Direct Testimony and Schedules
Richard R. Schrubbe

Before the Minnesota Public Utilities Commission
State of Minnesota

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

Docket No. E002/GR-15-826
Exhibit___(RRS-1)

Pension and Benefits Expense

November 2, 2015

Table of Contents

Schedules

Terms and Acronyms

ACM	Aggregate Cost Method
Commission	Minnesota Public Utilities Commission
Company	Northern States Power Company – Minnesota
DB	Defined Benefit
EEI	Edison Electric Institute
ERISA	Employee Retirement Income Security Act
EROA	Expected Return on Assets
FAS	Statement of Financial Accounting Standard
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
IBNR	Incurred But Not Reported
IRC	Internal Revenue Code
LTD	Long-Term Disability
NSPM	Northern States Power Company – Minnesota
PBGC	Pension Benefit Guaranty Corporation
PBO	Pension Benefit Obligation
PGA	Pacific Global Advisors
PTAC	Pension Trust Administrative Committee
PVFB	Present Value of Future Benefits
PwC	PricewaterhouseCoopers LLC
Xcel Energy	Xcel Energy Inc.
XEPP	Xcel Energy Pension Plan
XES	Xcel Energy Services Inc.

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND OCCUPATION.

A. My name is Richard Schrubbe. I am the Director of Corporate and Benefits Accounting for Xcel Energy Services Inc. (XES), which provides services to Northern States Power Company – Minnesota (NSPM or the Company).

Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

A. I am responsible for accounting for all employee benefits programs, playing a liaison role with the Human Resources department, external actuaries, and senior management with benefit fiduciary roles for Xcel Energy and its subsidiaries. I am also responsible for coordinating the benefits operations and maintenance (O&M) and capital budgeting and forecasting processes, as well as the monthly analysis of actual results against these budgets and forecasts. Most recently, I have taken on responsibilities associated with the oversight of the administration of XES, including accounting, billing, allocations, policies and procedures, service agreements, internal audits, external audits, and external reporting to state and federal regulatory agencies. A summary of my qualifications, duties and responsibilities is included as Exhibit___(RRS-1), Schedule 1.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I discuss the pension plans and other non-cash benefits the Company offers to its eligible employees and their families, and I present the costs of these benefits in the multi-year rate plan period, which is the period from 2016-2018. In addition, I discuss pension cost accounting principles and explain

how the Company's pension expense necessarily reflects the cumulative effect of pension asset gain and loss experiences.

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

Q. THE COMPANY'S LAST RATE CASE APPLICATION INCLUDED EXTENSIVE TESTIMONY ON THE PENSION ASSET LOSSES THE COMPANY EXPERIENCED AS A RESULT OF THE SEVERE MARKET DOWNTURN IN 2008. DOES YOUR TESTIMONY IN THIS CASE DISCUSS THE 2008 MARKET LOSS?

A. Not to the same extent. In our last two rate cases, there was significant focus on the 2008 market loss and its effect on our pension expense. It is our understanding that in our last rate case the Commission determined the 2008 market loss should be recovered in rates, so that it is not a focus of our testimony in this case.

Q. HOW WAS THE 2008 MARKET LOSS ADDRESSED IN YOUR LAST TWO RATE CASES?

A. In Docket No. E002/GR-12-961, the phase-in and amortization of the 2008 market loss resulted in a large increase in our 2013 test year pension expense compared to our previous rate case test year, which was 2011. To mitigate the

impact of this increase for our customers, we proposed, and the Commission approved, a cap and deferral mechanism for XES pension expense, as well as a deferral and amortization mechanism for NSPM pension expense[1] for the 2013 test year pension costs related to the 2008 market loss. These deferral mechanisms are still in place and are reflected in the pension expense calculations in this current case. Because we did not provide detailed information in Docket No. E002/GR-12-961 explaining how the 2008 market loss is reflected in pension expense, the Commission required that we provide testimony in our next rate case to explain pension accounting and why it is appropriate to include the 2008 market loss in our pension expense and recover these costs from customers.

In our last rate case (Docket No. E002/GR-13-868), we provided extensive discussion of pension cost accounting principles, specifically addressing how pension asset gain and loss experiences are phased in and amortized. We demonstrated how pension asset gains benefit customers and thus why it is symmetrical and appropriate to include asset losses in pension expense calculations and to recover these costs from customers. In Docket No. E002/GR-13-868, the Commission approved our 2014 test year pension expense, which reflected the 2008 market loss phased in and amortized under the normal pension accounting calculations. As we indicated in our last two rate cases, our 2013 pension expense reflected the highest level of the 2008 market loss amortization. Section V.B. of my testimony shows that our annual pension expense has decreased each year since 2013, and that decrease continues through the multi-year rate plan period, in part due to the decrease

[1] The two deferral mechanisms are necessary because the XES and NSPM pension plans use different accounting methods. I discuss these accounting methods in detail in Section III of my testimony.

in the asset loss amortization. Exhibit___(RRS-1), Schedule 3 to my testimony shows how the 2008 market losses have flowed and continue to flow through the pension expense calculation.

While I do not discuss the 2008 market loss at the level of detail provided in our last case, in Section III of my testimony I discuss pension accounting in detail, including the phase in and amortization of pension asset gain and loss experiences.

Q. ARE THERE OTHER TOPICS COVERED IN YOUR TESTIMONY OR CHANGES SINCE YOUR LAST RATE CASE THAT YOU WOULD LIKE TO HIGHLIGHT?

A. Yes. First, in Order Point 6 in Docket No. E002/GR-13-868, the Commission approved the use of a five-year average discount rate for our XES pension plan under Statement of Financial Accounting Standard (FAS) 87. The Company still believes that it is appropriate to use the discount rate established using a single-year bond-matching study, and we reserve the right to propose such a study as the basis for setting the proper discount rate in future cases. However, we are proposing to use a five-year average discount rate in this case to reduce the potential number of disputed issues. I discuss the discount rate and other pension assumptions in detail in Section IV of my testimony.

Second, to respond to the Commission's Order Points 10 and 11 in Docket No. E002/GR-13-868, I provide additional testimony in this case on our prepaid pension asset and unfunded accrued liability costs associated with retiree medical and post-employment benefits. In Section VII of my

testimony, I support the Company's request to include the net rate base increase associated with these benefit costs.

Finally, the topic of our pension fund investments was raised in our last rate case. In response to Order Point 11 in Docket No. E002/GR-13-868, Company witnesses Mr. George E. Tyson II and Mr. Evan Inglis provide information related to our pension fund investments.

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

A. Yes. Company witness Ms. Ruth K. Lowenthal discusses the cash compensation offered by the Company, as well as the steps the Company has taken to help mitigate pension and benefit cost increases.

Q. WHAT ORDER POINTS FROM COMMISSION ORDERS DO YOU ADDRESS IN YOUR TESTIMONY?

A. Table 1 below lists the order points I respond to from Commission Orders in our most recent rate case (Docket No. E002/GR-13-868) and our 2013 test year rate case (Docket No. E002/GR-12-961). Table 1 lists the page numbers of my testimony where each is addressed, or provides references to the testimony of other Company witnesses who respond to any portion of these order points related to pension issues.

Table 1
Order Point Requirements

Docket No. Order Point	Requirement	Page Numbers
13-868 6	The Company shall use 5.05% (a five-year average of discount rates determined under Financial Accounting Standard 87) as the approved discount rate to determine its XES Plan pension costs for ratemaking purposes.	p. 38
13-868 7	The Company shall apply the rolling five-year average FAS 87 discount rate when determining the XES Plan cost subject to deferral (or reversal) in subsequent years (i.e., non–rate-case test years) as the 2012 mitigation established in Docket No. E-002/GR-12-961 continues.	p. 39
13-868 10	The qualified pension asset and associated deferred-tax amounts shall be included in rate base. For rate-base purposes, the pension asset is to reflect the cumulative difference between actual cash deposits made by the Company reduced by the recognized qualified pension cost determined under the ACM/FAS 87 methods since plan inception, not to exceed the Company's filed request. The Company shall provide a detailed compliance filing which explains the calculated amount within ten days of the Commission's decision.	p. 85 Schedule 14
13-868 11	In the initial filing of its next electric rate case, the Company shall: a. Address why the target asset allocations for its pension fund are reasonable, including ages of retirees and employees. The Company must provide an update to its existing Exhibit 31 (Tyson Rebuttal), Schedule 1 and expand it to include this demographic information.	See George Tyson and Evan Inglis
	b. Provide testimony on its investment strategies and target asset allocations for the qualified pension fund and the justifications for those decisions, for the period from 2007 to the date of its next filing.	See George Tyson and Evan Inglis
	c. Provide copies of the actuarial reports used to determine employee benefit costs, including its schedules denoting each subsidiary's cost assignments for each benefit. The Company must also include workpapers that show the derivation of the jurisdictional portion of each benefit cost.	p. 65, 75, 77 & 100 Schedule 11 & 12 See also Anne Heuer
	d. Provide testimony that identifies and discusses each non-qualified employee-benefit cost included in its test years.	NA
	e. Include testimony identifying the basis used for its requested rate-base impact related to pensions. Additional schedules must be included that reflect the underlying calculation of the qualified pension asset (or liability) balances requested for rate-base inclusion.	p. 79 - 92 Schedule 15 See also Anne Heuer

13-868 13	The discount rate used to calculate retiree medical benefit costs for ratemaking purposes shall be set to equal 5.08%, the five-year average of the FAS 106-based discount rates.	p. 70-71
13-868 14	Any amount by which the qualified pension expense allowed in rates exceeds future years' qualified pension expense (calculated using the Commission-approved discount-rate point of reference) the Company shall apply toward the recovery of the accumulated deferred XES Plan costs. "Future years" includes 2015, and each subsequent year's qualified pension expense if not a rate-case test year. The recoverable XES Plan expense amount shall be calculated using the proximate measurement date appropriate for each operating year (12/31/2013 for 2014; 12/31/2014 for 2015, etc.) until the next rate case. The Company shall file annual compliance reports which provide its pension plans' cost-calculation reports, the XES Plan accumulated deferred balance, and the excess rate-level recovery applied toward satisfying the deferral. Deferred amounts shall not be included in rate base.	p. 68-69 Schedule 13
13-868 16	In the initial filing of its next electric rate case, the Company shall: a. discuss the cost components of the postretirement benefits plans cost (other than pensions) affecting Minnesota rates, particularly the drivers of the amortization of net gain/loss amount and the reasons this component amount has varied since its last rate case (Docket No. E002/GR-13-868); and b. provide the report of future years' actuarial cost projections of the postretirement benefits (other than pensions), clearly identifying the assumptions and measurement point used to develop these projections.	p. 70-75 Schedule 11
13-868 17	In its next rate case the Company shall provide historical active health care costs since 2011 for each calendar year, including both the per-book amount and the actual claims expense. The Company shall also provide information detailing the annual year-end Incurred But Not Reported (IBNR) accruals and subsequent reversals.	p. 92-94
12-961 37	The Company shall not be permitted to include a compensating return on the pension's unamortized asset loss balance.	p. 68
12-961 40	In future rate case filings, Xcel shall include for each pension plan schedules of its 2008 market loss amortization, for the entire amortization period, until the 2008 market loss amortization has been extinguished.	Exhibit___(RRS-1) Pages 23-24 and Schedule 3

Q. DO YOU PROVIDE ANY ADDITIONAL INFORMATION RELATED TO COMPENSATION AND BENEFITS?

A. Yes. Appendix A provides a list of relevant information requests from the 12-961 and 13-868 rate cases that I have already responded to in this case, with new timeframes as appropriate to reflect the November 2, 2015 filing date of this case, indicating where the responsive information is included in my testimony or schedules.

Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

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

- Section II, *Pension and Benefits Overview*, provides a summary of the pension and benefit costs included in our multi-year rate request.
- Section III, *Pension Cost Accounting*, discusses pension accounting principles and how the Company calculates its pension expense.
- Section IV, *Pension Assumptions*, presents the primary assumptions used to calculate our pension costs in this case.
- Section V, *Qualified Pension and 401(k) Match Costs*, supports the need for both retirement plans and quantifies the test year and multi-year rate plan expense amounts.
- Section VI, *Retiree Medical and FAS 112 Long-Term Disability Benefits*, presents information and costs related to our request for recovery of post-retirement healthcare and long-term disability benefits.
- Section VII, *Benefit Rate Base Assets and Liabilities*, discusses ratemaking treatment of both the Company's prepaid benefit costs and unfunded accrued liability costs.
- Section VIII, *Active Health and Welfare Costs*, provides details related to the active healthcare costs included in our rate request.

- Section IX, *Workers' Compensation FERC 925 Costs*, provides details related to the workers' compensation costs included in our rate request.
- Section X, *Conclusion*, summarizes the Company's request for recovery of pension and benefit-related costs.

II. PENSION AND BENEFITS OVERVIEW

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

A. With the exception of workers' compensation costs discussed in Section IX of my testimony, our pension and benefits costs are recorded in FERC Account 926. The Company has grouped its pension and benefit costs into three categories based on similar budgeting practices and cost recognition requirements. The three categories are: (1) actuarial costs; (2) health and welfare costs; and (3) other retirement costs.

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

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

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

A. Table 2 below sets forth the benefit amounts approved in our last rate case, the forecasted 2015 expense amounts, and the forecast amounts for each year of the multi-year rate plan.

Table 2
Pension and Benefit Expense Summary ($)

FERC Account 926 Pension and Benefit Costs for NSPM Electric O&M, State of Minnesota					
FERC 926 Benefit Type	**Amount Approved in Docket No. 13-868**	**2015 Forecast**	**2016 Test Year**	**2017 Plan Year**	**2018 Plan Year**
Actuarial Costs					
Qualified Pension (1)	20,923,341	19,845,733	18,920,755	17,859,309	17,194,011
Nonqualified Pension		1,457,597			
FAS 106 Retiree Medical (2)	2,202,778	1,501,210	1,381,774	1,270,285	1,155,072
FAS 112 LTD	171,948	614,102	185,994	174,623	164,583
Total Actuarial Costs	**23,298,067**	**23,418,642**	**20,488,524**	**19,304,217**	**18,513,667**
Health & Welfare					
Active Health Care	32,207,553	35,804,942	37,771,334	39,915,575	42,417,514
Misc Ben Programs, Life, LTD	3,135,796	4,043,902	4,210,946	4,274,563	4,321,771
Total Health & Welfare	**35,343,349**	**39,848,844**	**41,982,280**	**44,190,138**	**46,739,286**
Other Retirement					
401(k) Match	8,012,615	8,616,872	8,934,795	9,194,800	9,477,369
Deferred Comp Match	32,807	42,900	36,387	39,280	42,144
NMC Employer Ret. Contr.	763,161	791,862	895,019	921,911	949,575
FAS 88 Settlement		830,682			
Ret. & Comp Consulting	673,136	564,171	540,212	523,952	472,823
Total Other Retirement	**9,481,719**	**10,846,488**	**10,406,412**	**10,679,943**	**10,941,910**
Total FERC 926	**68,123,136**	**74,113,974**	**72,877,216**	**74,174,298**	**76,194,863**

(1) Reflects NSPM calculated under the Aggregate Cost Method using a 20 year amortization. XES amount calculated using the 5-year average discount rate and the amount (deferred) / amortized resulting from XES pension costs being above or below the 2011 cap amount approved by the Commission in Docket No. E002/GR-12-961 and continued in Docket No. E002/GR-13-868.

