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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 Natural Gas Service in Minnesota

Docket No. G002/GR-21-678
Exhibit____(RKL-1)

Employee Compensation and Benefits

November 1, 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 natural gas 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 natural gas service for our customers, meet their changing needs, and, as a utility that also provides electric service, 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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1
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 natural gas 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 to 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

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

25

26 Q. WHAT IS THE LEVEL OF COSTS THAT THE COMPANY IS FORECASTING FOR THE
27 2021 BRIDGE YEAR AND 2022 TEST YEAR?

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1 A. Table 1 sets forth Total Rewards Program costs on a Minnesota gas basis for
2 the 2021 bridge year and 2022 test year.

3
4 **Table 1**
5 **Total Rewards Program Costs**

6

Expense Amount for State of Minnesota Gas Jurisdiction O&M (\$000s)			
Type of Benefit	2020 Actual	2021 Bridge Year	2022 Test Year
AIP*	\$1,587	\$1,582	\$1,796
LTI**	\$562	\$349	\$4373
Qualified Pension	\$2,408	\$2,398	\$1,959
401(k)	\$813	\$869	\$916
Active Health	\$2,899	\$3,221	\$3,332
Misc. Ben., Life, LTD	\$313	\$360	\$402
Retiree Medical	\$79	\$60	\$47
Recognition	\$69	\$74	\$86

7
8
9
10
11
12
13
14
15
16
17 * Amount accounts for limitations we have placed on our request for recovery in this case
18 **Environmental and Time-based LTI

19
20 Q. HAS THE COMPANY HISTORICALLY RECOVERED ITS MARKET-BASED
21 COMPENSATION EXPENSES?

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

25

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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 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 the existing cap of 25 percent of aggregate base pay. A 25 percent
23 cap continues to implement the Commission's original intent in capping AIP
24 by excluding recovery of part of the cost of providing incentive compensation
25 to executives, while allowing target-level recovery of AIP expenses related to

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1 most non-executive employees.¹ The Company has been receiving AIP
2 recovery at this level since its 2009 gas rate case, as approved in the Findings of
3 Fact, Conclusions of Law, and Order dated December 6, 2010 in Docket No.
4 G002/GR-09-1153.

5
6 Q. ARE YOU PROPOSING ANY CHANGES RELATED TO AIP?

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

10
11 Q. ARE YOU SEEKING RECOVERY OF ANY COSTS FOR LTI COMPENSATION?

12 A. Yes. The Company is seeking recovery of “environmental LTI.” The Company
13 is also seeking recovery of “time-based LTI” for executives and “time-based
14 LTI with a performance element” for non-executives. This will be described
15 collectively as “time-based LTI” throughout the remainder of my testimony.
16 The Company is not seeking recovery for the executive LTI expense of Relative
17 TSR.² I describe the Company’s request for recovery of a portion of LTI in
18 greater detail later in my testimony.

19
20 Q. WHY IS THE COMPANY LIMITING ITS REQUEST IN THE WAY YOU DESCRIBE?

21 A. The Company is limiting its request in an effort to reduce the number of
22 contested issues in this case. However, the Company maintains that the target-

¹ 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.

² In Direct Testimony, Mr. Halama discusses the approximately \$0.4 million adjustment to the cost of service related to LTI costs for Relative TSR.

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1 level AIP expense is both just and reasonable and directly related to competitive
2 market-based compensation necessary.

3
4 Q. WHY HAS THE COMPANY DECIDED TO MAKE CHANGES TO ITS RECOVERY
5 PROPOSAL FROM PAST RATE CASES?

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

16
17 **III. BUSINESS MODEL CHANGES AND WORKFORCE NEEDS**

18
19 **A. Changes in the Company's Business Model**

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

21 A. Customers are already expecting more than just reliable and affordable gas
22 service. They expect their gas utility to provide a broad array of products and
23 services that meet their specific needs and the ability to communicate and
24 interact with the Company through a variety of methods. To meet these
25 expectations, over the next decade we expect significant changes across all
26 aspects of our business. For example, for the gas business we will be replacing
27 miles of aging pipeline and upgrading our software systems used to manage

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1 distribution for customers, while limiting methane emissions through the gas
2 supply chain processes and developing ways to limit carbon emissions through
3 the usage of natural gas. These changes will impact our workforce.

4
5 Q. WHAT IMPACT DO YOU EXPECT THESE CHANGES WILL HAVE ON THE
6 WORKFORCE?

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

15
16 Where employees were accustomed to fixing things with their hands,
17 technology will now be more prominent in managing our gas distribution assets.
18 Our customer service agents will continue to answer phones and solve
19 problems, but will also need to be equipped to offer more services and engage
20 with customers in new ways. We will still need field workers that do
21 construction, maintenance, storm restoration, and the like. But all of our
22 employees will need to adapt to perform their jobs in a rapidly changing
23 environment.

24
25 Q. PLEASE DESCRIBE THE COMPANY'S EFFORTS AROUND DIVERSITY, EQUITY, AND
26 INCLUSION (DEI).

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

9
10 Additionally, Xcel Energy has added DEI to the Corporate Scorecard to drive
11 further accountability for progress in that area. As I discuss later in my
12 testimony, the Corporate scorecard is used to determine the level of AIP
13 awarded to employees. In addition, Business Unit Vice Presidents and above
14 are sponsoring and mentoring the development of high-potential employees
15 who are different from themselves in some identifiable way. We are also
16 requiring the use of diverse interview panels in our hiring process and measuring
17 how included our employees feel using our employee engagement survey. We
18 have also taken steps to strengthen our workforce development function and
19 build stronger relationships on that front within our communities.

20
21 Q. ARE THERE ANY OTHER INITIATIVES UNDERWAY AT THE COMPANY THAT
22 ADDRESS THESE ISSUES?

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

³ <https://www.tdworld.com/careers/article/21133193/utilities-respond-to-national-protests-to-reinforce-commitments-to-diversity-and-inclusivity>

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- 1 • Promoting a variety of business resource groups that support diversity
2 within the Company, including: Growth and Retention of Women in
3 Non-Traditional Roles (GROW); Women’s Interests Network (WIN);
4 Women in Nuclear; General Counsel’s Employee Excellence and
5 Equality Committee (GC EEE); Military Ombudsmen for Veterans and
6 Employees (MOVE); Pride Alliance, an inclusive group supporting
7 LGBTQ+ employees; Blacks at Xcel Energy (BLAX); Tribal Wind, an
8 inclusive group supporting Native American employees; and
9 XCELENTE, Xcel Energy’s Latino Business Resource Group.
- 10 • Partnering with organizations like the Center for Energy Workforce
11 Development, and working with our business resource groups, to
12 ensure that our workforce continues to diversify the same way our
13 communities are diversifying.
- 14 • Proposing a Workforce Training and Development Program Pilot that
15 will offer approximately 150 individuals from traditionally under-
16 represented communities the opportunity to receive hands-on skills
17 training through an apprenticeship-readiness program, with completion
18 of the program designed to coincide with the commencement of
19 construction on the proposed Sherco solar project.⁴
- 20 • Reviewing our talent processes, from recruiting, to performance
21 management, to succession planning with a focus on eliminating bias.
- 22 • Educating our employees about micro-inequities and unconscious bias.
23 As an organization that signed onto the CEO Action for Inclusion and

⁴ The Pilot is discussed in detail in Docket No. E,G999/CI-20-492 and E002/M-21-558.

