp 3. Pursuant to Minn. R. 7829.0500, subp. 3, the Company provides the following description of the excised material:

1. **Nature of the Material:** Schedule 2 is a compensation and benefits study prepared by an external consultant.
2. **Authors:** The data was prepared by Willis Towers Watson, an external consulting firm.
3. **Importance:** Schedule 2 is a compensation and benefits study prepared by an external consultant. The information contained in this schedule is not the work product of Xcel Energy, and we are only able to allow its release under the condition that it be protected as trade secret and will not be publicly released.
4. **Date the Information was Prepared:** The information was prepared and given to Xcel Energy in December 2020.

**[PROTECTED DATA BEGINS**

**PROTECTED DATA ENDS]**

**Retirement Program Summary**

<b>Dates</b>	<b>Defined Benefit Plan (Pension)</b>	<b>Defined Contribution Plan (401(k))</b>
Pre-1999	Traditional formula for non-bargaining and bargaining employees	100% match on the first \$900 of employee deferrals
1999/2000	Non-bargaining and bargaining employees had choice between Pension Equity and Traditional formulas  Access to retiree medical only. Retirement Spending Account (RSA) and Social Security Supplement (SSS) added as components to pension plan  Pension Equity formula for all newly hired non-bargaining and bargaining employees	100% match on the first \$900 (currently \$1,400) if under Traditional formula  100% match on the first 3% of employee deferrals plus 50% match on the next 2% of employee deferrals (4% employer contribution based on employee contribution of 5%) if under Pension Equity formula
2007	No change in plan	50% match on first 8% of employee deferrals (4% employer contribution based on employee contribution of 8%)
2008 to 2010	Newly hired bargaining employees had choice between Pension Equity and Traditional formulas	No change in plan
2011	Newly hired/rehired and employees transferring into a bargaining position go into the 5% Cash Balance formula	No change in plan
2012	Newly hired/rehired non-bargaining employees go into the 5% Cash Balance formula	No change in plan
2017	Employees transferring into a non-bargaining position go into the 5% Cash Balance formula	No change in plan
2018	Elimination of Retirement Spending Account for non-bargaining employees  Elimination of Social Security Supplement for non-bargaining employees not meeting retirement eligibility by December 31, 2022	No change in plan



RESPONSIBLE BY NATURE™

## **XCEL ENERGY NON-BARGAINING, EXEMPT EMPLOYEE ANNUAL INCENTIVE PROGRAM**

**Program Year: January 1 – December 31, 2019**

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## INTRODUCTION

Xcel Energy Inc. (individually and collectively with its affiliates and subsidiaries, “Xcel Energy” or “the Company”) offers a market-based total cash compensation package. Your total cash compensation includes your base salary and the opportunity to earn an annual incentive when the Company achieves its goals.

- Base salary is the fixed component of your total cash compensation. Generally it does not change unless you have a change in your job (such as a promotion), change in your status (such as full time to part time), or have a change in pay (such as an earned base pay increase).
- Xcel Energy’s Annual Incentive Program (the “Program”) is the variable component of your total cash compensation.
- Variable compensation is not guaranteed pay as it is subject to achievement of goals, including your own performance, and your contribution to team or company results.

The Program will be in effect from January 1 to December 31, 2019 (the “Program Year”), unless amended to end at an earlier date or terminated. In order for the Program to pay out year-end incentive awards in the Program Year, Xcel Energy must meet certain operating goals and a financial based affordability objective. Your incentive award is primarily based on corporate goal achievement and discretionary based on your individual contributions and performance.

The purpose of this document is to provide a high-level overview of the annual incentive program components and to outline the eligibility and administrative framework of the program. More detailed information regarding the program components can be found in XpressNET under Benefits/Pay/Incentives/Annual Incentive.

## PURPOSE OF THE PROGRAM

Incentive Programs are a variable portion of employee total cash compensation and are directly aligned with the achievement of certain corporate KPIs in addition to your individual contributions and performance.

Xcel Energy uses the Program to align employees’ goals with corporate and business goals, and to recognize and reward employees for results that contribute to the achievement of Xcel Energy’s key performance indicators (or KPIs), including those focused on reliability, our customers and our employees. It is also used to motivate employees to enhance the customer experience, innovate and drive continuous improvement.

The Program also supports the Company’s position as an employer of choice by:

- Offering a market-competitive total cash compensation package;
- Fostering the growth and development of employees; and
- Enabling the Company to attract, retain, motivate and reward employees whose performance and contribution meets or exceeds Company expectations.

**PARTICIPATION**

The Program applies to regular, full and part-time status employees who are exempt, non-bargaining employees.

Newly hired or rehired employees must be actively employed by and working for Xcel Energy prior to October 1 of the Program Year to be eligible to participate in the year-end award portion of the Program for that Program Year.

Participants must also be actively employed by Xcel Energy on the day Program award payments are made in order to receive an incentive award under the program.

- Exceptions to active employment on the date awards are paid include: Involuntary Termination (with severance); Retirement; Death; Disability; or Qualified Leave of Absence.

For additional information regarding participation in the Program, see “Program Administration” beginning on page 7.

**PERFORMANCE COMPONENTS**

The Program for 2019 is based on two performance components, Corporate and Individual:

Level	Component	Timing of Opportunity
Corporate	Corporate Scorecard KPIs include Reliability, Customer and Employee goals. Specific goals are listed on XpressNet at <a href="http://xpressnet/Our Company/Planning and Performance/High Level Scorecards">http://xpressnet/Our Company/Planning and Performance/High Level Scorecards</a>	Year-end
Individual	a) Year-end award individual contributions and performance that can be aligned to your performance goals as determined with your manager*	Year-end
	b) I Deliver Award	Time Relevant
	c) Innovator Award	Time Relevant

\*The year-end Individual opportunity represents the largest portion of an eligible employee’s Individual Component.

**INCENTIVE TARGETS**

Incentive targets are based on salary grade and correspond to varying weights or percentages for the corporate and individual performance components, as shown below.

Salary Plans and Grades <sup>1</sup>			Incentive Target	Components Weights <sup>2</sup>	
Exempt	Engineer	Trader		Corporate	Individual
N, O	--	--	[PROTECTED DATA BEGINS	10%	90%
--	A, B	--			
P, Q	C	001		20%	80%
--	D, E	--		30%	70%
R, S, T	--	002-006			
U, V	--	--		40%	60%
W	--	--			
X	--	--	PROTECTED DATA ENDS]		

<sup>1</sup> Does not represent all salary plans. Other grades will be mapped accordingly. Eligibility for each participant is determined by salary plan or grade as tracked in the Human Resources information systems and not based on job title.