(2) Calculated using the 5-year average discount rate.

Q. IS THE COMPANY SEEKING TO RECOVER THE FORECASTED PENSION AND BENEFITS EXPENSE AS SHOWN IN TABLE 2 AS PART OF ITS MULTI-YEAR RATE PLAN?

A. Yes. Company witnesses Ms. Anne E. Heuer and Mr. Charles R. Burdick have incorporated the forecasted amounts into the 2016 test year and the 2017 and 2018 multi-year rate plan revenue requirements.

Q. WHY IS THE COMPANY INCLUDING FORECASTED PENSION AND BENEFIT AMOUNTS IN THE 2017 AND 2018 REVENUE REQUIREMENTS WHEN THE COMPANY IS PROPOSING TO USE ESCALATION INDICES TO ESTABLISH EXPENSE LEVELS FOR OTHER O&M COSTS IN THE 2017 AND 2018 PLAN YEARS?

A. As discussed in detail throughout my testimony, our forecasts of pension and benefit costs included in FERC Account 926 are formulaic, calculated in accordance with accounting rules and standards, based on actuarial assumptions specific to the Company, and in some cases reflect specific regulatory treatment required by prior Commission Orders. Mr. Burdick provides support for including these forecasted amounts in the 2017 and 2018 revenue requirements.

Q. HOW DO THE AMOUNTS OF PENSION AND BENEFIT EXPENSE IN 2016, 2017, AND 2018 COMPARE TO THE ACTUAL AMOUNTS INCURRED IN PRIOR YEARS?

A. Exhibit___(RRS-1), Schedule 2 to my testimony contains a comparison of the pension and benefit expense amounts in 2016-2018 to the amounts of actual expense in prior years.

Q. HOW DO THE COMPANY'S ACTUAL PENSION AND BENEFIT EXPENSE IN PRIOR YEARS COMPARE TO THE PENSION AND BENEFIT EXPENSE INCLUDED IN RATES IN THOSE YEARS?

A. The first line in Table 3 below shows the difference between the actual FERC Account 926 expense versus the amount of FERC Account 926 expense included in rates for the period from 2010 through the 2015 forecast. The second line in Table 3 shows the same data but includes adjustments to the actual expense amounts to make it comparable to the amount in rates. For example, the second line excludes the actual expenses for non-qualified pension because these costs are not included in rates from 2013 to 2015.

Table 3
Pension and Benefits Expense Recovered in Rates ($)

	Amount Over / (Under) Collected NSPM Electric O&M, State of Minnesota					
	2010	2011	2012	2013	2014	2015 Fcst
Recognized Expense	(10,359,619)	1,647,653	(13,798,966)	(8,184,458)	(4,129,727)	(6,350,268)
Recognized Expense with Adjustments *	(9,820,151)	1,647,653	(11,222,455)	(4,843,339)	(3,907,538)	(3,264,651)

* Excludes amounts the Company is not seeking recovery for in this case such as FAS 88 settlement and nonqualified pension.

As Table 3 shows, in all but one of the past six years the Company's pension and benefit expense has been considerably greater than the amount of pension and benefit expense included in the rates charged to our Minnesota customers. Even after excluding items that are not included in rates, the Company has significantly under-recovered its pension and benefit expenses.

Q. WHY HAVE THE COMPANY'S ACTUAL AMOUNTS INCURRED FOR PENSION AND BENEFIT EXPENSE EXCEEDED THE AMOUNTS ALLOWED IN RATES?

A. Even though the Company employees' pension and benefit levels have not increased over this period – and in some cases have been reduced – pension and benefit expense generally increases from year to year. This is because many of the pension and benefit costs are driven by salary increases and general inflation.

Q. WHAT IS THE SIGNIFICANCE OF THE COMPANY'S ACTUAL PENSION AND BENEFIT EXPENSE BEING HIGHER THAN THE PENSION AND BENEFIT EXPENSE ALLOWED IN RATES?

A. I provide this information to show that in aggregate, our pension and benefit costs have been increasing over time, and the Company has not recovered all of these costs. In prior cases, there has been some focus on individual elements of pension and benefit expense. Some parties have recommended disallowance of costs for an individual expense component because the actual amount incurred by the Company in a prior year was lower than the amount included in rates for that prior year. I am providing the comparison of total amounts actually incurred to amounts included in rates to show that we do not believe it is appropriate to focus on only one element of expense in isolation. The pension and benefit expense should be viewed on an aggregate basis.

III. PENSION COST ACCOUNTING

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

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

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

A. The Company has two qualified pension plans, the NSPM Plan and the XES Plan. Employees of NSPM are eligible to participate in the NSPM Plan, and employees of our service company subsidiary, XES, are eligible to participate in the XES Plan.

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

A. No. Pension costs under the NSPM Plan are determined under the Aggregate Cost Method (ACM), whereas pension costs for the XES Plan are determined in accordance with FAS 87.[2] As I explain below, however, the ultimate goal of both methods is the same – to provide an actuarially sound basis to calculate and recover over the course of an employee's career the amount of money that will be necessary to satisfy the Company's pension obligation to that employee. In effect, both methods allow the Company to reflect a current expense associated with a future liability.

A. The Nature of Pension Expense

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

A. No. Pension expense represents an accrual for a future liability rather than the cash to pay benefits in a given year. Thus, pension expense is more similar to our nuclear decommissioning accrual, which is an expense in our cost of

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

service, than it is to, say, contractor expense for our vegetation management, which more closely represents cash that flows out the door in a given year.

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

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

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

A. A fundamental component of pension expense is the experience from prior years. That is, the current year's pension expense is determined by knowing the existing value of the assets in the trust as well as the forecasted future liability. To the extent the existing value of the assets is higher than what was initially forecasted, the level of expense is reduced, as there is less future cost to be recognized in the current period. To the extent the existing value of the assets is lower than what was initially forecast, then the expense level is higher.

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

A. The elements used to calculate pension costs are established at the beginning of each year based on actuarial studies that account for factors such as the

expected salary increases, expected mortality rates, the Expected Return on Assets (EROA), the discount rate and other factors. At the end of the year, the assumptions are trued up to actual experience, and the differences give rise to gains or losses.

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

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

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

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

experiences is a key component of the annual pension expense calculation, as I will discuss in the next subsection of my testimony.

B. Treatment of Gain and Loss Experiences

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

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

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

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

is spread over the remaining service lives of existing employees. As I will explain below, this is not an amortization in the same sense as the FAS 87 amortization, but it achieves similar results in that it results in the spreading of unrecognized gains and losses over a period of years.

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

A. Asset gains or losses arise when the actual returns on the pension trust assets in a given year are greater than or lesser than the expected return on those assets. Suppose, for example, that the plan expects a 7 percent return on its pension trust assets, which total $1 billion. The expected return for that year would be $70 million. If the actual return in that year is 9 percent, the asset gain will be $20 million. Of course, the opposite can also occur. If the expected return is 7 percent and the actual return on the assets is 5 percent, the plan suffers a $20 million asset loss.

Liability gains and losses arise when the other components of pension expense differ from expectations. Those components include such things as the discount rate, the expected number of retirements, and wage increases. For example, if the Company assumes a 4 percent discount rate at the beginning of the year but the actual discount rate measured at year end for the next year turns out to be 5 percent, the Company will have a liability gain because the higher discount rate reduces the amount the Company must set aside to satisfy future pension liabilities.

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

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

Q. HAVE YOU PROVIDED ANY EXAMPLES OF THE DISTINCTION BETWEEN ASSET GAINS AND LOSSES AND LIABILITY GAINS AND LOSSES?

A. Yes. Exhibit___(RRS-1), Schedule 3 shows the asset gains and losses and the liability gains and losses from 2008 to 2014.

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

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

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

A. The term "phase in" is used to describe the process of moving asset gains or losses into an amortization pool. Under FAS 87 and the ACM, the asset gains or losses are incorporated into the calculation of pension expense over a

period of five years. Thus, 20 percent of a gain or loss is phased into the amortization pool during the first year after the gain or loss occurs, another 20 percent is phased into the amortization pool during the second year after the gain or loss occurs, and so forth until the fifth year, when the full amount of the gain or loss is phased in. Unlike asset gains or losses, liability gains and losses are not phased in. The portion of gains and losses that enter the amortization pool are then amortized over a specific period of years if they satisfy the criteria I discuss below.

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

A. The assumptions used to establish pension liability (e.g., mortality rates, discount rates, etc.) typically do not vary greatly from year to year, and therefore the drafters of FAS 87 did not consider it necessary to require the phase in of liability gains and losses. In contrast, the market returns on pension fund assets can vary greatly from year to year, as evidenced by the dramatic difference between the EROA and the actual returns that the Company experienced on its pension fund assets in 2008. Because of the effects that such volatility would have on businesses' income statements, the drafters of FAS 87 decided that it was appropriate to phase in market gains and losses.

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

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

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

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

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

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

If amortization of the unrecognized gains or losses is required, the amortization amount is equal to the amount of the unrecognized gain or loss in excess of the corridor divided by the average remaining future service of the active participants in the plan. For the Company's FAS 87 plan this is approximately 10 years.

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

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

1) it calculates the difference between the market-related value of the assets and the PVFB;
2) if the PVFB exceeds the market-related value, the Company calculates the number of years over which to recover the difference; and
3) the difference is divided by the number of years to determine the amount of pension expense that would need to be recovered in the current year in order to fund the shortfall.

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

2 calculation "resets" the amount and the period over which the amount is to be funded.

In short, prior years' experience, whether positive or negative, is incorporated into the calculation of the current period recognition of pension expense.

Exhibit___(RRS-1), Schedule 4 contains a decision tree for FAS 87 and a decision tree for the ACM. Both show the process for determining whether to amortize gains or losses.

Q. ORDER POINT 40 OF THE COMMISSION'S SEPTEMBER 3, 2013 ORDER IN DOCKET NO. E002/GR-12-961 IS RELATED TO PRIOR PERIOD GAINS AND LOSSES. IT REQUIRES THE COMPANY TO "INCLUDE FOR EACH PENSION PLAN SCHEDULES OF ITS 2008 MARKET LOSS AMORTIZATION, UNTIL THE 2008 MARKET LOSS AMORTIZATION HAS BEEN EXTINGUISHED." IS THE COMPANY PROVIDING THAT INFORMATION?

A. Yes. Exhibit___(RRS-1), Schedule 3 shows the estimated 2008 Market Loss amortization by year and plan, as well as the Company's experience in each year since 2008. Schedule 3 also depicts the phase-in of the asset gains or losses, as well as the amortization of the net unamortized balances of gains and losses, with the acknowledgement that our effort to break apart the NSPM Plan provides a similar look but against a different construct than the look at the FAS 87 tracked gains and losses.

Q. WHY DOES SCHEDULE 3 NOT SHOW THE 2008 MARKET LOSS AMORTIZATION UNTIL IT HAS BEEN EXTINGUISHED, AS DIRECTED BY ORDER POINT 40?

A. In accordance with the requirements of ACM and FAS 87 accounting standards, the net amount to be amortized is reset every year. This means that the net unamortized balance at the beginning of each year is divided by a fixed number, as required by each method. For FAS 87, this fixed number is the average remaining service period for active employees, which is approximately ten years. For ACM, this fixed number is determined using the 20-year amortization basis, which at a 7.25 percent discount rate is approximately 11 years. This leads to a declining amortization payment schedule over time, but because the amounts are reset each year, the amount is not fully extinguished in 20 years. The balance grows smaller over time, but because of the annual resetting, it takes a very long time to extinguish it. Schedule 3 shows the first twenty years of these payments.

Q. DO THE AMOUNTS ON SCHEDULE 3 SET FORTH THE COMPANY'S PENSION EXPENSE IN THE TEST YEAR?

A. No. The discussion of pension expense up to now has been only about how the pension asset gain and loss experiences are recorded and carried forward for incorporation into the current year's pension expense. In the following Section C, I will describe how the current year's pension expense is calculated under the ACM and FAS 87, and how that current pension expense incorporates past pension asset gain and loss experiences. I will also explain how the current pension expense incorporates liability gains and losses.

C. Calculation of Pension Expense under the ACM

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

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

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

A. The ACM is based on a normalized level of long-term cash funding requirements measured as a constant percentage of payroll. Under the ACM, the pension cost is the normalized amount that would need to be paid into the pension fund each year to fund earned benefits. Based on specific actuarial assumptions such as the discount rate, projected salary levels, and mortality, the PVFB is calculated and compared to the phased-in market-related value of plan assets. The difference between the PVFB and the market value of assets is the unfunded liability that must be funded over the future working lives of current employees. I have included a summary of the ACM in Exhibit (RRS-1), Schedule 5, along with a comparison to the FAS 87 method for calculating pension expense.

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

A. Suppose the Company determines based on actuarial studies that it will ultimately need $3 billion to fund its pension liability, which is the PVFB. If the market value of assets in the Company's NSPM Plan trust is currently $2.5

billion, there is a $500 million difference that will need to be funded. The ACM requires that the Company fund that amount based on the period approved by the Commission or the remaining future working lives of its employees, which is approximately 10 years. The Company then sets the pension expense at a levelized percentage of payroll based on the amount needed and the time remaining to fund the pension liability.

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

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

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

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

- The actuarially determined EROA for Year 1 was 7 percent, but the fund actually earned 6 percent. In that instance, the fund would have an asset loss of $25 million ($2.5 billion x .01 = $25 million).
- The actual discount rate in Year 1 was 25 basis points higher than the actuaries had assumed, which reduced the PVFB by $15 million. Thus, the fund has a liability gain of $15 million for Year 1.
- The pension fund paid out $175 million in benefits in Year 1, which is exactly equal to the expected earnings on the plan's assets during that year ($2.5 billion x .07 = $175 million).

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

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

A. The amount is reflected on the Company's books as an increase to the liability offset by a regulatory asset, resulting in no change to the net balance sheet amount of the pension plan. As discussed earlier, an additional amount of the

asset losses will be phased in each year for the next four years and will reduce the regulatory asset by a corresponding amount each year, all else being equal.