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1 Diversity, we know this is one of the key tenets to helping continue to
2 drive an inclusive culture.

3
4 We recognize that an inclusive and diverse workforce is an integral part of who
5 we are, how we operate, and how we see our future – and we are committed to
6 continuing the work necessary to achieve our vision.

7

8 **B. Labor Market Competition**

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

10 A. Prospective employees with the specific skillsets and training required for
11 technical or specialized careers are in high demand, as other utilities share many
12 of our priorities and needs for talent. There is a limited pool of utility
13 candidates, and the Company competes for them on a national, regional, and
14 local basis. Due to the unique nature of many of our highly technical utility
15 jobs, we need to hire experienced employees who can perform in their roles
16 immediately upon starting, as opposed to being able to use entry-level
17 employees who can grow into their roles.

18

19 Q. PLEASE DESCRIBE THE LABOR MARKET IN MINNESOTA.

20 A. Among the 30 largest metropolitan areas across the country, the Twin Cities
21 ranks first in number of Fortune 500 firms per capita, according to the
22 Minnesota Department of Employment and Economic Development.⁵ The
23 18 Fortune 500 companies in the state include some of the world’s most
24 recognized brands and firms, such as 3M, Best Buy, General Mills, Target, and

⁵ See <https://mn.gov/deed/ed/why-mn/mn-companies/> (accessed on July 30, 2021).

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1 UnitedHealth Group, with whom we compete for engineers, information
2 technology, cyber security, accounting and finance, and other skilled employees.

3
4 The Company also competes for talent with many other large employers that
5 have a significant presence in Minnesota but are no longer headquartered in
6 Minnesota, or are privately held and therefore not included on the Fortune 500
7 list, such as Medtronic, Mortenson Construction, and Cargill.

8
9 In addition, there are three other investor-owned natural gas utilities and three
10 other investor-owned electric utilities that serve Minnesota, as well as more than
11 40 cooperatives and more than 20 municipal providers who directly compete
12 with the Company for utility industry talent.⁶

13
14 Q. WHAT IMPACT HAS THE REGIONAL AND NATIONAL LABOR MARKET HAD ON THE
15 COMPANY?

16 A. Minnesota had a 4.0 percent (preliminary) unemployment rate as recently as
17 June 2021, below the national average of 5.9 percent, according to the U.S.
18 Bureau of Labor Statistics.⁷ The current economic conditions have not
19 significantly impacted the labor pool in the utility market, where the June 2021
20 unemployment rate was 5.1 percent, nationally.⁸ As the nation emerges from
21 the pandemic, our employees continue to be committed to serving the needs of
22 customers as many of them transition from a full-time work from home and
23 distance learning environment and employers return to full or hybrid in-person
24 models. Our employees also continue to meet their obligations in other areas,

⁶ See <https://mn.gov/puc/consumers/help/utility/> (accessed on July 30, 2021).

⁷ See <https://data.bls.gov/timeseries/LNS14000000> (accessed on July 30, 2021).

⁸ See <https://www.bls.gov/web/empsit/cpseea31.htm>.

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1 such as gas emergency response. It is crucial that the Company is able to
2 provide a market-competitive compensation and benefits package that allows
3 us to compete for the talent necessary to provide safe and reliable gas service to
4 customers.

IV. TOTAL COMPENSATION

7
8 Q. HOW ARE BARGAINING EMPLOYEES COMPENSATED?

9 A. Bargaining employees are compensated according to their union contracts
10 negotiated with the Company. These contracts are collectively negotiated with
11 representation from both parties to ensure elements of the compensation
12 offering meet the needs of bargaining employees to ensure competitive wages
13 are delivered through base wage, overtime, and shift premiums.

14
15 Q. WHAT IS INCLUDED IN THE 2022 TEST YEAR BUDGET FOR BASE WAGE
16 INCREASES FOR BARGAINING EMPLOYEES?

17 A. A future base wage increases of 2.5 percent is scheduled for January 1, 2022.

18
19 Q. HOW IS TOTAL COMPENSATION DETERMINED FOR NON-BARGAINING
20 EMPLOYEES?

21 A. The Company undertakes a comprehensive evaluation process for each non-
22 bargaining position using external market data obtained from independent
23 third-party compensation surveys to ensure its non-bargaining employee
24 compensation levels are comparable to the market. To develop an apples-to-
25 apples comparison, the Company must first match the job responsibilities of
26 the Company's positions to the job responsibilities of the positions within other
27 companies that compete with the Company for employees. After that, the

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1 Company considers data from a variety of surveys, including data for both utility
2 and non-utility companies.⁹ The 50th percentile (that is, the median) is then
3 used to determine the appropriate pay range for a position.

4
5 Q. WHAT COMPENSATION COMPONENTS ARE NON-BARGAINING EMPLOYEES
6 ELIGIBLE TO RECEIVE?

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

- 9 • Base pay;
- 10 • AIP;
- 11 • LTI compensation; and
- 12 • Recognition awards.

13 The respective compensation components vary by employee. However, while
14 the components of compensation vary, the total compensation for each
15 position is targeted at the median of the market, with each non-bargaining
16 employee receiving 100 percent of the market-based compensation, on average,
17 relative to his or her job.

18
19 Q. WHY DO THE COMPENSATION COMPONENTS VARY BY EMPLOYEE?

20 A. The eligibility for particular components of compensation varies depending on
21 whether a given non-bargaining employee is considered “non-exempt” or
22 “exempt” under the Fair Labor Standards Act (FLSA). The FLSA defines non-
23 exempt employees as those paid on an hourly basis who may receive overtime.
24 Non-exempt employees are generally eligible for base pay, overtime, and

⁹ 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 recognition awards. The FLSA defines exempt employees as those who receive
2 a salary. In our compensation program design, exempt employees are eligible
3 for base pay and various types of incentive compensation depending on their
4 job in the Company.

5
6 Q. ARE THE TOTAL COMPENSATION PACKAGES STRUCTURED THE SAME FOR ALL
7 NON-BARGAINING EMPLOYEES?

8 A. No. Non-exempt employees, as described above, receive their total
9 compensation through base pay. Exempt employees receive a portion of their
10 market-based level of total compensation as incentive. Non-bargaining, exempt
11 employees are eligible to receive AIP, and a subset of exempt employees are
12 also eligible to receive LTI. Regardless of the structure of each employee's
13 compensation, however, each employee's total compensation, including base
14 pay and incentive, is designed to reach that employee's market-based level of
15 total compensation.

16
17 The Company's competitive market-based compensation program design is
18 similar to that of other employers the Company competes with for employees.
19 This design reflects an intentional decision to align compensation opportunities
20 with an employee's level of responsibility and influence on the Company's
21 operations and results.

22
23 The compensation structure for all non-bargaining employees is designed to
24 provide a total compensation package based on the market-competitive
25 compensation levels and components necessary to attract, retain, and motivate
26 employees at varying levels.

27

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1 Q. WHAT COSTS FOR COMPENSATION HAS THE COMPANY INCLUDED IN THE 2022
2 TEST YEAR?

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

8

9 **A. Base Pay**

10 Q. HOW ARE BASE PAY AMOUNTS ESTABLISHED FOR NON-BARGAINING
11 EMPLOYEES?

12 A. Base pay is one component of total compensation. After an appropriate pay
13 range is determined as I described earlier, the components of the total
14 compensation package are broken up among base pay, AIP, and LTI. As I
15 discussed previously, non-exempt non-bargaining employees receive all of their
16 compensation through base pay (with the exception of certain recognition
17 programs, which I discuss below). Exempt non-bargaining employees will have
18 a portion of their compensation delivered through base pay, with the remainder
19 of their compensation provided as incentive. The proportion of base pay to
20 total compensation, therefore, largely depends on the individual non-bargaining
21 employee's position in the Company.