<sup>2</sup> Generally no award will be paid to an employee who was or is on a Performance Improvement Plan (PIP) or was or is part of any other performance improvement or disciplinary process during or after the Program Year. However, managers will have the discretion to provide awards to these employees in situations where the employee has demonstrated sufficient improvement in performance.

The year-end incentive is subject to proration based on an employee's eligible position(s) during the Program Year. For additional information on prorated awards, see page 9.

For an employee on a Developmental (or Rotational) Assignment, his or her annual incentive target percentage is based on the salary grade of the job held prior to accepting the Developmental (or Rotational) Assignment position.

The payout range for achievement of year-end incentive award goals (unless otherwise noted on the scorecard) can be anywhere from zero percent (0%) to one hundred fifty percent (150%), as noted on the following page. In no circumstance will the year-end incentive paid exceed 150% of the employee's year-end incentive opportunity.

There is no maximum payout restriction for the I Deliver and Innovator awards. That could result in an employee earning a total annual incentive payout greater than 150% of their incentive target by earning one or more of these awards based on superior contributions and performance.

**PROGRAM COMPONENTS****Corporate Scorecard – KPI**

The 2019 corporate scorecard goals focus on three priorities: Customer, Reliability, and Employee.

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

\*\*If during the year, an event resulting in an employee fatality occurs in the course of business and the Company has achieved greater than threshold performance for the Days Award, Restricted or Transferred (DART) Recordable Incident Rate, the DART Recordable Incident Rate will be decreased to threshold for purposes of calculating the corporate KPI goal result. If during the year, an event resulting in an employee fatality does not occur and the Company experiences all of the following three conditions:

- 1) No employee has direct personal contact with an energized primary electric system that results in a DART Recordable injury
- 2) No employee experiences an unplanned natural gas ignition while working on company owned equipment that results in a DART Recordable injury
- 3) The Company has achieved greater than threshold performance for the DART Recordable Incident Rate

Then, the DART Recordable Incident Rate will be increased to Maximum for purposes of calculating the corporate KPI goal result.

Results are calculated in this manner:

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

*Results will be rounded to the second decimal.*



## The Individual Component

The purpose of the Individual Component is to focus and reward employees for their individual performance and contribution to team or company results during the Program Year and to motivate them to enhance the customer experience, innovate and drive continuous improvement. The Individual Component is comprised of three separate opportunities: Year-End Award, I Deliver Award and the Innovator Award.

**Year-End Award:** Your manager has discretion to determine your year-end individual component award from within a range of 0% to 150% of your year-end individual opportunity based on your contributions and performance over the Program Year.

Having an individual award range allows management to recognize and differentiate employees based on their level of contribution and performance, consistent with the Company's pay-for-performance philosophy. Differentiation occurs at all levels based on relative contribution and performance as well as the AIP budget available to the business area.

The Year-End Award represents the largest portion of an eligible employee's individual component opportunity.

**I Deliver Award:** Eligible employees or teams can be nominated for an I Deliver award. These awards allow management to provide timely rewards to eligible employees and teams who deliver greater than expected results that have an impact at a team or department level and are linked to supporting the company strategy. The exceptional work should stand out compared to what is expected from the individual in the course of performing his or her job and link to a benefit for our customers. Nominations are reviewed and approved by a designated group of management on a monthly basis.

**Innovator Award:** Eligible employees or teams can be nominated for an Innovator award. These awards provide timely rewards to eligible employees or teams who implement innovative, high-impact solutions or processes that result in measurable savings or significant customer benefits at a company-wide level. All Innovator Award nominations are reviewed and approved by a designated group of management on a quarterly basis.

## FUNDING THE PROGRAM

A prudent element of the Program is making sure the Company has the ability to pay for the annual incentives. Before the year-end award component of the Program will pay, an affordability trigger must be met as described below.

### Earnings Per Share Determines Affordability

An affordability trigger, based on EPS at \$2.55, must be achieved before any year-end award can be paid. The 2019 EPS is based on continuing operations and shall be adjusted to exclude the positive or negative earnings impacts for any one-time, unusual events if the impact of the event exceeds \$20 million on an after-tax basis.

The funding allocated to the I Deliver and Innovator awards are not subject to an affordability trigger.

The Corporate Scorecard results can be multiplied by a funding factor based on EPS. The funding factor is selected by the CEO from an assessment of results and is within the following funding guidelines:

- 50% - 100% for \$2.55 to \$2.60
- 100% - 150% for \$2.61+

In no case will a year-end award payment be greater than 150% of the year-end incentive opportunity. However, an employee could earn a total annual incentive payout greater than 150% of their incentive target if they are nominated and earn one or more I Deliver or Innovator awards during the course of the plan year.

## PROGRAM ADMINISTRATION

<b>Effective date of Program</b>	The Annual Incentive Program covers a performance period of January 1 to December 31, 2019 and becomes effective at the start of that performance period (January 1). This is defined as the Program Year. The scorecard goals, as defined by the KPIs, are communicated to employee participants at or near the start of the performance period.
<b>Approval and Timing of Payment</b>	<p>After the 2019 financial statements are released, the Governance, Compensation &amp; Nominating Committee of the Xcel Energy Inc. Board of Directors will review financial and corporate results. Actual year-end award payments will be made no later than two and a half months following the end of the relevant Program Year.</p> <p>I Deliver and Innovator awards are reviewed and approved by Company management on a periodic basis. Award payments will be made as soon as administratively feasible after awards have been approved.</p>
<b>Form of Payment</b>	<p>Annual incentive awards are paid in cash and payment will be made separately from the normal payment of wages. No deferrals can be made to the 401(k) Retirement Savings Program from annual incentive awards. Eligible employees may defer all or a portion of their year-end awards into the Xcel Energy Deferred Compensation Plan (“DCP,” see descriptions for details on eligibility). In addition, the Company, at its discretion, may allow deductions to be made from year-end incentive payments to Health Savings Accounts (HSA) as allowable under IRS regulations. The Company will deduct all legally required withholdings on cash payments, DCP deferral elections and/or HSA deduction.</p>

**Eligibility**

You must be considered a regular, non-bargaining exempt (full- or part-time) employee of Xcel Energy at any point during the Program Year.

Non-Exempt employees are not eligible for the Year-End and I Deliver awards but are eligible to receive an Innovator Award. Funding for Innovator Awards for non-exempt employees will come from sources outside of the Program.

Bargaining Unit employees, employees considered “temporary” and/or are interns, and independent contractors are not eligible to participate in the Program.