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

A. Yes. For many years the Company had significant gains because its pension plan investments benefited from a significant and prolonged upward market movement, and customers reaped the benefits through market gains that exceeded the EROA. Mr. Tyson and Mr. Inglis discuss the Company's pension plan investments in more detail in their testimonies.

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

A. No, I don't believe that is an accurate characterization. We are simply calculating the current year's pension expense, which is affected by cumulative gain and loss experiences. Expense is determined by prior experience, and customers have benefitted from the prior gains. Therefore, it is reasonable to reflect both prior-period gain and loss experiences in current pension expense.

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

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

and liability gains have offset the service costs and interest costs that our customers would otherwise have paid in rates.

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

A. Yes. Exhibit___(RRS-1), Schedule 6 quantifies the significant benefits that the Company's pension assets have provided to customers. Schedule 6 shows the Xcel Energy Pension Plan (XEPP) Trust activity since its inception in 1950. Although Schedule 6 reflects more than just the NSPM Plan, it does demonstrate the overall value of the pension assets, which include the NSPM assets.[3] Since 1950, the Company has contributed approximately $960 million into the trust while earning approximately $3.9 billion in investment returns, which helped pay for approximately $3.4 billion in payments to employees. For many years these asset returns enabled the Company to recognize pension benefit costs at or very close to zero and to make no pension contributions. These low or nonexistent pension expense amounts were reflected in our rate cases, which means that customers paid much less in annual pension cost than they would have in the absence of the pension asset gains.

Q. WHAT HAS THE COMPANY DONE WITH THOSE GAINS?

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

[3] As of December 31, 2014, the NSPM Plan owned 56 percent of the total XEPP plan assets.

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

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

D. Calculation of Pension Expense under FAS 87

Q. PLEASE PROVIDE AN OVERVIEW OF FAS 87.

A. FAS 87 is an accounting standard adopted by the Financial Accounting Standards Board (FASB) in 1987 to govern employers' accounting for pensions. Under FAS 87, pension cost is made up of five components of costs:

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

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

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

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

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

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

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

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

A. Yes. Assume that the pension trust fund has a beginning asset balance of $500 million and the expected EROA in that year is 8 percent. The expected return is $40 million ($500 million x 8 percent). This amount will be used to offset the other components within the pension cost determination. Further assume that these other components are as follows: Service Cost ($25 million), Interest Cost ($20 million), and Loss Amortization ($30 million). The net periodic pension cost for the year would be $35 million as shown in Table 4:

Table 4
Annual Pension Expense Example

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

As shown in Table 4, the pension cost would have been $75 million in the absence of the investment earnings. If the actual earned return in a particular year is higher than the EROA, customers will enjoy even more savings in future years as the asset gain is phased into pension expense.

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

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

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

A. The unrecognized gains and losses are the asset gains or losses and the liability gains or losses that I discussed earlier. The asset gains or losses occur because the actual earned return on assets was different from the EROA in prior years. The liability gains or losses occur because the actual values experienced in prior years, such as the discount rate and wage assumptions, were different from what was expected. The asset gains or losses are phased in according to the five-year schedule I discussed earlier, and then they are netted with not only the liability gains and losses from the previous year, but also the unamortized gains and losses from prior years. If the net unamortized gains or losses fall outside the ten-percent corridor, they are amortized over the remaining service lives of the Company's employees.

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

A. As noted in the decision tree that appears in Exhibit___(RRS-1), Schedule 4, the determination of the gain or loss amortization is a multi-step process composed of the following steps:

1) The Company first determines whether it has an asset gain or loss by comparing the actual return on assets for the prior year to the EROA for the prior year.
2) To the extent there is an asset gain or a loss, the Company phases in 20 percent of that gain or loss. The Company will also phase in portions of gains and losses from prior years that have not been fully phased in. They are phased in at the rate of 20 percent per year.

3) The Company then calculates the gain or loss on the PBO by comparing the actual year-end PBO from the prior year to the expected year-end PBO for the prior year.
4) The Company next aggregates the cumulative net gains and losses from all prior years to arrive at the cumulative unrecognized gains or losses.
5) If the cumulative unrecognized gains and losses are more than 10 percent of the greater of the PBO or the market value of assets, the balance of gains and losses that falls outside the corridor is amortized over the average expected remaining years of service of the Company's employees (typically years to retirement).

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

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

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

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

Q. HOW IS UNRECOGNIZED PRIOR SERVICE COST AMORTIZED?

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

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

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

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

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

E. Pension Funding

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

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

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

Over the long run, the cumulative employer contributions made to a plan in accordance with ERISA, the Pension Protection Act and the IRC rules will be roughly equal to the cumulative pension expense recorded under both the ACM and FAS 87, but in the short and intermediate run there can be significant differences. The cumulative difference between pension contributions and recognized pension expense gives rise to a prepaid pension asset or a pension liability, both of which I will explain in greater detail later in my testimony.

IV. PENSION ASSUMPTIONS

Q. PLEASE SUMMARIZE THE THREE PRIMARY PENSION ASSUMPTIONS USED TO DETERMINE THE MULTI-YEAR RATE PLAN PENSION COST.

A. The primary pension assumptions used to determine the multi-year rate plan pension costs are the discount rate, the EROA, and demographics inclusive of expected wage increases. The Company used the following assumptions to determine 2016-2018 pension expense:

Table 5
2016-2018 Pension Assumptions

Company – Accounting Method	Discount Rate	Wage Increase	EROA
NSPM – Aggregate Cost Method (ACM)	7.25%	3.75%	7.25%
XES – FAS 87 (ASC 715)	4.67%	3.75%	7.25%

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

A. We have provided objective, verifiable measures where they are available. For example, we used Citigroup benchmark indexes to evaluate the reasonableness of the discount rate produced by our bond-matching study, which we used in determining the Company's five-year average discount rate. For the wage increase and EROA assumptions, we gathered information from the 2014 10-K reports of all 52 members of the Edison Electric Institute (EEI) that filed a 10-K for fiscal year 2014, and we compared those other utilities' assumptions to ours. The results are shown on Exhibit___(RRS-1), Schedule 7.

Q. WHAT DOES THE COMPARISON SHOW?

A. The assumptions used for the NSPM Plan and the XES Plan are at or near the average of the other 52 EEI companies with respect to the EROA and the wage increases. The discount rates are actually higher than the EEI averages, a disparity that benefits customers:

1) The NSPM discount rate of 7.25 percent and the XES five-year average discount rate of 4.67 percent are both much higher than the average discount rate of 4.12 percent for the other 52 EEI companies we reviewed. A higher discount rate assumption lowers the cost, so our discount rate assumption is not causing an increase in cost as compared to other utilities. As I noted earlier in my testimony, the Company continues to believe that the correct method to arrive at the FAS 87 discount rate is by performing a bond-matching study for a single year, but we are proposing the use of a five-year average discount rate in this case to reduce the number of contested issues and to allow the parties to focus instead on the Company's proposed multi-year construct.

2) The NSPM Plan and the XES Plan EROA assumptions of 7.25 percent are slightly lower than the 7.33 percent average for the other EEI companies. The Company's slightly lower EROA increases costs but reflects the Company's decision to utilize a more moderate investment risk profile than many of its peer companies to reduce the likelihood of large asset losses in the future, which ultimately benefits customers.

3) The 3.75 percent wage increase assumption for the XES Plan and NSPM Plan is lower than the 3.85 percent average for the other EEI companies. A lower wage increase assumption lowers the cost, so our wage increase assumption is not causing an increase in cost as compared to other utilities.

A. Discount Rate Assumption

Q. WHAT DISCOUNT RATE DID THE COMMISSION APPROVE IN THE COMPANY'S LAST RATE CASE?

A. The Commission approved a discount rate of 5.05 percent which was a five-year average of discount rates determined under FAS 87. In Order Point 6 in Docket No. E002/GR-13-868, the Commission stated, "The Company shall use 5.05% (a five-year average of discount rates determined under Financial Accounting Standard 87) as the approved discount rate to determine its XES Plan pension costs for rate making purposes."

Q. PLEASE DESCRIBE HOW THE 4.67 PERCENT DISCOUNT RATE FOR THE XES PLAN WAS DETERMINED FOR THIS RATE CASE?

A. The Company determined the 4.67 percent discount rate consistent with Order Point 7 in Docket No. E002/GR-13-868, which states, "The Company

shall apply the rolling five-year average FAS 87 discount rate when determining the XES Plan cost subject to deferral (or reversal) in subsequent years (i.e., non-rate-case test years) as the 2012 mitigation established in Docket No. E-002/GR-12-961 continues." Table 6 below demonstrates how the five-year average discount rate of 4.67 percent was determined.

Table 6
Pension Discount Rate

Current Rate Case - Using Historical Actuals						
Expense Period	**2011**	**2012**	**2013**	**2014**	**2015**	**Five-Year**
Measurement Date	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	**Average**
XES FAS 87	5.50%	5.00%	4.03%	4.74%	4.09%	4.67%

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

A. Yes. As we have done in prior rate cases, the Company will provide an updated five-year average discount rate in Rebuttal Testimony to incorporate the most recent measurement date of December 31, 2015, which will be available in late January or early February of 2016.

Q. PLEASE DESCRIBE HOW THE DISCOUNT RATES LISTED ABOVE IN TABLE 6 FOR THE FIVE-YEAR AVERAGE DISCOUNT RATE WERE DETERMINED.

A. The Company uses multiple reference points to set the discount rate. The primary basis for valuation is a bond-matching study that is performed as of December 31 of each year. The bond-matching study selects a matching bond for each of the individual projected payout durations within the plan based on projected actuarial experience, as compiled by the Company's actuary, Towers Watson. The bonds selected must have a rating of Aa/AA or higher and not

have a pending review as of December 31. In addition, the bond may not have an inconsistent rating between agencies where any agency rates the bonds below Aa/AA. If bonds are not available for a specific duration within the plan, a bond with the next closest shorter duration is used to determine the discount rate. The Company currently uses a single, average discount rate for all pension plans because the individual plans have a materially consistent duration and cash flow pattern. Individual discount rates by plan are identified and reviewed for significant deviations from the average in the determination of the overall rate.

The Company also uses other reference points to validate the rate calculated by the bond-matching study, including the Citigroup Benchmark and the Citigroup Above Median Benchmark. In addition to these reference points, the Company also reviews general survey data provided by Towers Watson and EEI to assess the reasonableness of the discount rate selected.

The Company has consistently used the bond-matching approach, along with the corroborating methods, because it provides the most accurate discount rate of the available alternatives that meet applicable standards of FAS 87. Further information pertaining to the determination of discount rates is provided in Exhibit___(RRS-1), Schedule 8. These standards and the review processes described below support the use of the discount rates used in determining the five-year average discount rate above that is used to determine pension expense for the XES Plan.

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

A. The Company has a Pension Trust Administration Committee (PTAC), which is discussed in more detail in the testimony of Mr. Tyson. Preliminary discount rates are reviewed by the PTAC in late December with potential year-end scenarios. Because discount rates are not set until the December 31 rates are available, the review at the initial meeting is primarily to set expectations. Year-end discount rates are developed using a bond-matching study applied to projections of future cash outflows for benefit payments, as I described earlier. Bond-matching study results are reviewed jointly with the Company Controller, the director in charge of benefits accounting, and representatives from Towers Watson. Each individual bond is analyzed to consider any attributes that would make it inappropriate for the bond-matching study. This includes any known risk of downgrade to the bond, any deviation in yield from other bonds of the same duration, and the total outstanding and traded value of the bond. The results of the study are compared to publicly available sources such as the Citigroup Pension Liability Index and Citigroup Pension Curve to validate the reasonableness of the discount rate determined using the bond-matching study. Any unusual deviations between these numbers are researched to understand the underlying drivers. Bonds selected in the bond-matching study are revalidated by Towers Watson prior to filing the Company's 10-K to ensure that individual bonds selected have not been downgraded or put on watch. In addition, employee data used to determine the projected future payments is compared to previous years for reasonableness of the headcount and pay rate information, both internally and by Towers Watson. Final discount rates are communicated back to the PTAC for approval, and the final approved rate is included in the meeting minutes. Final approved discount rate assumptions

are then provided to the audit committee as part of the Company's critical accounting policies.

In addition to the year-end discount rate analysis, discount rates are regularly recalculated over the course of the year by Pacific Global Advisors (PGA), Towers Watson, and independently by Company personnel using projected cash flows combined with publicly published Citigroup Pension Liability Curve rates to understand the expected impact of changing rates as market conditions change. Changes in the 10-year Treasury rate and the Citigroup Pension Liability Index are used as indicators that pension discount rates are likely deviating from current assumptions and will often drive incremental estimates of expected discount rates.

Q. HOW WAS THE 7.25 PERCENT NSPM PLAN DISCOUNT RATE DETERMINED?

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

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

A. The test year discount rates for the XES Plan of 4.67 percent and the NSPM Plan of 7.25 percent are well above the average rates used by other companies. As I have indicated, the Company does not necessarily agree with the use of a five-year average, but we are proposing it in this case to reduce the number of contested issues, which will help the parties focus on evaluating the merits of our multi-year proposal.

Q. WILL THE COMPANY UPDATE ITS PROPOSED DISCOUNT RATE?

A. Yes. Consistent with the last rate case, the Company will recalculate its test year pension cost using a measurement date of December 31, 2015, to capture the most current pension position and to provide an update to all elements of cost.

B. EROA Assumption

Q. WHAT IS THE TEST YEAR EROA?

A. The test year EROA is 7.25 percent. The Company's prior EROA assumption was 7.50 percent.

Q. WHY DID THE COMPANY LOWER THE EROA ASSUMPTION?

A. The Company decreased the EROA assumption primarily because the interest rates on fixed-income securities have continued to fall, which reduces the expected return on those assets.

Q. HOW WAS THE TEST YEAR EROA ASSUMPTION DETERMINED?

A. The EROA is, and must be, determined based on the long-term expected rates of return as dictated by the requirements of the ACM and SFAS 87. The Company bases investment return assumptions on expected long-term performance for each of the investment types included in our pension asset portfolio – equity investments (such as corporate common stocks), fixed-income investments (such as corporate bonds and U.S. Treasury securities), and alternative investments (such as private equity, hedge fund-of-funds, commodities, or real estate partnerships). In reaching return assumptions, the Company considers the actual historical returns achieved as well as the long-

term return levels projected and recommended by investment experts in the marketplace. Xcel Energy continually reviews its pension investment assumptions in order to maintain investment portfolios that provide adequate rates of return at appropriate levels of risk. Further information pertaining to the determination of EROA is provided in Exhibit___(RRS-1), Schedule 8.