22

23 Q. HOW DOES A NON-BARGAINING EMPLOYEE EARN AN ANNUAL BASE PAY
24 INCREASE?

25 A. Managers determine the annual base pay increase to award based on an
26 employee's performance, position in the pay range (an indicator of market), and
27 comparisons to other employees in the same or similar jobs. These

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1 determinations reflect the Company's philosophies of providing market-
2 competitive compensation and paying for performance.

3
4 Because annual base pay increases are based on these factors, some employees
5 may earn less than the budgeted increase or no increase at all, while some
6 employees may earn more than the budgeted increase percentage. This process
7 allows the Company flexibility to make determinations about particular jobs and
8 employees while remaining within the budget limits. However, on average, the
9 Company tends to increase overall compensation levels consistent with the
10 amount budgeted.

11
12 Q. HOW DOES THE COMPANY DETERMINE THE ANNUAL BUDGET FOR BASE PAY
13 INCREASES?

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

- 20 • Review of external market surveys regarding base pay increases;
- 21 • Comparison of compensation of non-bargaining employees to potential
22 or negotiated wage increases for our bargaining employees;
- 23 • Economic conditions; and
- 24 • Company performance.

25

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

4
5 For bargaining unit employees, the general wage increases are part of the
6 negotiation process and are included in the collective bargaining agreements.

7
8 Q. DOES THE BUDGET INCLUDE PTO?

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

12
13 Q. WHAT IS INCLUDED IN THE 2022 TEST YEAR BUDGET FOR BASE PAY INCREASES
14 FOR NON-BARGAINING EMPLOYEES?

15 A. We included the costs budgeted for providing non-bargaining employees with
16 2022 annual base pay increases equal to a 3.0 percent increase in base pay.

17
18 Q. HOW WAS THE BUDGET CALCULATED FOR THE 2022 TEST YEAR?

19 A. We used the headcount and base pay in effect as of May 2021 and applied a 3.0
20 percent increase to those values for the test year.

21
22 Q. WHY IS A THREE PERCENT BASE PAY INCREASE FOR NON-BARGAINING
23 EMPLOYEES APPROPRIATE?

24 A. The Company regularly compares its total cash compensation levels, base pay
25 increases and programs to those of other companies, including other utilities
26 and non-utilities. Surveys demonstrate that a three percent increase in base pay
27 is comparable to what the market has been projecting recently. In particular,

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1 five different survey sources¹⁰ projected 2021 base pay increases to fall within
2 the following ranges:

- 3 • 3.1 - 3.7 percent for all utilities on a national basis; and
- 4 • 3.0 - 3.6 percent for all companies on a national basis.

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

14
15 Q. DOES BASE PAY ALONE PROVIDE COMPENSATION THAT IS COMPETITIVE WITH
16 THE MARKET FOR THE COMPANY'S EXEMPT, NON-BARGAINING EMPLOYEE
17 POPULATION?

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

22
¹⁰ 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 By designing compensation to include both base pay and incentive components,
2 the Company can ensure that its total cash compensation levels are comparable
3 to the market and, thus, that those costs are set a reasonable level.

4
5 **B. Annual Incentive Program**

6 Q. PLEASE DESCRIBE THE COMPANY'S AIP.

7 A. The Company's AIP is a form of incentive compensation offered to exempt,
8 non-bargaining employees, subject to certain requirements regarding dates of
9 employment. Please see Exhibit___(RKL-1), Schedule 4 for AIP documents
10 for 2019 – 2021.

11
12 Q. PLEASE EXPLAIN THE ROLE OF INCENTIVE COMPENSATION COMPONENTS IN A
13 WELL-DESIGNED TOTAL COMPENSATION DESIGN.

14 A. Rather than having a single component of compensation, base pay, leading to
15 100 percent of employee total compensation, current job market compensation
16 design models include incentive components of compensation. Inclusion of
17 these incentive components has become more prevalent over the years. While
18 the value of 100 percent of employee compensation does not change,
19 companies include incentive opportunity in their compensation design models
20 to ensure employees remain focused and engaged with their work. Incentive
21 compensation can be a smaller component for some employees and a significant
22 component of compensation for other employees, however the goal remains
23 the same – getting employees to necessary and reasonable target-level total
24 compensation to remain competitive.

25
26 Q. IS IT COMMON FOR LARGE COMPANIES SUCH AS UTILITIES TO USE ANNUAL
27 INCENTIVE COMPENSATION AS PART OF THEIR COMPENSATION PACKAGES?

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

6

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

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

11

12 Q. HOW DOES INCENTIVE COMPENSATION PROMOTE SUPERIOR EMPLOYEE
13 PERFORMANCE?

14 A. Incentive pay aligns compensation with results and positively affects
15 performance when employees see the connection between their performance
16 and their pay.¹¹ In particular, for incentive compensation to be effective, it must
17 be possible for the incentive amount to be reduced or eliminated, resulting in
18 below-market cash compensation when an employee fails to meet performance
19 metrics. This structure motivates employees to perform at a higher level
20 because they are compensated at their competitive market-level for doing so.

21

22 Q. HOW DOES THE COMPANY'S AIP PROMOTE SUPERIOR PERFORMANCE FROM
23 EMPLOYEES?

24 A. Providing safe, reliable gas service to our customers is the Company's most
25 important objective. Our AIP program directly aligns Company objectives and

¹¹ See http://www.shrm.org/hrdisciplines/compensation/articles/pages/cms_005592.aspx.

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1 customers' interests by awarding incentive compensation when employees, and
2 the Company as a whole, achieve goals regarding safety, reliability, and overall
3 customer satisfaction.

4
5 Q. HOW DOES INCENTIVE COMPENSATION REDUCE FIXED LABOR COSTS?

6 A. The use of incentive compensation reduces labor costs by lowering the base pay
7 amount to which annual escalation rates are applied. For example, if a non-
8 bargaining employee's total compensation were \$80,000 in year one and all of
9 the compensation were in the form of base pay, a 3.0 percent base pay increase
10 would lead to a base pay increase of \$2,400 in year two and a new base pay of
11 \$82,400.

12
13 In contrast, customers benefit if total compensation is structured with base pay
14 and 20 percent incentive compensation opportunity (variable pay) to reach total
15 compensation. In this example, a base pay of \$66,700 with a target-level payout
16 of 20 percent would reach the market-based total compensation of \$80,040.
17 The difference between base pay and total compensation would need to be re-
18 earned annually through AIP. Additionally, unlike the fixed cost described
19 above when total compensation is delivered in base pay, the 3.0 percent base
20 pay increase would lead to an increase of \$2,001 in year two ($\$66,700 + 3.0\% =$
21 $\$2,001$) and a new base pay of \$68,701. Thus, by moving a portion of each
22 employee's pay from base pay to incentive pay, the Company reduces overall
23 fixed labor costs (base pay) by avoiding the compounding effect of annual base
24 pay increases on the higher base pay amount, as noted in Figure 1 below.

25

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Figure 1
Fixed Cost and Variable Pay (AIP)

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

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 these employees. Second,
7 raising 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?