**Status Changes.** If an employee’s status changes from temporary to regular status prior to October 1<sup>st</sup> of the Program Year, the year-end portion of the incentive will be prorated based on the number of days worked after becoming a regular status employee. If the status changes from temporary to regular status after October 1<sup>st</sup>, the employee will not be eligible to participate in the year-end portion of the incentive for that Program Year.

If an employee’s status changes from non-bargaining to bargaining or vice versa, the year-end incentive will be prorated based on the number of days worked in an eligible non-bargaining status.

**Hired or Rehired During Program Year.** New employees hired or rehired during the Program Year must be hired or rehired and actively employed by and working for Xcel Energy prior to October 1 of the Program Year to be eligible to participate in the year-end portion of the incentive for that year.

It is recommended that an employee has completed at least one quarter of employment before being nominated for an I Deliver or Innovator award.

**Employed on Last Day of Program Year and Date of Payment.** You must be an active employee of Xcel Energy on December 31, 2019, and you must have continuous service through the day the year-end incentive award is paid, unless one of the following applies:

- Retirement, death, long-term disability (LTD), Qualified Leave of Absence (unpaid military leave and personal leave), involuntary termination with severance – Eligible for a prorated year-end incentive award based on individual performance during the length of qualifying active service (number of calendar days of service divided by number of calendar days in the Program Year) during the Program Year. Final year-end awards will be calculated and paid at the same time year-end awards are paid to active participants. Deferral and payment elections become null and void.

**Employed on Date of Payment.** You must have continuous service through the date of I Deliver and Innovator awards are paid, unless one of the following applies:

- Retirement, death, long-term disability (LTD), Qualified Leave of Absence (unpaid military leave and personal leave), involuntary termination with severance. I Deliver and Innovator awards will be paid at the same time these awards are paid to active participants.

If you are terminated for any other reason (e.g., voluntary resignation or involuntary termination for cause) during the Program Year, you lose all rights to any incentive through the date of your termination and will receive no award.

Generally no award will be paid to an employee who was or is on a Performance Improvement Plan (PIP) or was or is part of any other performance improvement or disciplinary process during or after the Program Year. However, managers will have the discretion to provide awards to these employees in situations where the employee has demonstrated sufficient improvement in performance.

If you participate in any other Xcel Energy incentive or commission program, or any incentive program established specifically as an alternative to this Program, you are not eligible to participate in the Xcel Energy Non-bargaining Exempt Employee Annual Incentive Program without prior approval. Additionally, I Deliver and Innovator Awards cannot be used to reward employees for actions covered under another type of program or agreement. The SVP of HR and Employee Services or his/her designee will resolve any disputes related to Program participation and administration.

**Calendar Days** All references in this Program booklet to number of calendar days will be based on 365 days in the year (including leap years).

### **Award Proration**

This list contains the most common proration scenarios. As additional situations arise that impact award proration they will be administered consistent with the scenarios outlined below and program administration practices.

Year-end incentive awards for the Program Year are prorated as follows:

- An eligible employee who is hired or who is transferred to/from /between an eligible position(s) during the Program Year is eligible for a year-end award based on the number of calendar days employed in a qualifying position. Award basis (incentive target and salary grade) is described on page 4.
- An eligible employee who retires, dies, qualifies for long-term disability (LTD), takes a leave of absence or is involuntarily terminated with severance is eligible for a year-end award based on the number of calendar days actively employed by Xcel Energy in an AIP eligible position.

- An eligible employee who changes from full-time to part-time status, or vice versa, is eligible for a year-end award based on the period of time within each status. An award range attributable to the full-time service period will be calculated in the same manner as awards are calculated for other full-time employees. In addition, an award range for the part-time service will be calculated in the same manner as other part-time employees. The results of these calculations will be added together and paid as one incentive award.
- An eligible employee who changes salary plans, incentive targets or has an annual salary change will receive a year-end award calculated for each period. The results of these calculations will be added together and paid as one incentive award.
- An employee who voluntarily resigns from Xcel Energy during the Program Year but is rehired and actively working prior to October 1<sup>st</sup> of the Program Year, forfeits any year-end incentive through the date the employee resigned. However, the employee is eligible for a prorated year-end award based on the number of days worked from the rehire date through the end of the Program Year, as long as the employee remains continuously employed through the date the year-end incentive payment is made.

#### **INCENTIVE AWARD PROGRAM RELATED INFORMATION**

- Chief Executive Officer** The Chief Executive Officer (or designee) will have full discretion and final authority to adopt, amend, alter or rescind the Program without advance notice for any reason at his/her sole discretion based upon financial or operating conditions or otherwise.
- No Right to Continued Employment** No individual shall have any claim or right to be granted an award under the Program, and the granting of an award shall not be construed as giving the participant the right of continued employment with Xcel Energy.



RESPONSIBLE BY NATURE™

## **XCEL ENERGY NON-BARGAINING, EXEMPT EMPLOYEE ANNUAL INCENTIVE PROGRAM**

**Program Year: January 1 – December 31, 2020**

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## INTRODUCTION

Xcel Energy Inc. (individually and collectively with its affiliates and subsidiaries, “Xcel Energy” or “the Company”) offers a market-based total cash compensation package. Your total cash compensation includes your base salary and the opportunity to earn an annual incentive when the Company achieves its goals.

- Base salary is the fixed component of your total cash compensation. Generally, it does not change unless you have a change in your job (such as a promotion), change in your status (such as full time to part time), or have a change in pay (such as an earned base pay increase).
- Xcel Energy’s Annual Incentive Program (the “Program”) is the variable component of your total cash compensation.
- Variable compensation is not guaranteed pay as it is subject to achievement of goals, including your own performance, and your contribution to team or company results.

The Program will be in effect from January 1 to December 31, 2020 (the “Program Year”), unless amended to end at an earlier date or terminated. In order for the Program to pay out year-end incentive awards in the Program Year, Xcel Energy must meet certain operating goals and an affordability objective. Your incentive award is primarily based on corporate goal achievement and discretionary based on your individual contributions and performance.

The purpose of this document is to provide a high-level overview of the annual incentive program components and to outline the eligibility and administrative framework of the program. More detailed information regarding the program components can be found in XpressNET under Benefits/Pay/Incentives/Annual Incentive.

## PURPOSE OF THE PROGRAM

Incentive Programs are a variable portion of employee total cash compensation and are directly aligned with the achievement of certain corporate KPIs in addition to your individual contributions and performance.

Xcel Energy uses the Program to align employees’ goals with corporate and business area objectives, and to recognize and reward employees for results that contribute to the achievement of Xcel Energy’s key performance indicators (or KPIs), including those focused on reliability, our customers and our employees. It is also used to motivate employees to enhance the customer experience, innovate and drive continuous improvement.