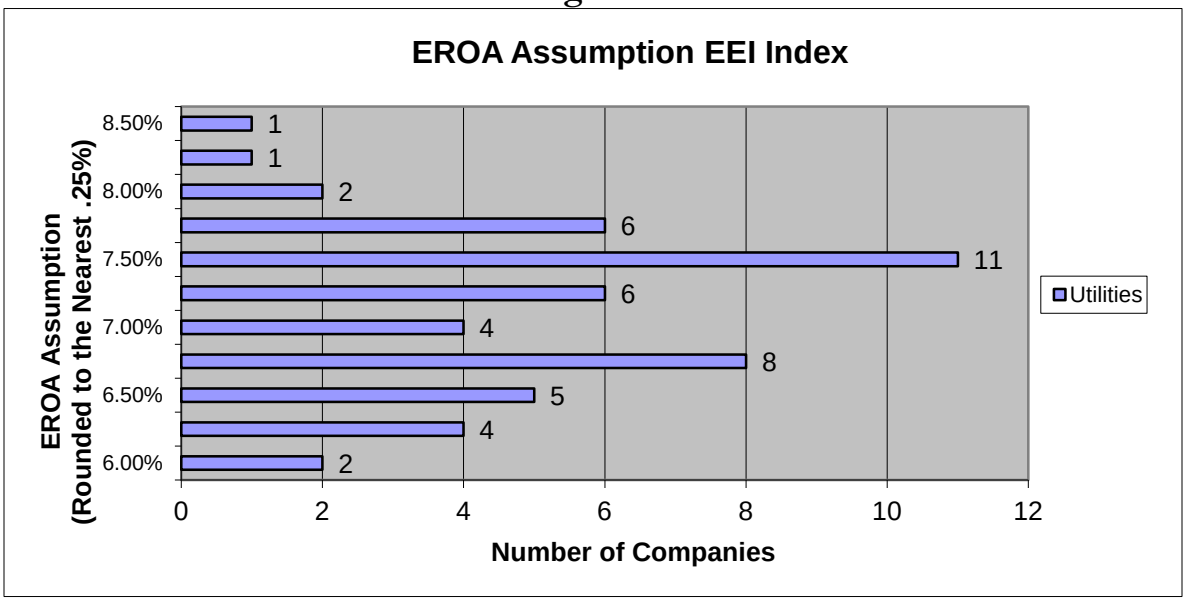
Q. DESCRIBE THE FINANCIAL VALIDATION PROCESS AND CONTROLS THAT ARE IN PLACE REGARDING SETTING THE EROA ASSUMPTION.

A. The PTAC develops and validates rate-of-return assumptions jointly with PGA, which is the Company's external pension investment advisor. With the help of PGA, the Company's treasury group establishes a target investment strategy and investment mix. This investment strategy and mix are then presented at the PTAC meeting for approval. The target portfolio investment mix is then matched with expected long-term returns provided by PGA for each of the investment classes within the portfolio. The expected long-term returns are validated against other advisor group benchmarks and expected returns by asset class provided by Towers Watson. The results of these weighted average investment returns are aggregated to arrive at a single average long-term rate of return by plan that is then included in the assumptions provided to the PTAC for review, and they are included in the Company's critical accounting policies provided to the audit committee.

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

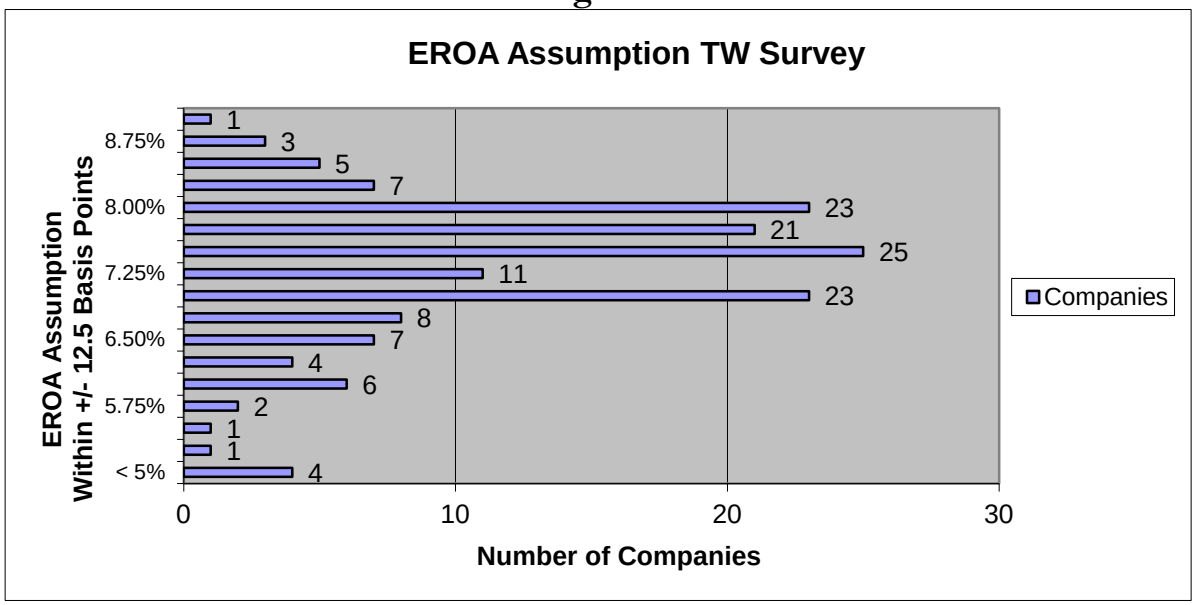
A. Yes. The Company compares its EROA to other utilities and also to general industry data. Figure 1 below shows that the Company's long-term EROA assumption of 7.25 percent is slightly lower than the average of 7.33 percent for all EEI utilities.

Figure 1



As shown in Figure 2 below, for the companies surveyed by Towers Watson, the average EROA is 7.29 percent, which also supports the Company's 7.25 percent rate:

Figure 2



Q. WHAT IS YOUR CONCLUSION REGARDING THE 7.25 PERCENT EROA?

A. The 7.25 percent EROA assumption is reasonable based on the requirement that the return be based on the target investment mix of the Company's pension plan assets. Mr. Inglis discusses the reasonableness of the Company's target asset allocation and investment strategy in more detail in his testimony.

C. Wage Increase Assumption

Q. HOW WAS THE TEST YEAR WAGE INCREASE ASSUMPTION DETERMINED?

A. The wage increase assumption is based on the requirements of the ACM and FAS 87, the latter of which states, "Assumed compensation levels shall reflect an estimate of the *actual future compensation levels of the individual employees involved*, including future changes attributed to *general price levels, productivity, seniority, promotion*, and other factors." (Emphasis added.)

Q. WHAT IS THE SIGNIFICANCE OF THIS GUIDANCE?

A. This guidance is consistent with how the pension obligation is being incurred, and it supports the position that the wage increase assumption is a long-term assumption representing all pay increases over the expected years to retirement, not just pay increases that may be expected in a one- or two-year period. The Company's pension obligation is based on the highest consecutive 48 months of an employee's eligible pay, which are typically at the end of an employee's working career. To determine this final pay amount, an expectation of long-term rates of pay increases is necessary.

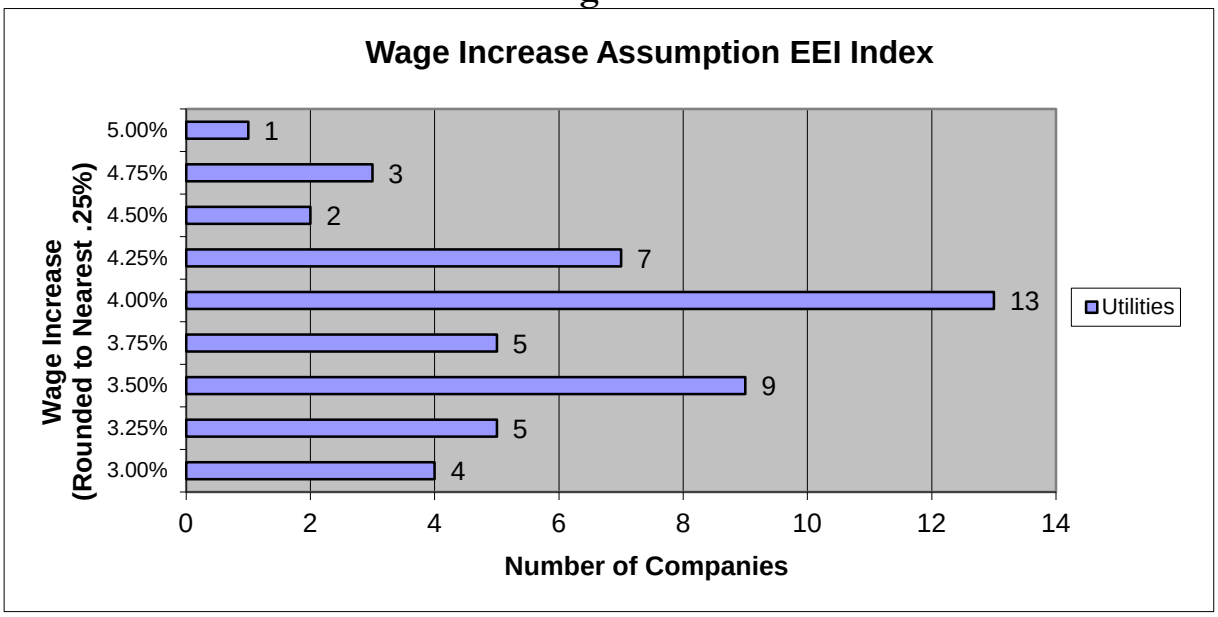
Q. HOW DOES THE COMPANY DETERMINE THE WAGE INCREASE ASSUMPTION?

A. The Company relies on expectations of future pay levels that integrate both forward-looking projections and historical experience. This result is compared against other companies for reasonableness.

Q. IS THE 3.75 PERCENT WAGE INCREASE ASSUMPTION CONSISTENT WITH THE RATES USED BY OTHER UTILITIES?

A. Yes. As shown on Figure 3 below (based on Exhibit___(RRS-1), Schedule 7), 63 percent of EEI utilities used a rounded rate of 3.75 percent or higher.

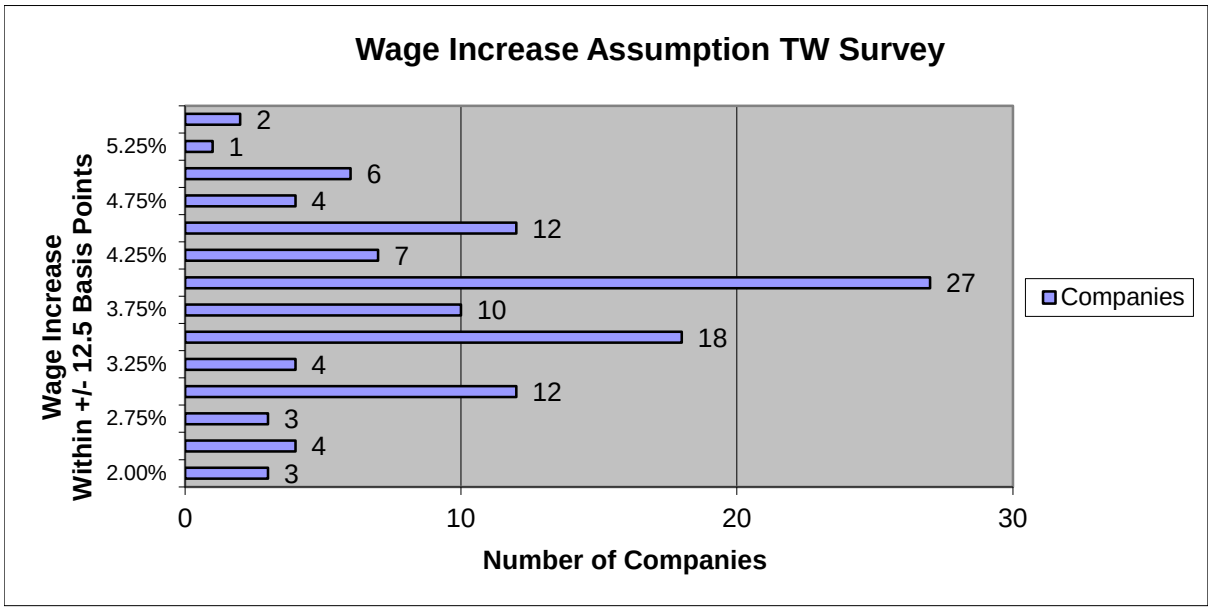
Figure 3



Q. IS THE 3.75 PERCENT WAGE RATE ALSO CONSISTENT WITH THE RATES FOR COMPANIES OUTSIDE OF THE REGULATED UTILITY INDUSTRY?

A. Yes. As shown on Figure 4, 61 percent of companies selected a rounded rate of 3.75 percent or higher, which also supports that rate:

Figure 4



Q. HOW DOES INFLATION DATA AFFECT THE WAGE INCREASE ASSUMPTION?

A. Even though an individual year may have lower inflation, the wage rate reflects the long-run expected average inflation over the employees' years to retirement. The historical long-term inflation rate (based on the Consumer Price Index) has been approximately 3.4 percent since 1913, 2.9 percent since 1988, and 2.5 percent since 1999. As a result, the Company uses a forward-looking long-term inflation assumption of 2.25 percent.

Q. IS INFLATION THE ONLY FACTOR INCLUDED IN THE WAGE RATE?

A. No. Some employees will receive increases related to productivity or merit gains and promotions in addition to inflation-based increases. A productivity increase is recognition of the knowledge and experience gains that occur over an employee's career. Bargaining employees have incremental pay increases (above general wage scale increases for inflation) built into their contracts as they move from one position to another, such as moving from an apprentice to journeyman lineman. Similarly, an engineer with five years of experience

receives more pay than an engineer right out of college. These increases are a real component of long-term wage increase assumptions and are a normal part of managing the workforce of the Company over the long-term. In addition, some employees will be promoted when individuals in higher level positions retire, leave the Company, or are promoted themselves. The overall effect of productivity and promotions is to increase the wage increase assumption by approximately 1.50 percent, which combines with the 2.25 percent inflation assumption to yield the 3.75 percent wage increase assumption.

Q. IS THE WAGE INCREASE ASSUMPTION OFFSET BY OTHER FACTORS TO REFLECT CHANGES IN THE COMPANY'S ACTUAL WORKFORCE OVER TIME?

A. Yes. The productivity and promotion components included in the wage increase assumption are offset by attrition factors based on voluntary and involuntary separations from service and by the elimination of earned pension benefits as employees retire. These offsets are an integral part of the pension benefit expense calculations.