17 A. The State of Minnesota, Gas Jurisdiction, the AIP costs included in the 2022
18 test year is \$1.55 million.

19

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

23 A. When payout levels are greater than 100 percent, it indicates that the Company
24 employees have achieved higher than expected performance results. However,
25 the Company limits its requested recovery to the target level (*i.e.*, 100 percent).
26 As a result, in such situations, customers continue to receive the benefit of
27 exceptional service and employees performing at levels higher than the

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1 established goal targets. This has been the case in each of the last three years,
2 as shown in Table 2 below.

3
4 Q. DOES THE COMPANY TEND TO PAY OUT OVER OR UNDER TARGET BUDGET FOR
5 AIP?

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

9
10 **Table 2**
11 **NSPM Budgeted versus Actual AIP***

Year	100% Target (Budget) AIP (\$000s)	Actual AIP (\$000s)
2018	\$30,436	\$32,420
2019	\$30,418	\$31,982
2020	\$28,426	\$30,831
2021 Bridge Year	\$29,555	TBD
2022 Test Year	\$29,489	TBD

12
13
14
15
16
17
18 *Includes gas and electric jurisdictions

19
20 In light of the Company's conservative budgeting process and taking into
21 account the Company's proposal to continue the 25 percent cap on AIP, the
22 Company's AIP expense recovery will almost certainly be lower than the
23 amount the Company actually pays out to AIP eligible employees.

24
25 *2. Structure of the Company's AIP*

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

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1 A. The AIP applies to all exempt, non-bargaining employees, subject to certain
2 restrictions related to employment dates. An employee must be employed by
3 October 1 of a particular year to be eligible for a prorated year-end portion of
4 the AIP compensation for that program year. With limited exceptions, a person
5 must also be actively employed by the Company on the date that the year-end
6 award payments are made in order to receive an incentive award.¹²

7

8 Q. IS THE AIP AN EMPLOYEE “BONUS?”

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

17

18 Q. PLEASE DESCRIBE HOW THE EMPLOYEE EARNS AIP.

19 A. Each eligible employee has a targeted annual incentive opportunity expressed
20 as a percentage of base pay. The employee receives the incentive for
21 achievement related to pre-determined individual performance goals and for the
22 Company’s achievement of Corporate Key Performance Indicators (KPIs).

23

24 The percentage of base pay (AIP target percentage) is determined by third-party
25 market data and the employee’s position within the organization. When AIP is

¹² The exceptions are involuntary termination with severance, retirement, death, disability, or qualified leave of absence.

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1 combined with the employee's base pay, the sum of these delivers a market-
2 competitive level of total cash compensation. If an individual employee has
3 failed to meet the employee's agreed-upon goals for the year, he or she may not
4 receive an incentive award, regardless of corporate performance.

5
6 Employees are also eligible to earn an award through the "I Deliver" and
7 "Innovator" programs, which are addressed later in my testimony.

8
9 Q. PLEASE DESCRIBE THE CORPORATE KPI COMPONENTS OF THE 2021 AIP.

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

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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	Customer Satisfaction <i>(JD Power residential survey)</i>	747	762	777	20%
	Public Safety <i>(gas emergency response)</i>	91%	96%	99%	20%
Enhance Customer Experience	Electric System Reliability <i>(SAIDI)</i>	100	92	84	20%
	Employee Safety <i>(safety culture)</i>	Declining	Steady/ Improving	Significant Improvement	20%
Keep Bills Low	Diversity, Equity & Inclusion <i>(index)</i>	100	200	300	10%
Safety and Reliability	Wind Availability <i>(equivalent availability factor)</i>	92.0%	94.5%	97.0%	10%

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 gas 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 2009 RATE CASE?¹³

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

¹³ Docket No. G002/GR-09-1153.

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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. DOES THE COMPANY PROPOSE AN AIP RECOVERY CAP IN THIS RATE CASE?

22 A. The Company is proposing to maintain the current 25 percent cap on AIP cost
23 recovery. While not at the median target incentive opportunity-level, the 25
24 percent cap allows for expense recovery necessary to competitively compensate
25 employees at the total cash compensation level in the utility market.

26

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1 Q. IN THE PERIOD OF TIME SINCE THE COMPANY'S LAST GAS RATE CASE, THE
2 COMPANY HAS AGREED TO ACCEPT A 15 PERCENT CAP ON AIP RELATED TO THE
3 ELECTRIC BUSINESS. WHAT IS YOUR RATIONALE FOR SEEKING TO MAINTAIN A
4 25 PERCENT CAP FOR THE GAS BUSINESS?

5 A. As I noted above, the Company is currently materially under-recovering its
6 compensation expenses as a result of the 15 percent cap on the electric side.
7 Moving the cap below 25 percent for the gas business would exacerbate that
8 under-recovery. The 15 percent electric cap impacts the Company's recovery
9 of compensation costs for over 250 non-executive employees, including non-
10 management individual contributors. The market-based incentive pay
11 component of total cash compensation for these jobs is targeted at 20-45
12 percent of these employees' base pay. The 15 percent cap removes 5 to 30
13 percent of the AIP target opportunity dollars from the Company's recovery
14 request for this non-executive group of employees. As I have previously
15 discussed, the use of AIP, and the total AIP target opportunity and associated
16 expense, is necessary to attract and retain these employees in our competitive
17 job market. Further reducing the Company's recovery of these expenses by
18 reducing recovery for the gas business would exacerbate an existing under-
19 recovery of market-focused and reasonable employee compensation.

20

21 4. *AIP Compliance Filing*

22 Q. WHAT ANNUAL COMPLIANCE OBLIGATIONS DOES THE COMPANY HAVE WITH
23 RESPECT TO AIP?

24 A. The annual AIP compliance filing was established by the Commission in the
25 early 1990s in connection with the Company's 1992 Rate Case. In that case, the
26 Commission's original Order denied all incentive compensation because it
27 believed the Company's overall compensation of employees, which was over

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1 105 percent of the market median, was too high and the comparison study
2 group was “not genuinely comparable.” Upon reconsideration, however, the
3 Commission disallowed only that portion of incentive compensation greater
4 than 15 percent of base compensation while continuing to limit the recovery of
5 total compensation to 105 percent of the market median, but established the
6 compliance filing and refund requirement to ensure customers were not paying
7 for incentives the Company did not provide to its employees.¹⁴ These
8 requirements were established early in the Commission’s use of future test years
9 to set rates in part to “prevent erosion of the test year concept.”¹⁵

10
11 The Company’s AIP compliance filing has evolved over the past 25-plus years
12 to include a variety of explanations, charts, examples and calculations that go
13 well beyond the requirements described in the Commission’s 1992 Case Order
14 on Reconsideration. The original requirement required the Company to
15 provide “an accounting of all amounts paid under the plan, all amounts
16 recorded as earned but not paid, and an evaluation of the plan's success in
17 meeting its stated goals, including controlling overall employee compensation
18 costs.”

19
20 The current filing, by contrast, involves participation of five or more
21 departments to gather, calculate, analyze, draft and review the various elements
22 of the filing. This is because while all awards are based on the same Corporate
23 Scorecard, the final award information is not administered in the same manner
24 for all participants.

¹⁴ September 1, 1993 Order and December 30, 1993 Order After Reconsideration, Docket No. G002/GR-92-1186.

¹⁵ December 30, 1993 Order After Reconsideration, Docket No. E002/GR-92-1185.

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2 Q. WHAT IS THE COMPANY PROPOSING WITH REGARDS TO THE YEARLY AIP
3 COMPLIANCE FILING?