The Program also supports the Company’s position as an employer of choice by:

- Offering a market-competitive total cash compensation package;
- Fostering the growth and development of employees; and
- Enabling the Company to attract, retain, motivate and reward employees whose performance and contribution meets or exceeds Company expectations.



**PARTICIPATION**

The Program applies to regular, full and part-time status employees who are exempt, non-bargaining employees.

Newly hired or rehired employees must be actively employed by and working for Xcel Energy prior to October 1 of the Program Year to be eligible to participate in the Year-End Award portion of the Program for that Program Year.

Participants must also be actively employed by Xcel Energy on the day Program award payments are made in order to receive an incentive award under the program.

- Exceptions to active employment on the date awards are paid include: Involuntary Termination (with severance); Retirement; Death; Disability; or Qualified Leave of Absence.

For additional information regarding participation in the Program, see “Program Administration” beginning on page 7.

**PERFORMANCE COMPONENTS**

The Program for 2020 is based on two performance components, Corporate and Individual:

Level	Component	Timing of Opportunity
Corporate	Corporate Scorecard KPIs align to the priorities of Enhancing the Customer Experience, Keeping Bills Low, Safety and Reliability. Specific goals are listed on XpressNet at <a href="http://xpressnet/Our_Company/Planning_and_Performance/High_Level_Scorecards">http://xpressnet/Our_Company/Planning_and_Performance/High_Level_Scorecards</a>	Year-end
Individual	a) Year-End Award individual contributions and performance that can be aligned to your performance goals as determined with your manager	Year-end
	b) I Deliver Award	Time Relevant
	c) Innovator Award	Time Relevant

**INCENTIVE TARGETS**

Incentive targets are based on salary grade and correspond to varying weights or percentages for the corporate and individual performance components, as shown below.

Salary Plans and Grades <sup>1</sup>			Incentive Target	Components Weights <sup>2</sup>	
Exempt	Engineer	Trader		Corporate	Individual
N, O	--	--	[PROTECTED DATA BEGINS	10%	90%
--	A, B	--			
P, Q	C	001		20%	80%
--	D, E	--		30%	70%
R, S, T	--	002-006			
U, V	--	--		40%	60%
W	--	--			
X	--	--	PROTECTED DATA ENDS]		

<sup>1</sup> Does not represent all salary plans. Other grades and salary structures will be mapped accordingly. Eligibility for each participant is determined by salary plan or grade as tracked in the Human Resources information systems and not based on job title.

<sup>2</sup> Generally no award will be paid to an employee who was or is on a Performance Improvement Plan (PIP) or was or is part of any other performance improvement or disciplinary process during or after the Program Year. However, managers will have the discretion to provide awards to these employees in situations where the employee has demonstrated sufficient improvement in performance.

The year-end incentive is subject to proration based on an employee's eligible position(s) during the Program Year. For additional information on prorated awards, see page 9.

For an employee on a Developmental (or Rotational) Assignment, his or her annual incentive target percentage is based on the salary grade of the job held prior to accepting the Developmental (or Rotational) Assignment position.

The payout range for achievement of year-end incentive award goals (unless otherwise noted on the scorecard) can be anywhere from zero percent (0%) to one hundred fifty percent (150%), as noted on the following page. In no circumstance will the year-end incentive paid exceed 150% of the employee's year-end incentive opportunity.

There is no maximum payout restriction for the I Deliver and Innovator awards. That could result in an employee earning a total annual incentive payout greater than 150% of their incentive target by earning one or more of these awards based on superior contributions and performance.

**PROGRAM COMPONENTS****Corporate Scorecard – KPI**

The 2020 corporate scorecard goals focus on three priorities: Enhancing the Customer Experience, Keeping Bills Low, Safety, and Reliability.

Priority	Key Performance Indicator	Threshold (50%)	Target (100%)	Maximum (150%)	KPI Weight
Enhance Customer Experience	<b>Customer Satisfaction</b> <i>(JD Power residential survey)</i>	729	741	753	20%
	<b>Wind Deployment</b> <i>(Steel for Fuel)</i>	Capital Variance at +2%	Capital Variance at 0%	Capital Variance at -2%	20%
Keep Bills Low	<b>Employee Safety<sup>1</sup></b> <i>(safety culture)</i>	Declining	Steady/Improving	Significant Improvement	20%
Safety and Reliability	<b>Public Safety</b> <i>(gas emergency response)</i>	90%	95%	99%	20%
	<b>Electric System Reliability</b> <i>(SAIDI)</i>	99	92	85	20%

<sup>1</sup> If, during the year, an event resulting in an employee fatality occurs in the course of business and the Company has achieved threshold or better performance, the KPI result's contribution to the corporate scorecard performance will be decreased to threshold. If, during the year, an event resulting in an employee fatality does not occur and the Company experiences both of the following conditions:

- 1) No employee has direct personal contact with an energized primary electric system that results in a DART Recordable injury; and
- 2) No employee experiences an unplanned natural gas ignition while working on company owned equipment that results in a DART Recordable injury.

Then, if the Company has achieved target or better performance, the KPI result's contribution to the corporate scorecard performance will be increased to maximum. If the Company has achieved results at threshold or better but below target, the KPI result's contribution to the corporate scorecard performance will be increased to target.

Threshold = 82, Target = 86, Maximum = 89.

Results are calculated in this manner:

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

*Results will be rounded to the second decimal.*

## The Individual Component

The purpose of the Individual Component is to focus and reward employees for their individual performance and contribution to team or company results during the Program Year and to motivate them to enhance the customer experience, innovate and drive continuous improvement. The Individual Component is comprised of three separate opportunities: Year-End Award, I Deliver Award and the Innovator Award.

**Year-End Award:** Your manager has discretion to determine your year-end individual component award from within a range of 0% to 150% of your year-end individual opportunity based on your contributions and performance over the Program Year.

Having an individual award range allows management to recognize and differentiate employees based on their level of contribution and performance, consistent with the Company's pay-for-performance philosophy. Differentiation occurs at all levels based on relative contribution and performance as well as the AIP budget available to the business area.

The Year-End Award represents the largest portion of an eligible employee's individual component opportunity.

**I Deliver Award:** Eligible employees or teams can be nominated for an I Deliver award. These awards allow management to provide timely rewards to eligible employees and teams who deliver greater than expected results that have an impact at a team or department level and are linked to supporting the company strategy. The exceptional work should stand out compared to what is expected from the individual in the course of performing his or her job and link to a benefit for our customers. Nominations are reviewed and approved by a designated group of management on a monthly basis.