Q. HOW ARE ATTRITION FACTORS TAKEN INTO CONSIDERATION?

A. The rates at which employees leave employment prior to retirement are included as separate factors in the determination of pension costs. Including these factors has the effect of substantially reducing the numbers of employees that are subject to a consistent 3.75 percent wage increase. These factors also cause the study to recognize the fact that the employees who leave are replaced by other employees with less longevity with the Company and less seniority, both of which tend to significantly reduce the wage levels for purposes of determining pension costs. These attrition assumptions include

projections for the number of expected retirements, employee turnover, etc., and are factored into the overall calculation of costs as a reduction.

Q. HOW IS THE ATTRITION RATE CALCULATED?

A. The attrition rate is calculated by Towers Watson based upon employee census information provided by the Company. Those rates are reviewed each year for reasonableness during an annual demographic true-up required by FAS 87.

Q. WHAT IS YOUR CONCLUSION REGARDING THE 3.75 PERCENT WAGE INCREASE ASSUMPTION?

A. The 3.75 percent wage increase assumption used by the Company is reasonable based on a combination of factors, including the effects of long-term inflation, long-term merit increases, and internal promotions; consistency of the rate over time based on historical data; and the reasonableness of the rate relative to other companies' pension plans.

Q. ARE THERE ANY OBJECTIVE MEASURES TO FORECAST ANY UPDATE IN ASSUMPTIONS FOR THIS METRIC?

A. The 2.25 percent long-term inflation rate assumed by the Company can be verified by a recent Philadelphia Federal Reserve 10-year inflation forecast of 2.20 percent, which is based on a survey of professional forecasters.[4] The 1.50 percent productivity and promotions aspect of the wage increase is based on Company experience, although we do not anticipate this component

[4] http://www.phil.frb.org/research-and-data/real-time-center/survey-of-professional-forecasters/historical-data/inflation-forecasts.cfm

driving any future changes to our assumed wage increase by the measurement date.

V. QUALIFIED PENSION AND 401(K) MATCH COSTS

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

A. I justify the Company's use of both defined benefit and defined contribution plans to provide retirement income for employees. In addition, I quantify the multi-year rate plan expense amounts for qualified pension and 401(k) match.

A. Need for Defined Benefit and Defined Contribution Plans

Q. PLEASE BRIEFLY DESCRIBE THE COMPANY'S RETIREMENT INCOME PLAN.

A. The Company's retirement income plan is based on a combination of a defined benefit (DB) pension plan and a 401(k) plan, which is a defined contribution benefit. Unlike some DB pension plans, our DB pension plan is not intended to provide an employee's total retirement income. Rather, our DB pension plan and 401(k) plan are designed so that the two plans in combination provide retirement income to Company employees.

Q. ARE THE COMPANY'S EMPLOYEES REQUIRED TO CONTRIBUTE TO THE DB PENSION PLAN?

A. No. Employees are not required to provide contributions to the DB pension plan, but they must contribute at a significant level to their 401(k) plan to obtain the full Company match. As a result, the Company's retirement plan provides strong economic incentives to employees to contribute to their retirement, even though no employee contributions are required to obtain the DB pension benefit.

Q. DOES THE COMPANY HAVE ONLY ONE DB PENSION PLAN?

A. Yes. We have one DB pension plan with four primary formulas within the plan. The first three formulas listed below are no longer offered to new employees:

- Traditional Plan;
- Account Balance Plan;
- Pension Equity Plan (PEP); and
- 5 Percent Cash Balance Plan.

In my testimony, I refer to these different formulas as "plans."

Q. DO OTHER UTILITIES PROVIDE DB PENSION PLANS?

A. Yes. Our review shows that 52 of the 52 members of the EEI that filed 10-K reports in 2014 reported pension service cost amounts, which indicates that they provide pension benefits. The EEI represents all U.S. investor-owned electric utilities, which serve more than 220 million Americans and make up 70 percent of the U.S. electric power industry. The full results of our analysis are included in Exhibit___(RRS-1), Schedule 7.

Q. DO OTHER LARGE MINNESOTA COMPANIES PROVIDE DB PENSION PLANS?

A. Yes. Half of the 20 largest Minnesota-based publicly held companies reported pension service cost amounts, which indicates that they provide pension benefits. These companies are comparable in size to Xcel Energy. The full results of the analysis for the top twenty Minnesota-based companies are included in Exhibit___(RRS-1), Schedule 9.

Q. WHY DOES THE UTILITY INDUSTRY OFFER MORE DB PENSIONS THAN THE PRIVATE SECTOR AS A WHOLE?

A. Industry shifts and technological changes within the private sector over the past several decades have contributed to an overall decline in DB coverage, but the decline is not uniform across all sectors of the economy. Long-established industries with unionized workforces, such as utilities, typically continue to offer DB plans, but newer industries that tend to employ non-union and shorter-tenured employees, such as information technology, do not.

Q. BY FUNDING ALL DB PENSION COSTS, ARE CUSTOMERS FUNDING ALL RETIREMENT COSTS FOR COMPANY EMPLOYEES?

A. No. Unlike some pensions that are designed to provide all of an employee's retirement income, our DB pension provides only a limited level of retirement income. Employees need both the DB pension and significant levels of 401(k) plan income to provide adequate retirement income, and employees must make contributions to their 401(k) plans to obtain a Company match. Thus, the absence of employee contributions to the DB pension does not mean customers are funding all the costs of retirement income for Company employees. For example, long-term employees participating in the Pension Equity Plan (PEP) who retire at age 66 with 25 years of service will receive approximately 22 percent of their final cash compensation from the DB plan. To obtain any higher level of replacement income, employees must make contributions to their 401(k) plans.

Q. PLEASE DESCRIBE THE COMPANY'S 401(K) EMPLOYER MATCHING CONTRIBUTION.

A. For approximately eighty percent of our workforce, the employee must contribute 8 percent of eligible income for the Company to contribute the maximum match of 4 percent of eligible income. The other 20 percent of employees, who are in the Traditional Plan, receive a maximum match of $1,400.

Q. YOU PREVIOUSLY LISTED THE COMPANY'S DIFFERENT DB PENSION PLANS. WHY DOES THE COMPANY HAVE FOUR DIFFERENT PLAN FORMULAS?

A. The plans reflect the Company's efforts over the years to reduce pension benefit levels and to prudently manage pension costs. As the Company created new pension plans with reduced benefit levels, newly hired employees were allowed to participate only in the new plans. The timing of these changes varied between non-bargaining and bargaining employees:

- *Non-Bargaining employees.* On January 1, 1999, the Company created the PEP and did not allow new hires to enter the Traditional Plan. On January 1, 2012, the 5 Percent Cash Balance Plan became the only plan available to new non-bargaining entrants. The Account Balance Plan is limited to a small number of former non-union New Century Energies employees.
- *Bargaining employees.* On January 1, 2000, the Company began offering the PEP for bargaining employees. From 2000 through 2010, new bargaining employees elected whether to participate in the Traditional Plan or PEP. On January 1, 2011 the 5 Percent Cash Balance Plan became the only plan available to new bargaining entrants.

Q. HAS THE COMPANY TAKEN ANY OTHER STEPS TO REDUCE ITS RETIREMENT-RELATED COSTS?

A. Yes. The Company eliminated its post-retirement medical benefit for active employees in 1998 and 1999 as its first step in reducing overall retirement benefits. As Ms. Lowenthal notes in her testimony, many peer utilities continue to offer a post-retirement medical benefit today.

Q. WHAT ARE THE CURRENT LEVELS OF PARTICIPATION IN THE COMPANY'S CURRENT DEFINED BENEFIT PLANS?

A. The participation levels for these plans as of December 31, 2014 are shown in the table below. The majority of current participants are in the PEP, but new employees can participate only in the 5 Percent Cash Balance Plan.

Table 7
Pension Plan Participation

NSPM & XES Pension Participant Percentages			
Pension Formula	**Bargaining**	**Non-Bargaining**	**Total**
Traditional	13%	3%	16%
PEP	14%	52%	66%
5% Cash Balance	4%	12%	17%
Account Balance	0%	2%	2%
Total	31%	69%	100%

Q. WHAT ARE THE AVERAGE YEARS OF CREDITED SERVICE FOR THE THREE LEGACY PENSION PLANS?

A. The average length of service for the Traditional Plan is 25 years; the average length of service for the PEP is 13 years; and the average length of service for the Account Balance Plan is 30 years. These averages clearly demonstrate that the DB pension plan has proven to be effective at fulfilling one of its main purposes, which is employee retention.

Q. HAVE YOU ANALYZED THE VALUE OF THE COMPANY'S RETIREMENT PLAN?

A. Yes. The value of a retirement plan is often measured by the percentage of income replacement the plan provides. The percentage of income replacement represents the amount of retirement pay the employee receives compared to his or her pay at the time of retirement. Income replacement levels for employees vary depending on a number of factors, including the specific DB pension plan, the age of the employee at retirement, the years of service, and the level of employee and employer contributions to the 401(k) plan.

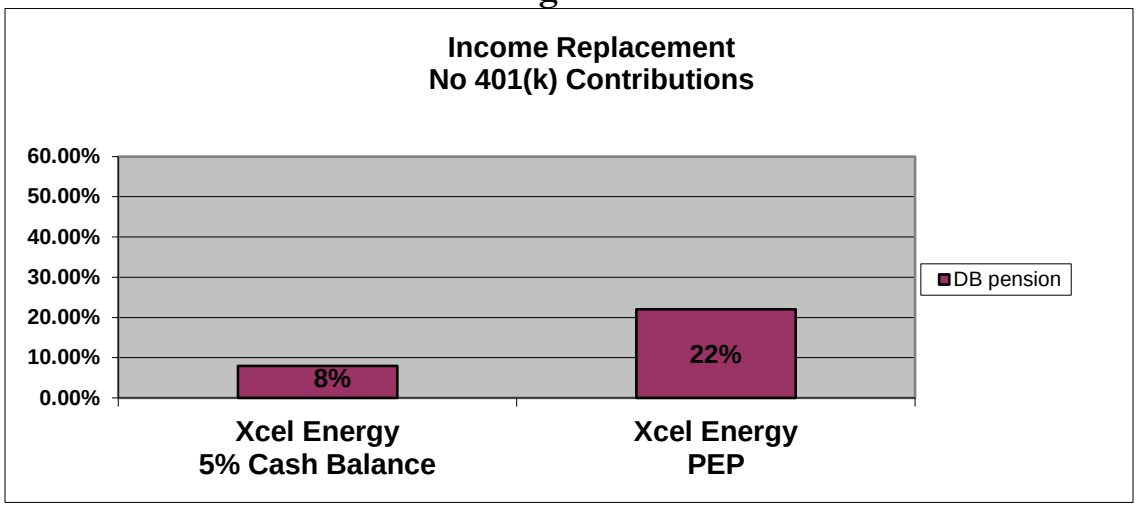
Q. HOW DID YOU TAKE THESE VARIABLES INTO ACCOUNT?

A. Because the majority of Company employees are participants in the PEP, and because newly hired employees are eligible for only the 5 Percent Cash Balance, I focused my analysis on those two plans.

Q. WHAT ARE THE INCOME REPLACEMENT LEVELS UNDER THE COMPANY'S DB PLANS?

A. Figure 5 below shows the income replacement levels for our 5 Percent Cash Balance and PEP DB plans. These retirement income levels were based on an income level of $60,000 for the DB plans only retiring at age 66, with 25 years of service, and with no 401(k) employee contribution (and thus no Company 401(k) match). All assumptions and the full results of the study are included in Exhibit___(RRS-1), Schedule 10.

Figure 5



Q. WHAT DOES THIS ANALYSIS SHOW?

A. Although no contributions are required to obtain a DB benefit, our DB pension alone does not provide a significant level of income replacement. The PEP plan provides a 22 percent income replacement level, and the 5 Percent Cash Balance Plan provides only an 8 percent income replacement level.

Q. IS THE COMPANY'S APPROACH TO EMPLOYEE CONTRIBUTIONS DRIVEN TO ANY EXTENT BY TAX LAWS?

A. Yes. Requiring our employees to contribute to the DB pension plan would impose significant and unnecessary tax disadvantages on the employees. Specifically, there is no provision in the IRC allowing private sector employees to make contributions to DB pension plans on a pre-tax basis. Contributions by private sector employees must be made with "after-tax" dollars. For example, an employee with a 20 percent marginal federal income tax rate would need to set aside 20 percent more pre-tax income to make a contribution to the DB plan. A 5 percent contribution to the DB plan would

require the employee to set aside 6 percent of pre-tax income. In contrast, Section 402(e)(3) of the IRC allows private sector employees to make pre-tax contributions to their 401(k) plans. For this reason, virtually all retirement plans attempt to prevent unfavorable tax treatment of this type, particularly when a pre-tax contribution to the 401(k) is available as an alternative.

Q. IS THERE A DISTINCTION BETWEEN INCOME TAX TREATMENT OF PRIVATE SECTOR AND PUBLIC SECTOR EMPLOYEE CONTRIBUTIONS TO DB PLANS?

A. Yes. Unlike private-sector employee contributions to DB plans, public-sector employee contributions to DB pension plans can be made on a pre-tax basis under Section 414(h) of the IRC.

Q. IS THIS DISTINCTION SIGNIFICANT TO THE DIFFERENT APPROACHES OF PRIVATE AND PUBLIC-SECTOR DB PLANS?

A. Yes. The different tax treatment likely explains why the overwhelming majority of private-sector retirement plans do not require employee contributions to DB pensions, but do require employee contributions to the 401(k) to receive an employer match contribution. Further, this indicates why many public-sector DB plans mandate employee contributions.

Q. WOULD AFTER-TAX EMPLOYEE DB PENSION CONTRIBUTIONS CAUSE ANY OTHER COMPLICATIONS FOR PRIVATE SECTOR COMPANIES?

A. Yes. After-tax employee contributions to DB plans would require several additional administrative requirements for private sector employers. First, employee contributions would have to be collected and funded into the pension trust, and individual balances would have to be maintained for each participating employee. Second, when a participant receives his or her

pension benefit, a portion of the benefit is taxable and a portion is non-taxable. The plan sponsor would have to determine and maintain records of the taxable and non-taxable portions of the benefit based on Internal Revenue Service rules. Third, the plan documents, participant communications, and annual filings would have to be revised to reflect this change, and depending on how the program is designed, there would be additional complexities with the optional forms of payment under the plan.