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

8

9 Q. WHY IS THE COMPANY PROPOSING THE ELIMINATION OF THE ANNUAL AIP
10 COMPLIANCE FILING?

11 A. The rationale for the AIP compliance filing set forth in the 1992 Case Order on
12 Reconsideration has not been revisited over the years, but in that same time the
13 future test year has become a standardized concept in Minnesota ratemaking,
14 and compensation practices and the Company itself have evolved and
15 experienced considerable amounts of change. As I have discussed, AIP is not
16 a bonus; it is a fundamental component of our market-based compensation
17 system. It is a crucial component in delivering our employees the appropriate
18 level of compensation needed to attract and retain those employees. For that
19 reason, AIP should be treated as any other reasonable, recoverable cost of
20 operating a gas utility.

21

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

23 A. The AIP compliance filing stems from the 1992 Case Order on Reconsideration
24 described above that was designed to both limit the Company's overall
25 compensation levels recovered in rates and the portion of that compensation
26 directed to executives based on incentive, and also to ensure customers' rates
27 do not include incentive compensation that is not paid. Times have changed.

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1 The circumstances that supported the Commission’s decision to implement
2 these requirements in the early 1990s no longer exist. Incentive compensation
3 has become an increasingly important part of both the Company’s and all
4 similarly situated companies’ overall compensation packages, and the test year
5 concept has proven durable. As discussed above, the Company has historically
6 spent more on AIP than budgeted. At the same time, the Company agrees that
7 its recovery of AIP should be limited to the target opportunity level. As a result,
8 there is very little risk that customers will overpay for compensation in rates
9

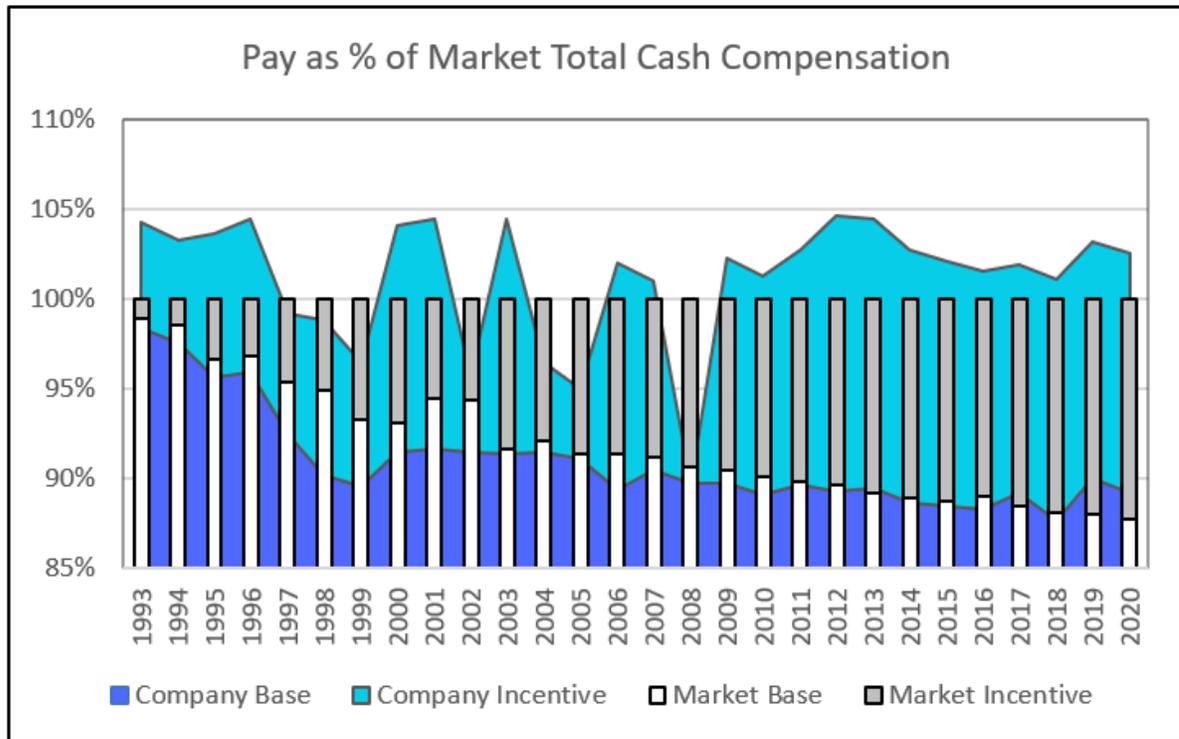
10 Q. HAS THE COMPANY REPORTED AVERAGE TOTAL COMPENSATION LEVELS
11 ABOVE 105 PERCENT IN ANY YEAR SINCE THE INCEPTION OF THE YEARLY AIP
12 COMPLIANCE FILING?

13 A. No. Figure 3, below, shows the data from the Company’s 2021 compliance
14 filing, which compares the sum of employee base pay plus target AIP
15 opportunity to the base pay and incentive targets found in the job market.
16

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Figure 3

Xcel Energy Cash Compensation versus Market



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

19 No. Customers are only responsible for compensation amounts up to the 100
20 percent (target level). Any incentive amounts above the budgeted target level
21 would be incurred by shareholders.

22
23 Q. SHOULD THE COMMISSION BE CONCERNED THAT THE METHOD BY WHICH THE
24 COMPANY CALCULATES ITS AIP EXPENSES WILL LEAD TO AN OVER-RECOVERY
25 OF THOSE EXPENSES?

26 A. No. The Company uses the most current estimations available based on the
27 number of eligible employees, anticipated known and measurable increases and

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1 target-level (100 percent) performance achievement to estimate AIP expenses.
2 As shown above in Table 2, the Company has historically paid out more than it
3 has recovered. The Company's budgeting process, coupled with the proposed
4 25 percent cap, will function to avoid over-recovery.

5
6 Q. DO YOU HAVE OTHER CONCERNS REGARDING THE COMPLIANCE FILING?

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

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

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

26

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1 The Company's AIP expense should be treated in a manner similar to other
2 program and project expenses, because the Company's budgeted total
3 compensation, including AIP, is market-based and reasonable. Other
4 mechanisms (the limit to target levels and the proposed 25 percent cap) assure
5 that over-recovery will not occur. AIP is a reasonable and appropriate
6 component of total compensation and should be treated as such in rate
7 proceedings.

8
9 **C. Long-Term Incentive Program**

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

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

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

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

26

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1 The employees who typically receive LTI tend to have a higher level of influence
2 on the Company's direction, strategy, and innovation. The leadership and
3 decisions made by the employees who receive LTI, and the direction and
4 policies that they put in place, have greater potential to have a significant impact
5 on our customers. Retaining these experienced employees is critical to
6 maintaining longer-term focus and leadership to serve the critical service needs
7 of customers. As a result, it is imperative that the compensation value and
8 design for these employees are comparable to the options available in the labor
9 market for employees in similar roles at other companies.

10
11 Q. ARE LTI PROGRAMS COMMONLY USED IN THE UTILITY INDUSTRY?

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

22
23 Like the necessary and reasonable target-level recovery of AIP for these
24 employees, target-level recovery of time-based LTI supports a competitive
25 market-based compensation program to attract, retain, and motivate this group
26 of employees. Without the inclusion of LTI, this group of employees falls far
27 short of meeting competitive market compensation levels. As shown by the

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1 market-based information provided by the Willis Towers Watson Study below,
2 and similar to AIP, LTI is not compensation in addition to market-based
3 compensation levels, it is a component of compensation that is used to reach
4 market-based compensation levels for executive and non-executive leaders.