**Innovator Award:** Eligible employees or teams can be nominated for an Innovator award. These awards provide timely rewards to eligible employees or teams who implement innovative, high-impact solutions or processes that result in measurable savings or significant customer benefits at a company-wide level. All Innovator Award nominations are reviewed and approved by a designated group of management on a quarterly basis.

## FUNDING THE PROGRAM

A prudent element of the Program is making sure the Company has the ability to pay for the annual incentives. Before the Year-End Award component of the Program will pay, an affordability trigger must be met as described below.

### Earnings Per Share Determines Affordability

An affordability trigger, based on EPS at \$2.73, must be achieved before any Year-End Award can be paid. The 2020 EPS is based on continuing operations and shall be adjusted to exclude the positive or negative earnings impacts for any one-time, unusual events if the impact of the event exceeds \$20 million on an after-tax basis.

The funding allocated to the I Deliver and Innovator awards are not subject to an affordability trigger.

The Corporate Scorecard results can be multiplied by a funding factor based on EPS. The funding factor is selected by the CEO from an assessment of results and is within the following funding guidelines:

- 50% - 100% for \$2.73 to \$2.78
- 100% - 150% for \$2.79+

In no case will a Year-End Award payment be greater than 150% of the year-end incentive opportunity. However, an employee could earn a total annual incentive payout greater than 150% of their incentive target if they are nominated and earn one or more I Deliver or Innovator awards during the course of the program year.

## PROGRAM ADMINISTRATION

**Effective date of Program** The Annual Incentive Program covers a performance period of January 1 to December 31, 2020 and becomes effective at the start of that performance period (January 1). This is defined as the Program Year. The scorecard goals, as defined by the KPIs, are communicated to employee participants at or near the start of the performance period.

**Approval and Timing of Payment** After the 2020 financial statements are released, the Governance, Compensation & Nominating Committee of the Xcel Energy Inc. Board of Directors will review financial and corporate results. Actual Year-End Award payments will be made no later than two and a half months following the end of the relevant Program Year.

I Deliver and Innovator awards are reviewed and approved by Company management on a periodic basis. Award payments will be made as soon as administratively feasible after awards have been approved.

**Form of Payment** Annual incentive awards are paid in cash and payment will be made separately from the normal payment of wages. No deferrals can be made to the 401(k) Retirement Savings Program from annual incentive awards. Eligible employees may defer all or a portion of their Year-End Awards into the Xcel Energy Deferred Compensation Plan (“DCP,” see descriptions for details on eligibility). In addition, the Company, at its discretion, may allow deductions to be made from year-end incentive payments to Health Savings Accounts (HSA) as allowable under IRS regulations. The Company will deduct all legally required withholdings on cash payments, DCP deferral elections and/or HSA deduction.

**Eligibility**

You must be considered a regular, non-bargaining exempt (full- or part-time) employee of Xcel Energy at any point during the Program Year.

Non-Exempt employees are not eligible for the Year-End and I Deliver awards but are eligible to receive an Innovator Award. Funding for Innovator Awards for non-exempt employees will come from sources outside of the Program.

Bargaining Unit employees, employees considered “temporary” and/or are interns, and independent contractors are not eligible to participate in the Program.

**Status Changes.** If an employee’s status changes from:

- Temporary to regular status prior to October 1st of the Program Year, the year-end portion of the incentive will be prorated based on the number of days worked after becoming a regular status employee.
- Temporary to regular status after October 1st, the employee will not be eligible to participate in the year-end portion of the incentive for that Program Year.
- Non-bargaining to bargaining or vice versa, the year-end incentive will be prorated based on the number of days worked in an eligible non-bargaining status.

**Hired or Rehired During Program Year.** New employees, including independent contractors hired as employees, hired or rehired during the Program Year must be hired or rehired and actively employed by and working for Xcel Energy prior to October 1 of the Program Year to be eligible to participate in the year-end portion of the incentive for that year.

It is recommended than an employee has completed at least one quarter of employment before being nominated for an I Deliver or Innovator award.

**Employed on Last Day of Program Year and Date of Payment.** You must be an active employee of Xcel Energy on December 31, 2020, and you must have continuous service through the day the year-end incentive award is paid, unless one of the following applies:

- Retirement, death, long-term disability (LTD), Qualified Leave of Absence (unpaid military leave and personal leave), involuntary termination with severance – Eligible for a prorated year-end incentive award based on individual performance during the length of qualifying active service (number of calendar days of service divided by number of calendar days in the Program Year) during the Program Year. Final Year-End Awards will be calculated and paid at the same time Year-End Awards are paid to active participants. Deferral and payment elections become null and void.

Employed on Date of Payment. You must have continuous service through the date of I Deliver and Innovator awards are paid, unless one of the following applies:

- Retirement, death, long-term disability (LTD), Qualified Leave of Absence (unpaid military leave and personal leave), involuntary termination with severance. I Deliver and Innovator awards will be paid at the same time these awards are paid to active participants.

If you are terminated for any other reason (e.g., voluntary resignation or involuntary termination for cause) during the Program Year, you lose all rights to any incentive through the date of your termination and will receive no award.

Generally no award will be paid to an employee who was or is on a Performance Improvement Plan (PIP) or was or is part of any other performance improvement or disciplinary process during or after the Program Year. However, managers will have the discretion to provide awards to these employees in situations where the employee has demonstrated sufficient improvement in performance.

If you participate in any other Xcel Energy incentive or commission program, or any incentive program established specifically as an alternative to this Program, you are not eligible to participate in the Xcel Energy Non-bargaining Exempt Employee Annual Incentive Program without prior approval. Additionally, I Deliver and Innovator Awards cannot be used to reward employees for actions covered under another type of program or agreement. The Executive Vice President, Chief Human Resources Officer or his/her designee or successor will resolve any disputes related to Program participation and administration.

#### **Calendar Days**

All references in this Program booklet to number of calendar days will be based on 365 days in the year (including leap years).

#### **Award Proration**

This list contains the most common proration scenarios. As additional situations arise that impact award proration they will be administered consistent with the scenarios outlined below and program administration practices.

Year-end incentive awards for the Program Year are prorated as follows:

- An eligible employee who is hired or who is transferred to/from /between an eligible position(s) during the Program Year is eligible for a Year-End Award based on the number of calendar days employed in a qualifying position. Award basis (incentive target and salary grade) is described on page 4.