Q. IS THERE ANY OTHER REASON WHY IT MAKES SENSE FOR THE COMPANY TO HAVE A DB PENSION PLAN?

A. Yes. DB pension plans hold assets that can generate gains, and those gains are used to reduce pension expense charged to customers. Thus, in those years in which the pension trust funds experience a significant gain, that gain is locked away from shareholders and cannot be withdrawn to use for other purposes, such as dividends or working capital. The gain does, however, benefit customers because it reduces the pension expense included in the Company's revenue requirement. The significant amount of cumulative pension asset gains of $3.9 billion was discussed earlier and is shown in Exhibit___(RRS-1), Schedule 6. In contrast, the gains accruing to a defined contribution pension plan do not benefit customers and do not help reduce future pension expense. In a defined contribution plan, those earnings on the plan contributions would belong to the employee.

Q. WHAT DO YOU CONCLUDE FROM YOUR ANALYSIS OF PENSION PLANS?

A. This analysis shows that the Company's DB pension plan is reasonable and does not result in excessive benefits for employees. Employees have a strong incentive to make significant contributions to their 401(k) plans. Thus, even

though we do not require employee contributions to our DB plans, customers are not providing all of the funding for our employees' retirement. The reasonableness of our approach is also supported by federal income tax requirements and the practices of private sector retirement plans.

B. Qualified Pension Expense

Q. WHAT IS THE LEVEL OF QUALIFIED PENSION EXPENSE IN EACH YEAR OF THE MULTI-YEAR RATE PLAN?

A. The 2016, 2017 and 2018 qualified pension expense amounts are approximately $18.9 million, $17.9 million and $17.2 million, respectively. These amounts include costs related to both the NSPM Plan and the XES Plan. Approximately 70 percent of the Company's qualified pension expense relates to the NSPM Plan, and 30 percent relates to the XES Plan.

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

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

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

A. Yes. To calculate the pension liability under both methods, it is necessary to make assumptions about the discount rate and demographics (including attrition, expected wage increases, etc.) The assumptions are established at the end of each year, and they are used to determine book expense for the subsequent year. Accordingly, the 2015 assumptions were finalized as of December 31, 2014, and the 2016 assumptions will be finalized as of December 31, 2015. The final 2016 assumptions will be available in late January 2016. The Company has typically included updated cost amounts in Rebuttal Testimony. We also recognize that our updates should be objectively validated when possible, and we will provide the available validation measures in both this testimony and my Rebuttal Testimony. I provided detailed support for each of the three major pension assumptions in the prior section of my testimony.

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

A. Table 8 below shows pension expense amounts since 2011 and the Company's current forecast of qualified pension expense. The forecast for 2015 and beyond assumes no changes in assumptions for the EROA, discount rate, plan contributions, wage increases and employee turnover. The forecast also assumes that actual experience matches these assumptions, including the Company's actual return on assets equaling the EROA in 2015 and all subsequent years. Additionally, where applicable, the amounts reflect the impacts of pension expense being calculated using a five-year average discount rate and applying the two additional mitigation methods that the Commission accepted in Docket No. E002/GR-12-961.

Table 8
Qualified Pension Expense

NSPM Electric O&M State of MN	
Year	**Amount ($)**
2011	12,349,461
2012	23,934,264
2013	21,043,942
2014	20,923,341
2015 Forecast	19,845,733
2016 Test Year	18,920,755
2017 Plan Year	17,859,309
2018 Plan Year	17,194,011

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

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

- a decrease in the asset loss amortization;
- increased asset base resulting in a higher return on assets;
- changes in the discount rate assumption;
- plan design changes; and
- other items, such as mortality table updates.

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

A. The asset loss amortization is a legacy of the sharp downturn in the national economy during 2008. The financial turmoil in 2008 caused nearly all pension trusts to lose a significant part of their value, and the Company's pension trusts were no exception. The Company's pension plans lost approximately

26 percent of their value as a result of the severe recession in 2008. The Company did not reflect all of those losses in its annual pension cost immediately, however. Instead, as allowed by FAS 87, the Company phased the asset losses in over a five-year period, beginning in 2009. That five-year phase-in period for the 2008 market losses ended in 2013, so the amount of asset loss amortizations began declining in 2014. The Company also amortized the amounts over the average years to retirement, as authorized by FAS 87.

Q. PLEASE DESCRIBE THE INCREASED ASSET BASE RESULTING IN HIGHER EARNINGS, AND EXPLAIN HOW THIS CONTRIBUTES TO THE DECREASE IN PENSION EXPENSE.

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

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

A. Plan design changes implemented in 2011 and 2012 significantly reduced benefit levels for newly hired bargaining and non-bargaining employees. Each year as new employees are hired, the Company will continue to see increased savings as new employees are enrolled in the lower pension benefit plan. Table 9 below shows the estimated decrease in pension expense for 2015 to 2018 as a result of these plan design changes.

Table 9
Estimated Cost Savings of 5% Cash Balance Plan ($)

NSPM Electric O&M State of Minnesota				
Benefit Plan	**2015**	**2016**	**2017**	**2018**
NSPM Plan	1,076,480	1,438,136	1,871,203	2,287,026
XES Plan	525,127	746,105	1,021,277	1,287,987
Total	1,601,608	2,184,241	2,892,480	3,575,014

Q. PLEASE DESCRIBE THE MORTALITY TABLE UPDATES AND EXPLAIN HOW THESE UPDATES INCREASE PENSION EXPENSE.

A. In October 2014, the Society of Actuaries' Retirement Plans Experience Committee published updated base mortality tables and mortality improvement scales. These tables reflect longer lives, and thus longer periods in which former employees are likely to collect pensions and other post-employment and retirement benefits. The new mortality tables increased expense beginning in 2015.

Q. IS THE COMPANY REQUIRED TO USE THE NEW MORTALITY TABLES IN ITS CALCULATION OF PENSION EXPENSE?

A. In effect, yes. It is unlikely that our auditors would sign off on our pension accounting if we did not reflect the new mortality tables in our calculation of pension expense because it would not be representative of our best estimate of costs. Moreover, the new mortality tables represent the industry standard, and its inclusion is recognized as the most accurate and representative recognition of pension and benefit costs in the appropriate timeframe.

Q. PLEASE DESCRIBE HOW CHANGES IN THE DISCOUNT RATE INCREASE PENSION EXPENSE.

A. Changes to discount rates create liability gains or losses. If the discount rate decreases, it causes a liability loss because the lower discount rate increases the amount that must be set aside to satisfy future pension liabilities. Conversely, if the discount rate increases, it causes a liability gain because it reduces the amount that must be set aside to satisfy future pension liabilities. In this case, the discount rate has declined because of continuing reductions in corporate bond rates. That causes the pension expense requested in this case to be higher than it would be if the bond rates had remained steady or risen.

Q. HAS THE COMPANY PROVIDED THE ACTUARIAL STUDY AND DERIVATION OF THE JURISDICTIONAL AMOUNT AS REQUESTED BY THE COMMISSION IN ORDER POINT 11(C)?

A. Yes. The Company has included Exhibit___(RRS-1), Schedule 11, which is an actuarial study that supports the qualified pension costs included in the multi-year rate plan. Exhibit___(RRS-1), Schedule 12 shows the conversion of the 2016 total cost amounts to the NSPM electric O&M, state of Minnesota amount.

C. 401(k) Match

Q. WHAT IS THE 401(K) MATCH EXPENSE AMOUNT IN EACH YEAR OF THE MULTI-YEAR RATE PLAN?

A. The 2016, 2017 and 2018 401(k) match expense amounts are approximately $8.9 million, $9.2 million and $9.5 million, respectively.

Q. WHAT WERE THE AMOUNTS OF 401(K) MATCH EXPENSES IN THE FIVE YEARS PRIOR TO THE TEST YEAR COMPARED TO THE FORECASTED AMOUNTS FOR THE MULTI-YEAR RATE PLAN PERIOD?

A. The following table shows the amounts of 401(k) match expense from 2011 through 2018.

Table 10
401(K) Match Expense

NSPM Electric O&M State of MN	
Year	**Amount ($)**
2011	7,326,371
2012	7,576,825
2013	7,974,641
2014	8,380,571
2015 Forecast	8,616,872
2016 Test Year	8,934,795
2017 Plan Year	9,194,800
2018 Plan Year	9,477,369

Q. WHAT ASSUMPTIONS WERE USED TO DEVELOP THE 401(K) MATCH EXPENSE FOR 2016-2018?

A. The most recent actual 401(k) match, which was from the 2014 plan year, was used as the base year. This base year amount was then increased by the 2015 estimated and 2016-2018 budgeted merit increases to derive the amounts in 2016-2018.

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

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

D. Qualified Pension Deferred Balances

Q. WHAT OTHER ACTIONS HAS THE COMPANY TAKEN TO NORMALIZE PENSION COST?

A. In the 2013 electric rate case Docket No. E002/GR-12-961, the Company introduced two alternative cost recovery methods that were intended to reduce 2013, 2014, 2015 and 2016-2018 pension costs. In the Company's most recent rate case, Docket No. E002/GR-13-868, the Commission approved the continuation of those mitigation methods:

> The Commission will adopt the ALJ's recommendation to require continuation of the qualified pension mitigation approved in the Company's 2012 rate case. As the ALJ recognized, this mitigation method has previously been found to be consistent with the public and ratepayer interests, and this record supports the same conclusion. The Commission will therefore again require the Company to extend the NSPM Plan amortization period for unrecognized pension costs from 10 to 20 years; and cap the XES pension expense at the 2011 level of $6.1 million and defer any excess of this amount to future years.

Q. WHAT IS THE IMPACT FROM THESE TWO CHANGES ON 2016 QUALIFIED PENSION EXPENSE?

A. These two changes have reduced the test year qualified pension expense by $4,470,846.

Q. IS THE COMPANY EARNING A RETURN ON THE AMOUNTS DEFERRED TO FUTURE YEARS?

A. No. In Docket No. E002/GR-13-868, the Commission stated that the deferred amounts "will not be included in rate base."

Q. DID THE COMMISSION PROVIDE ANY OTHER GUIDANCE WITH RESPECT TO THE DEFERRED BALANCE IN THE COMPANY'S LAST RATE CASE, DOCKET NO. E002/GR-13-868?

A. Yes. On page 20 of the Docket No. E002/GR-13-868 Order, the Commission directed that, "if approved recovery exceeds future years' pension expense, the Company will apply that amount to recovery of the deferred XES pension expense amounts." The Commission also stated, "The Company shall file annual compliance reports which provide its pension plans' cost-calculation reports, the XES Plan accumulated deferred balance, and the excess rate-level recovery applied toward satisfying the deferral. Deferred amounts shall not be included in rate base."

Q. HAS THE COMPANY CREATED THE REQUIRED ANNUAL COMPLIANCE FILING WHICH INCLUDES THE DEFERRED PENSION BALANCES?

A. Yes. Exhibit___(RRS-1), Schedule 13 has the requested annual compliance filing, which shows how the deferred amount was built up and how it is expected to unwind over the course of the multi-year plan.

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

Q. PLEASE SUMMARIZE THE COMPANY'S REQUEST REGARDING THE MULTI-YEAR RATE PLAN AMOUNTS FOR THESE TWO BENEFITS.

A. The Company requests that the Commission approve the 2016, 2017 and 2018 qualified pension expense amounts of $18,920,755, $17,859,309 and $17,194,011 and 401(k) match expense amounts of $8,934,795, $9,194,800 and $9,477,369, respectively.

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

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

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

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

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

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

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

A. Retiree Medical

Q. DID THE COMMISSION DIRECT THE COMPANY TO ADDRESS THE TOPIC OF FAS 106 COSTS?

A. Yes. Order Point 16 in the May 8, 2015 Order in Docket No. E002/GR-13-868 states:

> In the initial filing of its next electric rate case, the Company shall
> a. discuss the cost components of the postretirement benefits plans cost (other than pensions) affecting Minnesota rates, particularly the drivers of the amortizations of net gain/loss amount and the reasons this component amount has varied since its last rate case (Docket No. E002/GR-13-868); and
> b. provide the report of future years' actuarial cost projections of the postretirement benefits (other than pensions), clearly identifying the assumptions and measurement point used to develop these projections.

Additionally, Order Point 13 in the May 8, 2015 Order in Docket No. E002/GR-13-868 states:

> The discount rate used to calculate retiree medical benefit costs for ratemaking purposes shall be set to equal 5.08%, the five-year average of the FAS 106-based discount rates.

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

A. No. The Company eliminated FAS 106 retiree medical benefits for all active non-bargaining and bargaining employees more than ten years ago. The current expense for retiree medical benefits is a legacy of the prior programs.

Q. PLEASE EXPLAIN HOW RETIREE MEDICAL COSTS ARE DETERMINED.

A. The components and calculation of FAS 106 are identical to FAS 87, with one exception. Unlike FAS 87, FAS 106 asset gains or losses are not phased in before they are amortized, but instead the total gain or loss amount is simply

amortized over the average years to retirement for active employees. Otherwise, the FAS 106 benefits are calculated based on assumptions regarding the discount rate, the EROA, and the salary or wage levels.

Q. WHAT ARE THE ASSUMPTIONS REGARDING THE DISCOUNT RATE AND THE EROA FOR THE MULTI-YEAR RATE PERIOD?

A. The 2016-2018 multi-year rate period reflects an EROA of 5.80 percent for both bargaining non-bargaining employees. It reflects a 4.70 percent discount rate, which is the five-year average discount rate.

Q. PLEASE DESCRIBE HOW THE 4.70 PERCENT DISCOUNT RATE WAS DETERMINED FOR THIS RATE CASE.

A. The Company determined the 4.70 percent discount rate consistent with Docket No. E002/GR-13-868 Order Point 13. Table 11 below supports how the five-year average discount rate of 4.70 was determined.

Table 11
FAS 106 Retiree Medical Discount Rate

Current Rate Case - Using Historical Actuals						
Expense Period	**2011**	**2012**	**2013**	**2014**	**2015**	**Five Year**
Measurement Date	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	**Average**
FAS 106 Retiree Medical	5.50%	5.00%	4.08%	4.82%	4.08%	4.70%

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

A. Yes. As we have done in prior rate cases, the Company will provide an updated five-year average discount rate in Rebuttal Testimony to incorporate

the most recent measurement date of December 31, 2015, which will be available in late January or early February of 2016.

Q. PLEASE DESCRIBE HOW THE DISCOUNT RATES LISTED ABOVE IN TABLE 11 FOR THE FIVE-YEAR AVERAGE DISCOUNT RATE WERE DETERMINED?

A. The process for determining the discount rate for retiree medical is the same as for pension and is built from the same portfolio of bonds developed through the Company's bond-matching study. This common set of bonds is then applied to the plan-specific cash flows to arrive at a weighted average discount rate appropriate for each individual plan. The EROA assumption is based on the expected long-term performance for each of the investment types included in its post-retirement health care asset portfolio. Because the post-retirement medical benefits are generally payable on a shorter time horizon than the qualified pension expense benefits are, the Company uses shorter duration investments for the post-retirement medical benefit expense, which lowers the EROA somewhat.