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

8 A. No. The Company is not seeking expense recovery for the relative TSR LTI in
9 this proceeding, which equates to 54 percent of the LTI grant value in 2020.¹⁶
10 The Company is requesting recovery of only the environmental and time-based
11 LTI.

12
13 Q. PLEASE GENERALLY DESCRIBE THE ENVIRONMENTAL LTI.

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

20
21 This compensation component recognizes our commitment to reduced carbon
22 emissions in line with state policy goals. The state has established the goal of
23 reducing statewide greenhouse gas emissions from 2005 levels by 15 percent by

¹⁶ More than \$0.4 million from the test year cost of service related to LTI costs for relative Total Shareholder Return have been removed.

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1 2015, by 30 percent by 2025, and 80 percent by 2050.¹⁷ The Company is a
2 significant contributor to these efforts.

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

10
11 Q. IS IT REASONABLE TO GRANT RATE RECOVERY OF LTI COSTS RELATED TO
12 ENVIRONMENTAL LTI?

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

19
20 Q. IS IT REASONABLE TO GRANT RATE RECOVERY OF LTI COSTS RELATED TO
21 ENVIRONMENTAL LTI IN GAS RATES?

22 A. Yes. The individuals responsible for driving our carbon reduction strategy have
23 responsibilities with respect to our electric and gas businesses. Further, all of
24 our customers, regardless of whether they take gas service, electric service or

¹⁷ Minn. Stat. § 216H.02, subd. 1.

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1 both from the Company, benefit from our efforts to meet our carbon reduction
2 goals.

3

4 Q. PLEASE GENERALLY DESCRIBE THE TIME-BASED LTI.

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

12

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

14 A. In order to receive time-based LTI, the employee must remain with the
15 Company through the vesting period of each associated grant.

16

17 Q. HOW DOES THE THREE-YEAR PERFORMANCE PERIOD AFFECT THE LTI EXPENSE
18 FOR THE COST OF SERVICE?

19 A. LTI expense occurs ratably over a three-year period and, therefore, reflects LTI
20 plans in effect during each of the three years. Therefore, costs for the 2020,
21 2021 and 2022 LTI years are included in the cost of service for the 2022 test
22 year.

23

24 Q. DOES THE TIME-BASED LTI DIFFER BETWEEN NON-EXECUTIVES AND
25 EXECUTIVES? IF SO, HOW?

26 A. Yes. The non-executive time-based LTI payout is based on the end-of-the-
27 three performance years of Company performance. The actual award earned

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1 and paid is increased or decreased from the target amount based on a
2 performance goal, which is total shareholder return relative to a peer group for
3 each individual vesting year. All non-executives receive the same increase or
4 decrease. Time-based LTI provided to executives does not include this
5 performance element.

6
7 Q. WHAT AMOUNTS FOR THE LTI PROGRAM ARE INCLUDED IN THE 2022 TEST
8 YEAR?

9 A. The respective accrual amounts are as follows in Table 3:

10
11 **Table 3**
12 **Environmental & Time-based LTI (\$000s)**
13 **State of Minnesota Gas Jurisdiction**

14

15 Year	Environmental	Time-Based	Combined Total
16 2018 Actual	\$304	\$365	\$669
17 2019 Actual	\$248	\$417	\$665
18 2020 Actual	\$201	\$240	\$440
19 2021 Bridge Year*	\$126	\$222	\$349
20 2022 Test Year*	\$134	\$239	\$373

*Amounts at grant level (100%)

21 Q. HOW DOES LTI FIT INTO THE BROADER TOTAL REWARDS PROGRAM PICTURE?

22 A. The Company can achieve its goal of attracting and retaining employees at
23 higher levels within the Company and Xcel Energy only by offering LTI. The
24 design of the LTI program and the levels of LTI offered to select groups of
25 employees are market-based and require a greater level of commitment from
26 these employees. Without this element of compensation, employees in these
27 eligible positions would not have access to a competitively designed

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1 compensation package, the Company would be misaligned with market best
2 practices regarding compensation plan design, as confirmed by the Willis
3 Towers Watson Study (Exhibit____(RKL-1), Schedule 2), and the Company
4 would be at a great risk of not being able to attract or retain employees in these
5 positions.

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

15
16 **D. Recognition Program**

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

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

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Q. WHAT AMOUNTS FOR THE RECOGNITION PROGRAM ARE INCLUDED IN THE 2022 TEST YEAR?

A. The program amounts are as follows in Table 4:

Table 4
Recognition Expense O&M
State of Minnesota Gas Jurisdiction

Year	Recognition Total
2018 Actual	\$59,314
2019 Actual	\$77,035
2020 Actual	\$68,894
2021 Bridge Year	\$73,589
2022 Test Year	\$86,259

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.

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

A. The 2020 Willis Towers Watson Compensation Study analyzed the following elements:

- Xcel Energy’s base salary compared to competitive market total cash compensation levels;
- Xcel Energy’s total cash compensation (base salary + target annual incentive) compared to competitive market target total cash compensation;
- Xcel Energy’s total direct compensation (base salary + target annual incentive + long-term incentive) compared to competitive market target total direct compensation.
- Xcel Energy’s annual incentive targets compared to market annual incentive targets;
- Xcel Energy’s long-term incentive targets compared to market long-term incentive targets; and
- Xcel Energy’s level of compensation compared to the median and average levels of compensation paid by the comparison groups.

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

A. There were two comparison groups. The first group was composed of a large number of investor-owned utilities across the nation, including utilities both smaller and larger than Xcel Energy. The second group was composed of investor-owned utilities similar in revenue to Xcel Energy (51 companies

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1 responded to this survey at the management and professional job levels and 52
2 companies responded at the executive level).

3
4 Q. ON WHAT INFORMATION IS THE WILLIS TOWERS WATSON COMPENSATION
5 STUDY BASED?

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

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

14 A. We provided Willis Towers Watson the pay rates that were in effect as of March
15 16, 2020, which reflected a 3.0 percent average increase over the pay rates
16 effective March 2019.

17
18 Q. WHAT WERE THE RESULTS OF THE 2020 WILLIS TOWERS WATSON
19 COMPENSATION STUDY?

20 A. As shown on Table 5, the 2020 Willis Towers Watson Compensation Study
21 found that with the inclusion of AIP, the Company's median total cash
22 compensation levels are generally in line with other utilities. Without the target-
23 level AIP, however, the median total cash compensation provided would be
24 well below the overall utility market and would put the Company at a material
25 disadvantage in the competition for employees.

26

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1 Similarly, our compensation would be below market for executive and non-
 2 executive leadership without the LTI value of total compensation. LTI can be
 3 a significant portion of the compensation package offered to attract, retain, and
 4 motivate this group of employees to design, organize, lead, and manage a large-
 5 scale public utility.