- An eligible employee who retires, dies, qualifies for long-term disability (LTD), takes a leave of absence or is involuntarily terminated with severance is eligible for a Year-End Award based on the number of calendar days actively employed by Xcel Energy in an AIP eligible position.
- An eligible employee who changes from full-time to part-time status, or vice versa, is eligible for a Year-End Award based on the period of time within each status. An award range attributable to the full-time service period will be calculated in the same manner as awards are calculated for other full-time employees. In addition, an award range for the part-time service will be calculated in the same manner as other part-time employees. The results of these calculations will be added together and paid as one incentive award.
- An eligible employee who changes salary plans, incentive targets or has an annual salary change will receive a Year-End Award calculated for each period. The results of these calculations will be added together and paid as one incentive award.
- An employee who voluntarily resigns from Xcel Energy during the Program Year but is rehired and actively working prior to October 1<sup>st</sup> of the Program Year, forfeits any year-end incentive through the date the employee resigned. However, the employee is eligible for a prorated Year-End Award based on the number of days worked from the rehire date through the end of the Program Year, as long as the employee remains continuously employed through the date the year-end incentive payment is made.

#### **INCENTIVE AWARD PROGRAM RELATED INFORMATION**

- |   |   |
|---|---|
| <b>Chief Executive Officer</b>          | The Chief Executive Officer (or designee) will have full discretion and final authority to adopt, amend, alter or rescind the Program without advance notice for any reason at his/her sole discretion based upon financial or operating conditions or otherwise. |
| <b>No Right to Continued Employment</b> | No individual shall have any claim or right to be granted an award under the Program, and the granting of an award shall not be construed as giving the participant the right of continued employment with Xcel Energy.   |





**XCEL ENERGY NON-BARGAINING, EXEMPT EMPLOYEE  
ANNUAL INCENTIVE PROGRAM**

**Program Year: January 1 – December 31, 2021**

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## INTRODUCTION

Xcel Energy Inc. (individually and collectively with its affiliates and subsidiaries, “Xcel Energy” or “the Company”) offers a market-based total cash compensation package. Your total cash compensation includes your base salary and the opportunity to earn an annual incentive when the Company achieves its goals.

- Base salary is the fixed component of your total cash compensation. Generally, it does not change unless you have a change in your job (such as a promotion), change in your status (such as full time to part time), or have a change in pay (such as an earned base pay increase).
- Xcel Energy’s Annual Incentive Program (the “Program”) is the variable component of your total cash compensation.
- Variable compensation is not guaranteed pay as it is subject to achievement of goals, including your own performance, and your contribution to team or company results.

The Program will be in effect from January 1 to December 31, 2021 (the “Program Year”), unless amended to end at an earlier date or terminated. In order for the Program to pay out year-end incentive awards in the Program Year, Xcel Energy must meet certain operating goals and an affordability objective. Your incentive award is primarily based on corporate goal achievement and discretionary based on your individual contributions and performance.

The purpose of this document is to provide a high-level overview of the annual incentive program components and to outline the eligibility and administrative framework of the program. More detailed information regarding the program components can be found in XpressNET under Benefits/Pay/Incentives/Annual Incentive.

## PURPOSE OF THE PROGRAM

Incentive Programs are a variable portion of employee total cash compensation and are directly aligned with the achievement of certain corporate KPIs in addition to your individual contributions and performance.

Xcel Energy uses the Program to align employees’ goals with corporate and business area objectives, and to recognize and reward employees for results that contribute to the achievement of Xcel Energy’s key performance indicators (or KPIs), including those focused on reliability, our customers and our employees. It is also used to motivate employees to enhance the customer experience, innovate and drive continuous improvement.

The Program also supports the Company’s position as an employer of choice by:

- Offering a market-competitive total cash compensation package;
- Fostering the growth and development of employees; and
- Enabling the Company to attract, retain, motivate and reward employees whose performance and contribution meets or exceeds Company expectations.

**PARTICIPATION**

The Program applies to regular, full and part-time status employees who are exempt, non-bargaining employees.

Newly hired or rehired employees must be actively employed by and working for Xcel Energy prior to October 1 of the Program Year to be eligible to participate in the Year-End Award portion of the Program for that Program Year.

Participants must also be actively employed by Xcel Energy on the day Program award payments are made in order to receive an incentive award under the program.

- Exceptions to active employment on the date awards are paid include: Involuntary Termination (with severance); Retirement; Death; Disability; or Qualified Leave of Absence.

For additional information regarding participation in the Program, see “Program Administration” beginning on page 7.

**PERFORMANCE COMPONENTS**

The Program for 2021 is based on two performance components, Corporate and Individual:

Level	Component	Timing of Opportunity
Corporate	Corporate Scorecard KPIs align to the priorities of Lead the Clean Energy Transition, Enhance the Customer Experience, Keep Bills Low, Safety and Reliability. Specific goals are listed on XpressNET at <a href="#">High Level Scorecards (xcelenergy.com)</a>	Year-end
Individual	a) Year-End Award individual contributions and performance that can be aligned to your performance goals as determined with your manager	Year-end
	b) I Deliver Award	Time Relevant
	c) Innovator Award	Time Relevant

**INCENTIVE TARGETS**

Incentive targets are based on salary grade and correspond to varying weights or percentages for the corporate and individual performance components, as shown below.

Salary Plans and Grades <sup>1</sup>				Incentive Target	Components Weights <sup>2</sup>	
Exempt	SLG	Engineer	Trader		Corporate	Individual
N, O	--	--	--	[PROTECTED DATA BEGINS	10%	90%
--	--	A, B	--			
P, Q	--	C	001		20%	80%
--	--	D, E	--		30%	70%
R, S, T	--	--	002- 006			
U, V	--	--	--		40%	60%
--	All	--	--	PROTECTED DATA ENDS]	50%	50%

<sup>1</sup> Does not represent all salary plans. Other grades and salary structures will be mapped accordingly. Eligibility for each participant is determined by salary plan or grade as tracked in the Human Resources information systems and not based on job title.

<sup>2</sup> Generally no award will be paid to an employee who was or is on a Performance Improvement Plan (PIP) or was or is part of any other performance improvement or disciplinary process during or after the Program Year. However, managers will have the discretion to provide awards to these employees in situations where the employee has demonstrated sufficient improvement in performance.

The year-end incentive is subject to proration based on an employee's eligible position(s) during the Program Year. For additional information on prorated awards, see page 9.

For an employee on a Developmental (or Rotational) Assignment, his or her annual incentive target percentage is based on the salary grade of the job held prior to accepting the Developmental (or Rotational) Assignment position.

The payout range for achievement of year-end incentive award goals (unless otherwise noted on the scorecard) can be anywhere from zero percent (0%) to one hundred fifty percent (150%), as noted on the following page. In no circumstance will the year-end incentive paid exceed 150% of the employee's year-end incentive opportunity.