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

A. As Table 12 shows, the test year retiree medical costs are the lowest they have been over this time period. This decrease in retiree medical costs has been the norm over the last several years and is primarily due to the fact that, as time passes, fewer employees are eligible for the benefit because it was closed to new participants more than a decade ago. It also reflects the completion of the amortization of the transition obligation in 2012. That transition obligation represented the difference between the benefit obligation and the

fair value of assets at the adoption of FAS 106 in 1993, and it was amortized over 20 years. Because of the foregoing factors, the FAS 106 expenses have decreased despite lower discount rates and the amortization of net gains and losses, both of which had the effect of increasing costs. Additionally, the Company implemented plan changes in 2013 to transition Medicare-eligible retirees and dependents to a health care exchange, which has also reduced costs.

Table 12
FAS 106 Retiree Medical Expense

NSPM Electric O&M State of MN	
Year	**Amount ($)**
2011	5,682,156
2012	6,174,119
2013	4,260,474
2014	3,302,986
2015 Forecast	1,501,210
2016 Test Year	1,381,774
2017 Plan Year	1,270,285
2018 Plan Year	1,155,072

Q. WHAT WAS THE NET GAIN/LOSS AMORTIZATION FOR POSTRETIREMENT BENEFITS (FAS 106) IN THIS RATE CASE COMPARED TO THE LAST RATE CASE?

A. In both cases the Company was amortizing a loss and the amount decreased by $1.5 million ($0.7 million 2016 test year vs. $2.2 million 2014 test year).

Q. WHAT WAS THE MAIN CAUSE OF THE LOSS AMORTIZATION DECREASING BETWEEN RATE CASES?

A. The loss amortization in both cases primarily consisted of liability losses. This is because unlike the qualified pension plan, there are no federal mandated funding requirements for the retiree medical plan. Also, because this is a legacy benefit with a shrinking population, the Company is almost entirely on a pay-as-it-goes basis when it comes to paying the benefits of this plan. As a result, there is only a small asset reserve set aside for future benefit payments, which leads to minimal asset gains and losses each year. The declining liability loss amortization between cases was primarily due to changes to the discount rate and gains related to improved claims experience.

Q. HAS THE COMPANY PROVIDED THE ACTUARIAL STUDY AND DERIVATION OF THE JURISDICTIONAL AMOUNT AS REQUESTED BY THE COMMISSION IN ORDER POINT 11(C)?

A. Yes. The Company has included Exhibit___(RRS-1), Schedule 11, which is an actuarial study that supports the FAS 106 costs for 2016-2018. Exhibit___(RRS-1), Schedule 12 shows the conversion of the 2016 total cost amounts to the NSPM electric O&M, state of Minnesota amount.

B. FAS 112 Long-Term Disability Benefits

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

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

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

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

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

Q. WHAT WERE THE AMOUNTS OF FAS 112 LONG-TERM DISABILITY EXPENSE IN THE FIVE YEARS PRIOR TO THE TEST YEAR, AND WHAT DOES THE COMPANY EXPECT THEM TO BE OVER THE NEXT FEW YEARS?

A. Table 13 below compares the FAS 112 long-term disability benefit costs from 2011 through 2018.

Table 13
FAS 112 Long-Term Disability Expense

NSPM Electric O&M State of MN	
Year	**Amount ($)**
2011	1,083,328
2012	1,026,301
2013	1,184,258
2014	(173,300)
2015 Forecast	614,102
2016 Test Year	185,994
2017 Plan Year	174,623
2018 Plan Year	164,583

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

A. The FAS 112 self-insured costs fluctuate from year to year because of changes to the discount rate or demographic adjustments, such as changes in the number of disabled employees or changes in the amount of the average monthly disability benefit. Discount rate changes and demographic adjustments are the differences between actual experience and assumed experience and are recorded in the current year, which can result in significant changes in costs from one year to the next. The cost change can be significant because, unlike pension, there is no amortization for gains and losses since there are no active employees to accrue the gain or loss over. Instead, the entire amount is recorded when it is determined. Favorable demographic changes along with a gain associated with an increased discount rate caused the final 2014 FAS 112 LTD cost to be negative. The amount then increased in 2015 primarily as the result of discount rate losses. For 2016-2018, we have assumed no further gains and losses, which caused the cost to decrease again in 2016 and effectively level off for 2017 and 2018. It is reasonable to assume

no further FAS 112 gains or losses during this period as our assumptions are the most reasonable estimate to determine 2016 to 2018 costs at this point in time.

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

A. Yes. The Company has evaluated fully-insuring the plans that are currently self-insured, but we determined that it was more costly to fully-insure them due to the small number of individuals covered and the degree of uncertainty around anticipated claims.

Q. HAS THE COMPANY PROVIDED THE ACTUARIAL STUDY AND DERIVATION OF THE JURISDICTIONAL AMOUNT AS REQUESTED BY THE COMMISSION IN ORDER POINT 11(C)?

A. Yes. Exhibit___(RRS-1), Schedule 11, which is an actuarial study that supports the FAS 112 LTD costs for 2016-2018. Exhibit___(RRS-1), Schedule 12 shows the conversion of the 2016 total cost amounts to the NSPM electric O&M, state of Minnesota amount.

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

Q. PLEASE SUMMARIZE THE COMPANY'S REQUEST REGARDING THE MULTI-YEAR RATE PLAN AMOUNTS FOR THESE TWO BENEFITS.

A. The Company requests that the Commission approve retiree medical expense in the amounts of $1.4 million, $1.3 million and $1.2 million. The Company requests that the Commission approve FAS 112 long-term disability benefit expense in the amounts of $0.2 million, $0.2 million and $0.2 million for 2016, 2017 and 2018, respectively.

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

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

VII. BENEFIT RATE BASE ASSETS AND LIABILITIES

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

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

Q. DID THE COMMISSION DIRECT THE COMPANY TO ADDRESS THE TOPIC OF THE PREPAID PENSION ASSET IN THIS CASE?

A. Yes. In our last rate case, Docket No. E002/GR-13-868, the Commission included two order points related to the prepaid pension assets:

> Order Point 10: The qualified pension asset and associated deferred-tax amounts shall be included in rate base. For rate-base purposes, the pension asset is to reflect the cumulative difference between actual cash deposits made by the Company reduced by the recognized qualified pension cost determined under the ACM/FAS 87 methods since plan inception, not to exceed the Company's filed request. The Company shall provide a detailed compliance filing

which explains the calculated amount within ten days of the Commission's decision.

Order Point 11, subpart e: Include testimony identifying the basis used for its requested rate-base impact related to pensions. Additional schedules must be included that reflect the underlying calculation of the qualified pension asset (or liability) balances requested for rate-base inclusion.

After explaining the background relevant to the prepaid pension asset, I will respond to those two order points.

A. Overview of the Prepaid Pension Asset

Q. PLEASE DESCRIBE THE COMPANY'S PREPAID PENSION ASSET AND ITS UNFUNDED PENSION-RELATED LIABILITY.

A. The prepaid pension asset arises in connection with the Company's qualified pension plan. Over the life of that plan, the Company has contributed more dollars to the plan than it has recognized in actuarially calculated pension expense. The pension-related liability is associated with the retiree medical and post-employment benefits. During the lives of those plans, the Company has contributed less than the actuarially calculated expense.

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

A. As I discussed earlier in my testimony, the annual qualified pension expense is calculated in accordance with FAS 87 and the ACM. Similarly, the retiree medical costs are calculated under FAS 106, and post-employment benefits are calculated under FAS 112. Based on its accounting records, the Company can quantify the total amount of actuarially calculated expense for each of those

benefits over the entire period that the Company has offered that benefit. If that cumulative expense amount is less than the cumulative contributions made by the Company since it began offering that benefit, the Company has a prepaid pension asset. If the cumulative recognized expense exceeds the cumulative contributions to the plan, there is an unfunded liability.

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

A. Yes. Suppose that the Company contributes $100 per year to the qualified pension trust for each of the first five years of its existence. Further suppose that the actuarially determined qualified pension expense in each of those five years is $90. Table 14 below shows how the excess contributions each year create a cumulative prepaid pension asset.

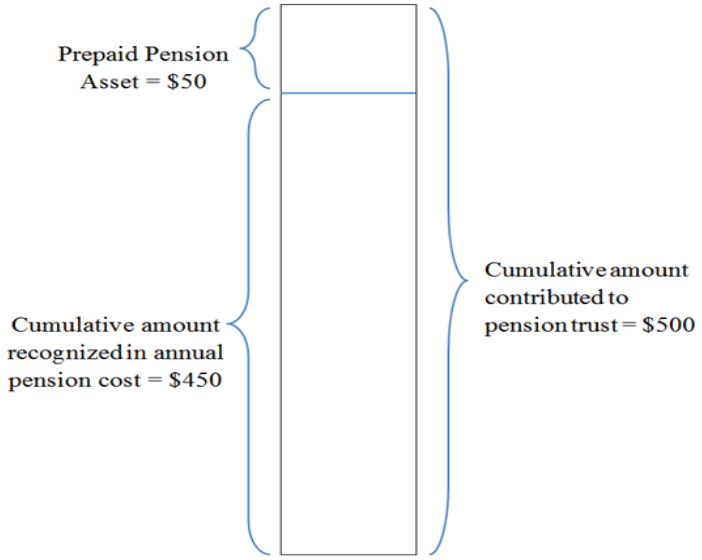
Table 14
Prepaid Pension Asset Example

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

At the end of the five-year period, the utility has a prepaid pension asset of $50. Of course, the opposite can also occur. If pension expense exceeds the pension contributions in a given year, the prepaid pension asset will decline, or if there is no prepaid pension asset, the utility may have a pension liability.

Over the long run, pension contributions and pension expense will even out, but over the short and intermediate run there will almost certainly be differences, which are recorded as prepaid pension assets or pension liabilities. Figure 6[5] below visually depicts the prepaid pension asset as the excess contributions over the recognized pension expense.

Figure 6



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

A. As I discussed earlier, the qualified pension expense calculation is governed by the ACM and FAS 87, which sets forth the rules that companies must follow in determining their pension costs in order to have their accounting be acceptable under GAAP. In contrast, the contributions are driven by federal law requirements under ERISA and the IRC. Although the expense and

[5] The amounts in this figure are merely illustrative, as are the amounts in Table 14.

contribution calculations both use accrual methodologies, the assumptions, attribution methods, and periods of time over which the costs are required to be recognized are different and thus can often result in different annual amounts.

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

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

B. Ratemaking Treatment of Prepaid Pension Asset

Q. HOW ARE PREPAID PENSION ASSETS AND UNFUNDED ACCRUED BENEFIT LIABILITIES GENERALLY TREATED FOR PURPOSES OF SETTING RATES?

A. Like other prepayments, a prepaid pension asset is generally treated as an addition to rate base. Conversely, FAS 106 and FAS 112 liabilities cause the rate base to decrease, which is consistent with the treatment of other unfunded liabilities.

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

A. Yes. In this case, the Company is proposing to include both the prepaid pension asset and the unfunded liabilities in rate base. Because the prepaid pension asset is larger than the unfunded liability, the Company has a net asset and therefore has an increase to rate base. The Company proposes to earn a

return on the asset at the Company's weighted average cost of capital (WACC).

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

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

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

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

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

A. Table 15 below shows the amount included in rate base for all benefit types included in 2016. This table also shows the amounts that must be offset by the ADIT associated with the benefit asset or liability balance. This same

information can also be found in the Non-Plant Rate Base (Assets/Liabilities) Schedule. The net balance is approximately $17.0 million on a Minnesota electric jurisdictional basis. This amount should be added to the Company's rate base because it represents shareholder capital that is being used for the benefit of customers.

Table 15
Pension and Benefits Assets and Liabilities ($)

Rate Base Benefit (Short and Long-Term)	Non-Plant Rate Base Asset/(Liability)	Associated Accumulated Deferred Tax Asset/(Liability)	Net Rate Base Impact Asset/(Liability)
Prepaid Pension Asset	93,788,373	(38,274,754)	55,513,620
Retiree Medical - FAS 106	(50,121,998)	20,454,637	(29,667,361)
Post Employment Benefits FAS 112	(14,958,012)	6,104,320	(8,853,692)
Total	28,708,364	(11,715,797)	16,992,567

Q. WHAT IS THE COMPANY'S REQUEST WITH RESPECT TO THE NET PENSION ASSET BALANCE OF $17.0 MILLION?

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

C. Compliance with Order Points

Q. HAS THE COMPANY COMPLIED WITH THE FILING REQUIREMENT IN ORDER POINT 10?

A. On April 6, 2015, the Company filed the requested compliance filing which is also provided as Exhibit___(RRS-1), Schedule 14.

Q. HAS THE COMPANY CREATED A SCHEDULE TO REFLECT THE UNDERLYING CALCULATION OF THE PREPAID PENSION ASSET THAT IS INCLUDED IN THE MULTI-YEAR RATE PLAN PERIOD, 2016-2018?

A. Yes. Exhibit___(RRS-1), Schedule 15 shows the annual calculation of the total NSPM prepaid pension asset or liability from 2009 through 2018. Schedule 15 also shows a detailed calculation by month that supports the 2016-2018 NSPM electric state of Minnesota prepaid pension asset balances that are being requested in rate base for this case.

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

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

The second factor was the severe economic downturn that occurred in 2008. The steep drop in equities markets dramatically reduced the net asset value of pension plans across the United States, including those of Xcel Energy. The

Xcel Energy pension plans, for example, lost approximately 26 percent of their value as a result of the market crash.

The third factor was the drop in interest rates, which was caused by the Federal Reserve's efforts to stimulate the national economy in the wake of the 2008 recession. The resulting drop in discount rates caused the Company's pension liabilities to become larger, which increased the amount of underfunding. This is because future pension liabilities are discounted to present value, and a higher discount rate reduces the liability balance, whereas a lower discount rate increases the liability balance. That liability balance is then compared to the value of the trust assets to determine whether the trust is overfunded or underfunded.

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

A. The Company responded by taking the only steps that were practically available to it, which was to provide additional funding to the pension plans. To help ensure that the pension plans complied with the Pension Protection Act by becoming fully funded within seven years, the Company made the contributions listed in Exhibit___(RRS-1), Schedule 15.

D. Justification for Including the Net Asset in Rate Base

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

A. The net asset should be included in rate base for two separate and independent reasons. First, as I explained earlier, it is customary in Minnesota for prepayments to be included in rate base, regardless of whether they are

prepayments by the utility or by its customers. There is no reason to treat the net prepayment in this case differently.

Second, customers are earning a return on the prepaid pension asset, and therefore it is appropriate that the Company earn a return on its prepayment as well.