Table 5
Compensation Study Comparison

Components of Xcel Energy Compensation	Compared to Base Salaries and Incentives of Utilities with Similar Revenues (Revenue Sample)*	Compared to Base Salaries and Incentives of Utilities Across the Nation (National Sample)
XE Base Salary vs. Market Base Salary	Below Market by 0.9%	Above Market by 0.3%
Base Salary Only (excludes Target AIP)	Below Market by 15.2%	Below Market by 13.0%
Target Total Cash Compensation (Base Salary + Target AIP)	Below Market by 1.9%	Above Market by 0.6%
Target Total Direct Compensation (Base Salary + Target AIP + Target LTI)	Below Market by 1.4%	Above Market by 3.3%

* Primary comparison group using median pay components

23 Q. WHAT DO YOU CONCLUDE FROM THE 2020 WILLIS TOWERS WATSON
 24 COMPENSATION STUDY?

25 A. The 2020 Willis Towers Watson Compensation Study illustrates that Xcel
 26 Energy's compensation structure provides a market level of compensation,
 27 which confirms that the Company's requested compensation expense in the test

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1 year is appropriate and reasonable. The study also confirms that the target level
2 annual incentives provided to employees through the AIP are aligned with those
3 for similar positions in the competitive market.

4
5 Without the AIP, however, the Company's total cash compensation would lag
6 its market peers (*i.e.*, large utilities) by 15.2 percent on average, which would put
7 the Company at a material disadvantage when competing for skilled employees.

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

17
18 Q. IS THE WILLIS TOWERS WATSON COMPENSATION STUDY THE ONLY STUDY THE
19 COMPANY RELIES UPON FOR PURPOSES OF BENCHMARKING?

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

26

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1 Q. HOW SPECIFICALLY DOES XCEL ENERGY USE THIRD-PARTY COMPENSATION
2 SURVEY DATA?

3 A. We use the compensation survey data to determine the internal pay grade of
4 our non-bargaining positions. An employee's compensation within the pay
5 grade range will be individually determined based on several factors, including
6 experience, skills, and performance. The Company also sets AIP and LTI
7 compensation targets for eligible positions, based on incentive levels and best
8 practice compensation design. We obtain refreshed survey data annually to
9 ensure our base pay structures and incentive opportunities remain competitive
10 in the market.

11

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

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

16

17 Q. BASED ON THE WILLIS TOWERS WATSON COMPENSATION STUDY, COULD ONE
18 REASONABLY CONCLUDE THE COMPANY IS PAYING TOTAL COMPENSATION
19 RATES AT MARKET COMPETITIVE LEVELS OF BASE PAY, AIP, AND LTI, AS
20 APPLICABLE?

21 A. Yes.

22

23 Q. BASED ON THE RECOVERY REQUEST TO LIMIT PORTIONS OF INCENTIVE
24 COMPENSATION EXPENSES, AIP CAPPED AT 25 PERCENT, AND LTI EXCLUDING
25 THE RELATIVE TSR EXPENSES, WOULD IT BE REASONABLE TO CONCLUDE
26 CUSTOMERS ARE NOT BEARING THE FULL BURDEN OF NECESSARY AND
27 REASONABLE EMPLOYEE COMPENSATION EXPENSES?

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1 A. Yes.

2

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

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

11

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

23

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

26 A. The Company's request is just and reasonable. The Company must incur the
27 costs of the Total Rewards Program to attract, retain, and motivate the

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1 employees needed to provide safe, reliable and increasingly carbon-free electric
2 service to our customers. The various elements of compensation comprising
3 the Total Rewards Program are each competitively aligned with the dollar value
4 and design found in the utility industry and follow best practices. Additionally,
5 as I discuss later in my Direct Testimony, the Company continually undertakes
6 initiatives to align the costs of its compensation and benefits with the overall
7 marketplace and to reduce costs for our customers. As a result of these efforts,
8 the costs associated with the Total Rewards Program are comparable to those
9 incurred by companies across the industry and represent reasonable costs of
10 providing service to the Company's customers.

11
12 Q. ON WHAT DO YOU BASE YOUR CONCLUSION?

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

20
21 **V. HEALTH AND WELFARE PROGRAMS AND COSTS**

22
23 Q. WHAT DO YOU DISCUSS IN THIS SECTION OF YOUR TESTIMONY?

24 A. I describe the healthcare and welfare programs that the Company offers to
25 eligible employees.

26

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1 **A. Active Health and Welfare Benefits**

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

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

6

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

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

16

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

18 A. After the participant meets the deductible, the plan covers 90 percent of costs
19 for the bargaining population, and 80 percent of costs for non-bargaining
20 employees, with bargaining employees or their dependents contributing 10
21 percent of medical costs and non-bargaining employees or their dependents
22 contributing 20 percent of medical costs. Both bargaining and non-bargaining
23 employees or their dependents contribute 20 to 50 percent of prescription drug
24 costs. Bargaining employees have a minimum and maximum cap on what they
25 need to pay for each individual prescription after their deductible is met.
26 Coinsurance continues until participants reach an annual out-of-pocket
27 maximum, which is \$3,500 per individual or \$7,000 per family. After

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1 participants meet the out-of-pocket maximum, the Plan covers all remaining
2 eligible medical and pharmacy expenses for the calendar year. Employees pay
3 a monthly premium for this HDHP, and a combination of their out-of-pocket
4 expenses and premiums covers 25 percent of the total cost for bargaining
5 employees and their dependents. Non-bargaining employees have a
6 combination of 25 percent of the total cost per employee, and 30 percent of the
7 total cost for non-bargaining dependents.

8
9 Q. PLEASE DESCRIBE BRIEFLY THE NATURE AND STRUCTURE OF THE OTHER
10 HEALTHCARE BENEFITS OFFERED TO EMPLOYEES AND THEIR FAMILIES.

11 A. I provide a brief description of the Company's dental and vision plans as well
12 as the disability benefits and life insurance in Exhibit___(RKL-1), Schedule 5.

13
14 Q. WHAT IS THE REQUESTED LEVEL OF ACTIVE HEALTH COSTS IN THE 2022 TEST
15 YEAR?

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

18
19 Q. ARE CUSTOMERS BEARING THE ENTIRE COST OF ACTIVE EMPLOYEE
20 HEALTHCARE?

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

27

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1 Q. WHY IS IT IMPORTANT FOR XCEL ENERGY TO OFFER HEALTH AND WELFARE
2 BENEFITS FOR EMPLOYEES AND THEIR FAMILIES?

3 A. The active health and welfare benefits that the Company offers to its employees
4 are important elements of the Total Rewards Program. Without health and
5 welfare benefits that are comparable to those offered by other utilities and other
6 companies against which we compete for employees, it would be very difficult
7 for the Company to attract, retain, and motivate qualified employees, including
8 current employees with many years of training whose expertise benefits the
9 Company and its customers. Therefore, the Company and its customers share
10 an interest in ensuring that the Company is able to offer a competitive package
11 of health and welfare benefits.

12

13 Q. WHY IS IT REASONABLE FOR CUSTOMERS TO BEAR PART OF THE COSTS FOR
14 ACTIVE HEALTH AND WELFARE BENEFITS FOR EMPLOYEES AND THEIR
15 FAMILIES?

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

24

25 Q. PLEASE DESCRIBE PROGRAM DESIGN CHANGES THE COMPANY HAS
26 IMPLEMENTED SINCE THE COMPANY'S 2009 RATE CASE TO MANAGE THE COSTS
27 OF THE HEALTH AND WELFARE BENEFITS.

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1 A. The Company is always working to control costs without increasing costs to
2 employees.

3 • Contracts with benefit vendors are monitored and renegotiated on an
4 ongoing basis. These negotiations focus on administrative fee reductions,
5 better performance guarantees and rebates, and improved discounts on
6 provider networks. All of these efforts contribute to Xcel Energy's ability
7 to minimize rising healthcare costs and benefit administration costs
8 charged by third parties.