There is no maximum payout restriction for the I Deliver and Innovator awards. That could result in an employee earning a total annual incentive payout greater than 150% of their incentive target by earning one or more of these awards based on superior contributions and performance.

**PROGRAM COMPONENTS****Corporate Scorecard – KPI**

The 2021 corporate scorecard goals focus on four priorities: Lead the Clean Energy Transition, Enhance the Customer Experience, Keep Bills Low, Safety and Reliability.

Priority	Key Performance Indicator	Threshold (50%)	Target (100%)	Maximum (150%)	KPI Weight
Lead the Clean Energy Transition	<b>Customer Satisfaction</b> <i>(JD Power residential survey)</i>	747	762	777	20%
	<b>Public Safety</b> <i>(gas emergency response)</i>	91%	96%	99%	20%
Enhance Customer Experience	<b>Electric System Reliability</b> <i>(SAIDI)</i>	100	92	84	20%
Keep Bills Low	<b>Employee Safety<sup>1</sup></b> <i>(safety culture)</i>	Declining	Steady/ Improving	Significant Improvement	20%
	<b>Diversity, Equity &amp; Inclusion</b> <i>(index)</i>	100	200	300	10%
Safety and Reliability	<b>Wind Availability</b> <i>(equivalent availability factor)</i>	92.0%	94.5%	97.0%	10%

<sup>1</sup> If, during the year, there was an employee fatality caused by a workplace injury that occurred in the course of business and the Company has achieved threshold or better performance, the KPI result's contribution to the corporate scorecard performance will be decreased to threshold.

If, during the year, an employee fatality caused by a workplace injury does not occur and the Company experiences both of the following conditions:

- 1) No employee has direct personal contact with an energized primary electric system that results in a DART Recordable injury; and
- 2) No employee experiences an unplanned natural gas ignition while working on company owned equipment that results in a DART Recordable injury.

Then, if the Company has achieved target or better performance, the KPI result's contribution to the corporate scorecard performance will be increased to maximum. If the Company has achieved results at threshold or better but below target, the KPI result's contribution to the corporate scorecard performance will be increased to target.

Results are calculated in this manner:

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

*Results will be rounded to the second decimal.*

## The Individual Component

The purpose of the Individual Component is to focus and reward employees for their individual performance and contribution to team or company results during the Program Year and to motivate them to enhance the customer experience, innovate and drive continuous improvement. The Individual Component is comprised of three separate opportunities: Year-End Award, I Deliver Award and the Innovator Award.

**Year-End Award:** Your manager has discretion to determine your year-end individual component award from within a range of 0% to 150% of your year-end individual opportunity based on your contributions and performance over the Program Year.

Having an individual award range allows management to recognize and differentiate employees based on their level of contribution and performance, consistent with the Company's pay-for-performance philosophy. Differentiation occurs at all levels based on relative contribution and performance as well as the AIP budget available to the business area.

The Year-End Award represents the largest portion of an eligible employee's individual component opportunity.

**I Deliver Award:** Eligible employees or teams can be nominated for an I Deliver award. These awards allow management to provide timely rewards to eligible employees and teams who deliver greater than expected results that have an impact at a team or department level and are linked to supporting the company strategy. The exceptional work should stand out compared to what is expected from the individual in the course of performing his or her job and link to a benefit for our customers. Nominations are reviewed and approved by a designated group of management on a monthly basis.

**Innovator Award:** Eligible employees or teams can be nominated for an Innovator award. These awards provide timely rewards to eligible employees or teams who implement innovative, high-impact solutions or processes that result in measurable savings or significant customer benefits at a company-wide level. All Innovator Award nominations are reviewed and approved by a designated group of management on a quarterly basis.

## FUNDING THE PROGRAM

A prudent element of the Program is making sure the Company has the ability to pay for the annual incentives. Before the Year-End Award component of the Program will pay, an affordability trigger must be met as described below.

### Earnings Per Share Determines Affordability

An affordability trigger, based on EPS at \$2.90, must be achieved before any Year-End Award can be paid. The 2021 EPS is based on continuing operations and shall be adjusted to exclude the positive or negative earnings impacts for any one-time, unusual events if the impact of the event exceeds \$20 million on an after-tax basis.

The funding allocated to the I Deliver and Innovator awards are not subject to an affordability trigger.

The Corporate Scorecard results can be multiplied by a funding factor based on EPS. The funding factor is selected by the CEO from an assessment of results and is within the following funding guidelines:

- 50% - 100% for \$2.90 to \$2.95
- 100% - 150% for \$2.96+

In no case will a Year-End Award payment be greater than 150% of the year-end incentive opportunity. However, an employee could earn a total annual incentive payout greater than 150% of their incentive target if they are nominated and earn one or more I Deliver or Innovator awards during the course of the program year.

## PROGRAM ADMINISTRATION

**Effective date of Program** The Annual Incentive Program covers a performance period of January 1 to December 31, 2021 and becomes effective at the start of that performance period (January 1). This is defined as the Program Year. The scorecard goals, as defined by the KPIs, are communicated to employee participants at or near the start of the performance period.

**Approval and Timing of Payment** After the 2021 financial statements are released, the Governance, Compensation & Nominating Committee of the Xcel Energy Inc. Board of Directors will review financial and corporate results. Actual Year-End Award payments will be made no later than two and a half months following the end of the relevant Program Year.

I Deliver and Innovator awards are reviewed and approved by Company management on a periodic basis. Award payments will be made as soon as administratively feasible after awards have been approved.

**Form of Payment** Annual incentive awards are paid in cash and payment will be made separately from the normal payment of wages. No deferrals can be made to the 401(k) Retirement Savings Program from annual incentive awards. Eligible employees may defer all or a portion of their Year-End Awards into the Xcel Energy Deferred Compensation Plan (“DCP,” see descriptions for details on eligibility). In addition, the Company, at its discretion, may allow deductions to be made from year-end incentive payments to Health Savings Accounts (HSA) as allowable under IRS regulations. The Company will deduct all legally required withholdings on cash payments, DCP deferral elections and/or HSA deduction.



**Eligibility**

You must be considered a regular, non-bargaining exempt (full- or part-time) employee of Xcel Energy at any point during the Program Year.

Non-Exempt employees are not eligible for the Year-End and I Deliver awards but are eligible to receive an Innovator Award. Funding for Innovator Awards for non-exempt employees will come from sources outside of the Program.

Bargaining Unit employees, employees considered “temporary” and/or are interns, and independent contractors are not eligible to participate in the Program.

**Status Changes.** If an employee’s status changes from:

- Temporary to regular status prior to October 1st of the Program Year, the year-end portion of the incentive will be prorated based on the number of days worked after becoming a regular status employee.
- Temporary to regular status after October 1st, the employee will not be eligible to participate in the year-end portion of the incentive for that Program Year.
- Non-bargaining to bargaining or vice versa, the year-end incentive will be prorated based on the number of days worked in an eligible non-bargaining status.

**Hired or Rehired During Program Year.** New employees, including independent contractors hired as employees, hired or rehired during the Program Year must be hired or rehired and actively employed by and working for Xcel Energy prior to October 1 of the Program Year to be eligible to participate in the year-end portion of the incentive for that year.

It is recommended that an employee has completed at least one quarter of employment before being nominated for an I Deliver or Innovator award.

**Employed on Last Day of Program Year and Date of Payment.** You must be an active employee of Xcel Energy on December 31, 2021, and you must have continuous service through the day the year-end incentive award is paid, unless one of the following applies:

- Retirement, death, long-term disability (LTD), Qualified Leave of Absence (unpaid military leave and personal leave), involuntary termination with severance – Eligible for a prorated year-end incentive award based on individual performance during the length of qualifying active service (number of calendar days of service divided by number of calendar days in the Program Year) during the Program Year. Final Year-End Awards will be calculated and paid at the same time Year-End Awards are paid to active participants. Deferral and payment elections become null and void.

Employed on Date of Payment. You must have continuous service through the date of I Deliver and Innovator awards are paid, unless one of the following applies:

- Retirement, death, long-term disability (LTD), Qualified Leave of Absence (unpaid military leave and personal leave), involuntary termination with severance. I Deliver and Innovator awards will be paid at the same time these awards are paid to active participants.

If you are terminated for any other reason (e.g., voluntary resignation or involuntary termination for cause) during the Program Year, you lose all rights to any incentive through the date of your termination and will receive no award.

Generally, no award will be paid to an employee who was or is on a Performance Improvement Plan (PIP) or was or is part of any other performance improvement or disciplinary process during or after the Program Year. However, managers will have the discretion to provide awards to these employees in situations where the employee has demonstrated sufficient improvement in performance.

If you participate in any other Xcel Energy incentive or commission program, or any incentive program established specifically as an alternative to this Program, you are not eligible to participate in the Xcel Energy Non-bargaining Exempt Employee Annual Incentive Program without prior approval. Additionally, I Deliver and Innovator Awards cannot be used to reward employees for actions covered under another type of program or agreement. The Executive Vice President, Chief Human Resources Officer or his/her designee or successor will resolve any disputes related to Program participation and administration.

**Calendar Days** All references in this Program booklet to number of calendar days will be based on 365 days in the year (including leap years).

### **Award Proration**

This list contains the most common proration scenarios. As additional situations arise that impact award proration, they will be administered consistent with the scenarios outlined below and program administration practices.

Year-end incentive awards for the Program Year are prorated as follows:

- An eligible employee who is hired or who is transferred to/from /between an eligible position(s) during the Program Year is eligible for a Year-End Award based on the number of calendar days employed in a qualifying position. Award basis (incentive target and salary grade) is described on page 4.

- An eligible employee who retires, dies, qualifies for long-term disability (LTD), takes a leave of absence or is involuntarily terminated with severance is eligible for a Year-End Award based on the number of calendar days actively employed by Xcel Energy in an AIP eligible position.
- An eligible employee who changes from full-time to part-time status, or vice versa, is eligible for a Year-End Award based on the period of time within each status. An award range attributable to the full-time service period will be calculated in the same manner as awards are calculated for other full-time employees. In addition, an award range for the part-time service will be calculated in the same manner as other part-time employees. The results of these calculations will be added together and paid as one incentive award.
- An eligible employee who changes salary plans, incentive targets or has an annual salary change will receive a Year-End Award calculated for each period. The results of these calculations will be added together and paid as one incentive award.
- An employee who voluntarily resigns from Xcel Energy during the Program Year but is rehired and actively working prior to October 1<sup>st</sup> of the Program Year, forfeits any year-end incentive through the date the employee resigned. However, the employee is eligible for a prorated Year-End Award based on the number of days worked from the rehire date through the end of the Program Year, as long as the employee remains continuously employed through the date the year-end incentive payment is made.

#### **INCENTIVE AWARD PROGRAM RELATED INFORMATION**

- |   |   |
|---|---|
| <b>Chief Executive Officer</b>          | The Chief Executive Officer (or designee) will have full discretion and final authority to adopt, amend, alter or rescind the Program without advance notice for any reason at his/her sole discretion based upon financial or operating conditions or otherwise. |
| <b>No Right to Continued Employment</b> | No individual shall have any claim or right to be granted an award under the Program, and the granting of an award shall not be construed as giving the participant the right of continued employment with Xcel Energy.   |

**Dental, Vision, Life insurance, and Disability Summary**

*Dental Plan* – Bargaining employees are offered one dental plan option that includes orthodontia coverage. Non-Bargaining employees have the choice of two dental plans, one that includes orthodontia coverage and one that does not. All three plans use a common design with an upfront deductible (ranging from \$25 to \$150) and an annual benefit limit that caps the amount of coverage provided by the plan (ranging from \$1,000 to \$2,000). The additional orthodontia benefit (\$1,500 or \$2,500) is a lifetime amount, and the plans provide greater coverage for using in-network dental providers who participate in the Delta Dental network. Employees pay a monthly premium that represents 25 percent of the total cost for Bargaining or 30 percent of the total cost for Non-Bargaining.

*Vision Plan* – the vision plan for both bargaining and non-bargaining employees provides annual coverage allowances for eye exams, glasses or contact lenses, plus access to discounts on additional services through the Vision Services Plan (VSP) provider network. Employees pay a monthly premium that covers the full cost of this benefit.

*Disability Benefits* – Disability benefits for both bargaining and non-bargaining employees include both short-term and long-term disability income replacement programs for employees who are unable to work due to medical conditions. Both programs are administered by The Hartford. Short-term disability provides income replacement after a one-week elimination period is met. Weeks two through thirteen are supplemented at 100 percent, and weeks fourteen through twenty-six are supplemented at 70 percent. Long-term disability is for illness that extends beyond twenty-six weeks and provides 60 percent income replacement. Bargaining employees have the option to buy an additional 10 percent of income replacement. This is a fully insured plan.

*Life Insurance* – Life insurance for both bargaining and non-bargaining employees includes Company-provided coverage equal to one times base salary. Employees are given the option to purchase additional benefits at the full cost. These include higher levels of life insurance, accidental death and dismemberment insurance, as well as those coverages for their eligible dependents.