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

22

23 Q. HAS THE COMPANY TAKEN OTHER STEPS TO MANAGE THE COST OF HEALTH
24 AND WELFARE BENEFITS?

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

27 • Xcel Energy offers a HDHP medical plan to encourage participating

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1 employees to make (1) healthier lifestyle choices; and (2) informed
2 consumer choices when utilizing healthcare providers;

- 3 • To help mitigate pharmacy costs, Xcel Energy’s pharmacy coverage
4 mandates that employees fill prescriptions with generic drugs when
5 available, unless there is medical need to use a brand name;
- 6 • Effective January 2018, Xcel Energy introduced a monthly surcharge for
7 non-bargaining employees and spouses and domestic partners who are
8 tobacco users enrolled in the medical plan. This group of participants
9 tend to have higher healthcare expenses than non-tobacco users; and
- 10 • Effective January 2017, Xcel Energy introduced a monthly surcharge for
11 non-bargaining employees for coverage of a spouse or domestic partner
12 when that spouse or partner’s employer offers medical coverage.

13
14 Q. WHAT HAS BEEN THE EFFECT OF THESE CHANGES?

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

24
25 Although it is difficult to identify direct savings from these changes, the intent
26 of the plan modifications was to mitigate cost increases on a long-term basis, in
27 part by motivating employees to be more cost-conscious consumers of medical

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1 and dental care, and also to live healthier lifestyles. We also know that it can
2 take time to see cost impacts resulting from program design changes. Based
3 upon the cost trends discussed in Mr. Schrubbe’s Direct Testimony, it appears
4 that our efforts to slow the pace of healthcare cost increases are succeeding.

VI. EMPLOYEE RETIREMENT PROGRAMS

7
8 Q. WHAT RETIREMENT BENEFITS DOES XCEL ENERGY OFFER ITS EMPLOYEES?

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

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

21
22 We summarize changes made to the retirement plan in Exhibit____(RKL-1),
23 Schedule 3.

24
25 Q. IS THE COMPANY SEEKING RECOVERY OF COSTS ASSOCIATED WITH ALL OF THE
26 RETIREMENT BENEFITS THAT IT OFFERS?

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

7

8 **A. Defined Benefit Plan**

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

10 A. We offer newly hired employees a 5 Percent Cash Balance formula, under which
11 the Company contributes five percent of the employee's eligible annual pay into
12 a notional account. This account has interest credited to it annually based on
13 the 30-year Treasury rates. This plan is similar to a savings account or a 401(k)
14 plan, so employees easily understand the plan value. Non-bargaining employees
15 hired prior to January 1, 2012 and bargaining employees hired prior to January
16 1, 2011 are eligible for the 10 percent Pension Equity Plan (PEP) formula, which
17 results in employees receiving 10 percent of their highest 48 months of
18 consecutive earnings per year of service.

19

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

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

- 24 • The defined benefit pension plan, along with our defined contribution
25 plan, aligns with our Total Rewards Program strategy to provide a shared
26 responsibility between employee and employer to accumulate retirement
27 assets.

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- 1 • By providing a pension plan in which the employee can count on a
2 defined amount of retirement benefits, we are able to manage an orderly
3 transition of employees into retirement. This provides Xcel Energy an
4 opportunity to effectively manage our workforce at the end of the
5 employees' careers, appropriately prepare for knowledge transfer, and
6 manage our training and succession planning.
- 7 • Given the same benefit levels, pension plans can be a less expensive
8 vehicle for delivering retirement benefits than a defined contribution
9 plan, in both the short-term and the long-term. That is because the
10 Company is able to utilize investment earnings to fund future benefit
11 obligations, which reduces future cash flow requirements. In a defined
12 contribution plan, those earnings on the Company's contributions
13 belong to the employee.
- 14 • Studies show more employees, including younger employees, value the
15 security of retirement benefits.¹⁸

16
17 **B. Defined Contribution Plan**

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

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

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

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C. Retiree Medical Expense

1 **C. Retiree Medical Expense**
2 Q. PLEASE DESCRIBE THE COMPANY'S RETIREE MEDICAL BENEFIT.

3 A. For bargaining employees who retired prior to 2000 and non-bargaining
4 employees who retired prior to 1999, the Company provides subsidized medical
5 and pharmacy coverage at varying levels based on the year in which the
6 employee retired. Employees who retired after those dates receive access to
7 medical coverage but are responsible for 100 percent of the cost. Mr. Schrubbe
8 has outlined the retiree medical expenses in his Direct Testimony.

9
10 Q. WHY IS IT REASONABLE FOR RETIREE MEDICAL EXPENSE TO BE INCLUDED IN
11 RATES?

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

18
19 Q. WHAT DO YOU CONCLUDE REGARDING THE COMPANY'S RETIREMENT
20 PROGRAM?

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

27

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VII. CONCLUSION

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Q. PLEASE SUMMARIZE YOUR TESTIMONY AND RECOMMENDATIONS.

A. The Company offers a conservative, yet comprehensive, Total Rewards package to employees with the goal of providing market competitive levels of compensation and benefits. The Company follows industry best practices related to the design and maintenance of its compensation programs. Base pay and incentives are rooted at the market median pay level, indicating they are reasonable expenses, which are necessary to attract, retain and motivate our employees.

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

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

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

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.

**PUBLIC DOCUMENT –
NOT PUBLIC DATA HAS BEEN EXCISED**

**Schedule 2 – Willis Towers Watson Study on Competitive Annual
Incentive and Total Cash Compensation Analysis Without 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

Dates	Defined Benefit Plan (Pension)	Defined Contribution Plan (401(k))
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



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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 http://xpressnet/Our Company/Planning and Performance/High Level Scorecards	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 ¹			Incentive Target	Components Weights ²	
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]		

¹ 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.

² 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

Effective date of Program 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.

Approval and Timing of Payment After the 2019 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. If the status changes from 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.

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 1st 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.



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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 http://xpressnet/Our_Company/Planning_and_Performance/High_Level_Scorecards	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 ¹			Incentive Target	Components Weights ²	
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]		

¹ 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.

² 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	Customer Satisfaction <i>(JD Power residential survey)</i>	729	741	753	20%
	Wind Deployment <i>(Steel for Fuel)</i>	Capital Variance at +2%	Capital Variance at 0%	Capital Variance at -2%	20%
Keep Bills Low	Employee Safety¹ <i>(safety culture)</i>	Declining	Steady/Improving	Significant Improvement	20%
Safety and Reliability	Public Safety <i>(gas emergency response)</i>	90%	95%	99%	20%
	Electric System Reliability <i>(SAIDI)</i>	99	92	85	20%

¹ 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 1st 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.



**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 High Level Scorecards (xcelenergy.com)	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 ¹				Incentive Target	Components Weights ²	
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%

¹ 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.

² 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	Customer Satisfaction <i>(JD Power residential survey)</i>	747	762	777	20%
	Public Safety <i>(gas emergency response)</i>	91%	96%	99%	20%
Enhance Customer Experience	Electric System Reliability <i>(SAIDI)</i>	100	92	84	20%
Keep Bills Low	Employee Safety¹ <i>(safety culture)</i>	Declining	Steady/ Improving	Significant Improvement	20%
	Diversity, Equity & Inclusion <i>(index)</i>	100	200	300	10%
Safety and Reliability	Wind Availability <i>(equivalent availability factor)</i>	92.0%	94.5%	97.0%	10%

¹ 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 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, 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 1st 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

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| 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. |

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.