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

A. As I explained earlier in my testimony, the annual pension cost determined under both accounting methods, the ACM (NSPM Plan) and FAS 87 (XES Plan), includes an expected return on assets (EROA). The EROA percentage is multiplied by the value of the assets in the pension trust, and the product of that calculation is subtracted from the annual pension cost.

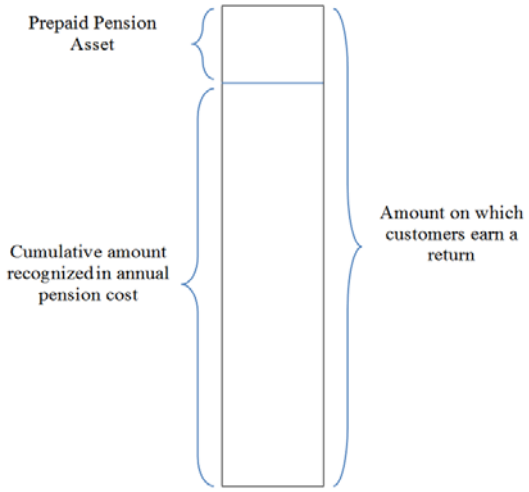
Q. WHAT IS THE EROA FOR THE NSPM PLAN AND THE XES PLAN?

A. The EROA for both the NSPM Plan and the XES Plan is 7.25 percent for 2015, 2016 and 2017. That percentage is applied to the balance in the pension trust.

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

A. Yes. As shown in Figure 7 below, customers receive the benefit of the earnings on the *entire* amount of assets in the pension trust, not just the amount that has been recognized in annual pension cost.

Figure 7



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

Q. YOU TESTIFIED EARLIER THAT THE EROA FOR THE COMPANY IS 7.25 PERCENT, WHEREAS THE COMPANY IS SEEKING A WACC OF 7.49 PERCENT IN THE 2016 TEST YEAR. DOES THE DISPARITY BETWEEN THE WACC AND THE EROA DEMONSTRATE THAT CUSTOMERS ARE DISADVANTAGED BY THE USE OF THE WACC AS THE RETURN ON THE PREPAID PENSION ASSET?

A. No. The disparity between the WACC and the EROA is offset by the benefits that customers receive through avoidance of incremental PBGC premiums.

Q. PLEASE EXPLAIN WHAT THE PBGC IS.

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

Q. WHAT TYPES OF PREMIUMS DOES THE PBGC CHARGE?

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

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

A. Yes. For 2016, the variable-rate premium for a single-employer plan such as that of NSPM is $29 per $1000 of unfunded vested benefits.

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

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

[6] A plan can be underfunded at the same time it has a prepaid pension asset, because they measure different things. As I testified earlier, the prepaid pension asset is the amount by which cumulative

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

A. In the absence of the prepaid pension asset, the NSPM Plan would be further underfunded by $114 million at the end of 2015.

Q. BY HOW MUCH WOULD THE PBGC PREMIUMS INCREASE IN 2016 IN THE ABSENCE OF THE PREPAID PENSION ASSET?

A. The PBGC premiums would be approximately $2.7 million higher in 2016 on a NSPM Electric, state of Minnesota basis, without the prepaid pension asset, as shown in Table 16.

Table 16
Increase in 2016 PBGC Premiums
Without Prepaid Pension Asset

Benefit Plan	NSPM Prepaid Pension Asset 12-31-15	Percent to Electric State of Minnesota	NSPM Electric State of Minnesota Prepaid Pension Asset 12-31-15	Variable Rate per $1,000 of Unfunded Vested Benefit	PBGC Premiums Cost Avoidance 2016
NSPM Plan	$114,089,406	81.269%	$92,719,606	$29	$2,688,869

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

A. Yes. PBGC premiums are included in the annual pension cost calculation. Therefore, the existence of the prepaid asset will avoid the need for NSPM's electric retail customers to pay an additional $2.7 million in 2016.

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contributions exceed cumulative recognized pension expense. A pension plan is underfunded when its pension benefit obligations exceed the value of its assets.

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

A. Yes. As I testified earlier, the EROA is 7.25 percent, whereas the WACC requested by the Company in this case is 7.49 percent, which is a difference of 24 basis points. Multiplying the $17 million net asset by 24 basis points yields a total of approximately $41,000, which is the amount by which the return to the Company will exceed the expected return to customers. That amount is far smaller than the $2.7 million that customers avoid paying in PBGC premiums because of the existence of the prepaid asset. Thus, it is reasonable to include the net asset in rate base and for the Company to earn a WACC return on the asset.

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

A. The Company requests that the prepaid pension asset be included in rate base and that it earn a return at the WACC, similar to other prepayments.

VIII. ACTIVE HEALTH AND WELFARE COSTS

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

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

Q. DID THE COMMISSION DIRECT THE COMPANY TO ADDRESS THE TOPIC OF ACTIVE HEALTHCARE CLAIMS?

A. Yes. Order Point 17 in the May 8, 2015 Order in Docket No. E002/GR-13-868 states:

> In its next rate case the Company shall provide historical active health care costs since 2011 for each calendar year, including both the per-book amount and the actual claims expense. The Company shall also provide information detailing the annual year-end Incurred But Not Reported (IBNR) accruals and subsequent reversals.

To comply with the first part of Order Point 17, the following table shows both the per book and actual incurred amounts of active health and welfare costs for the five years prior to the test year and for the 2016-2018.

Table 17
Active Health Care
Per Book and Actual Incurred Claims

NSPM Electric O&M State of MN ($)				
Year	**Per Book Amount**	**Incurred Adjustment**		**Actual Claims Incurred**
		Remove IBNR Adjustment for Prior Year Incurred Claims Paid in Current Year	Add IBNR Adjustment for Claims Paid in Following Year	
2011	29,686,788	370,678	(843,844)	29,213,622
2012	30,559,407	843,844	(1,313,647)	30,089,604
2013	29,376,067	1,313,647	274,335	30,964,049
2014	34,318,845	(274,335)	(437,910)	33,606,601
2015 Forecast	35,367,033	437,910	n/a	35,804,942
2016 Test Year	n/a	n/a	n/a	37,771,334
2017 Plan Year	n/a	n/a	n/a	39,915,575
2018 Plan Year	n/a	n/a	n/a	42,417,514

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

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

Q. PLEASE PROVIDE INFORMATION TO COMPLY WITH THE SECOND PART OF ORDER POINT 17, REQUIRING THAT THE COMPANY PROVIDE THE ANNUAL YEAR-END IBNR ACCRUAL ESTIMATE AND SUBSEQUENT REVERSALS.

A. To comply with the second part of Order Point 17, Table 18 below shows the IBNR amount that was estimated at the end of each year and the amount of claims paid in the following year. The difference between these two amounts is the IBNR adjustment that was recorded in the following year, or said

another way, it represents the adjustments that need to be factored in to get from the per book amount to the actual incurred claims.

Table 18
Active Health Care
Incurred But Not Reported Claims

NSPM Electric O&M State of MN ($)			
Year	**Year-End IBNR Accrual Estimate**	**Actual Claims Paid in Following Year**	**IBNR Adjustment**
2011	4,087,992	3,244,148	(843,844)
2012	4,007,948	2,694,301	(1,313,647)
2013	3,101,423	3,375,758	274,335
2014	3,493,780	3,055,870	(437,910)

Q. WHAT ARE THE ACTIVE HEALTH AND WELFARE AMOUNTS FOR 2016, 2017 AND 2018?

A. The 2016, 2017 and 2018 health and welfare expense amounts are approximately $42.0 million, $44.2 million and $46.7 million, respectively.

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

A. Yes. Exhibit___(RRS-1), Schedule 16, shows the components that are included in each category and the amount for each component in the test year. The active healthcare category makes up 90 percent of the total health and welfare costs, so the remainder of this section of testimony will focus on active healthcare.

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

A. Active healthcare costs are all costs associated with providing healthcare coverage to our employees. As explained in more detail by Ms. Lowenthal, active healthcare benefits include medical, pharmacy, dental and vision claims, administrative fees, employee withholdings, pharmacy rebates, Health Savings Account (HSA) contributions, transitional reinsurance fees, trustee fees, interest income and opt-out finding. The remainder of this discussion will focus on medical and pharmacy costs because they make up the vast majority of active healthcare costs.

Q. HOW WERE THE 2016 TEST YEAR MEDICAL AND PHARMACY AMOUNTS DETERMINED?

A. The Company's actuary, Towers Watson, calculated the 2016 test year medical and pharmacy amounts by using the actual experience from the following periods and weighting them.

80 percent weighting was applied to:

- Medical claims incurred March 1, 2014 through February 28, 2015, paid through April 30, 2015.
- Pharmacy claims incurred May 1, 2014 through April 30, 2015, paid through April 30, 2015.

20 percent weighting was applied to:

- Medical claims incurred March 1, 2013 through February 28, 2014, paid through April 30, 2015.
- Pharmacy claims incurred May 1, 2013 through April 30, 2014, paid through April 30, 2015.

Towers Watson then adjusted for changes in plan design, regulations, administrative fees, etc., and it trended the data forward to 2016 using inflation factors. These costs are calculated at a plan level, meaning all companies with employees in that plan are calculated together. Towers Watson then adjusts this estimate to account for actual claims experience by company. Inflation factors were then applied to derive the 2017 and 2018 amounts.

Q. WHAT IS THE COMPANY'S BASIS FOR USING HEALTHCARE INFLATION ASSUMPTIONS?

A. There are numerous statistics and projections on how much healthcare costs will increase in the upcoming years. A recent publication from PricewaterhouseCoopers (PwC) dated June 2015 estimates that healthcare costs will rise 6.50 percent in 2016. This information, which was gathered by PwC's Health Research Institute, was based on PwC's own internal research and input from health plan actuaries, industry leaders, analyst reports, and employer surveys. The article is available as Exhibit___(RRS-1), Schedule 17.

Q. WHAT PERCENT OF HEALTHCARE INFLATION IS ASSUMED IN 2016-2018?

A. As shown in Table 19 below, the amounts reflect an average increase of 6 percent, which is below the 6.5 percent projection by PwC.

Table 19
Active Health Care Expense

NSPM Electric O&M State of MN					
	2014	**2015 Forecast**	**2016 Test Year**	**2017 Plan Year**	**2018 Plan Year**
Active Healthcare ($)	33,606,601	35,804,942	37,771,334	39,915,575	42,417,514
Year-Over-Year Change		6.5%	5.5%	5.7%	6.3%

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

A. Yes. As shown in the table above, the Company's active healthcare costs are currently forecasted to grow approximately 6 percent per year for 2016, 2017 and 2018. This growth rate is lower than the typical rate for other organizations, as demonstrated by the attachment referred to above. The Company's expense is expected to increase. Even though the Company has implemented several plan design changes to help control the pace of growth, active healthcare costs have continued to increase and are expected to increase annually at a rate of approximately 6.5 percent at least through 2016.

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

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

IX. WORKERS' COMPENSATION FERC 925 COSTS

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

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

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

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

Q. WHAT HAS BEEN THE TREND FOR THE WORKERS' COMPENSATION COSTS OVER THE LAST SEVERAL YEARS AND FOR THE MULTI-YEAR RATE PLAN PERIOD?

A. Table 20 below compares the workers' compensation benefit costs from 2011 through 2018.

Table 20
Workers' Compensation Expense

NSPM Electric O&M State of MN ($)			
Year	**FAS 112**	**Insurance Premiums & Other**	**Total Workers' Compensation**
2011	267,071	2,785,231	3,052,302
2012	755,095	2,517,135	3,272,230
2013	1,133,813	2,028,076	3,161,890
2014	98,732	2,515,351	2,614,083
2015 Forecast	489,572	2,812,593	3,302,165
2016 Test Year	197,263	2,977,435	3,174,698
2017 Plan Year	177,026	3,110,805	3,287,831
2018 Plan Year	162,271	3,223,330	3,385,602

Q. HOW DID YOU CALCULATE THE WORKERS' COMPENSATION AMOUNTS FOR 2016 THROUGH 2018?

A. The FAS 112 amounts are based on the 2016 through 2018 projected cost amounts from the Towers Watson actuarial calculation provided in May 2015. The insurance premium amounts were based on the actual premiums paid through October 2015, with annual increases of five percent applied to trend to the end of 2018.

Q. HAS THE COMPANY PROVIDED THE ACTUARIAL STUDY AND DERIVATION OF THE JURISDICTIONAL AMOUNT AS REQUESTED BY THE COMMISSION IN ORDER POINT 11(C)?

A. Yes. The Company has included Exhibit___(RRS-1), Schedule 11, which is an actuarial study that supports the FAS 112 workers compensation costs in 2016-2018. Exhibit___(RRS-1), Schedule 12 shows the conversion of the 2016 total cost amounts to the NSPM electric O&M, state of Minnesota amount.

Q. IS THE COMPANY SEEKING TO RECOVER THE FORECASTED WORKERS' COMPENSATION EXPENSE AS SHOWN IN TABLE 20 AS PART OF ITS MULTI-YEAR RATE PLAN?

A. Yes. Ms. Heuer has incorporated the forecasted amounts into the 2016 test year revenue requirement, and Mr. Burdick has incorporated the forecasted amounts into the 2017 and 2018 revenue requirements. These costs are calculated in accordance with accounting rules and standards and are based on actuarial assumptions specific to the Company. For these reasons, Mr. Burdick has included these forecasts in the 2017 and 2018 revenue requirements, and he provides further support for this approach in his Direct Testimony.

X. CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY AND RECOMMENDATIONS.

A. The assumptions that the Company has used to determine the test year pension expense are reasonable, as shown by comparison with other utilities' pension assumptions. In addition, we are proposing to use a five-year average discount rate – as the Commission approved in our last rate case – to reduce the potential number of disputed issues in this current case. Our annual qualified pension expense has decreased each year since 2013, and that decrease continues through the multi-year rate plan period, in part due to the 2008 asset loss being phased in and amortized under the normal pension accounting calculations.

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

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

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

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

In summary, the non-cash employee benefits discussed in my testimony are part of the Company's overall compensation and benefits package and are necessary to attract and retain the employees required to provide high-quality service to our customers. The forecasted amounts of pension and benefits costs I present are reasonable and accurately reflect our expected pensions and benefits expense in the multi-year rate plan period. As such, I recommend that the Commission approve these levels of expense to be included in rates.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

Resume of Richard R. Schrubbe
Director, Corporate and Benefits Accounting

Xcel Energy Services Inc.
414 Nicollet Mall
Minneapolis, MN 55401

Current Responsibilities

I am currently the Director of Corporate and Benefits Accounting. In this position, I am responsible for the monthly close cycle, including the coordination of multiple feeder systems, four core-utility business-unit accounting groups, and multiple Xcel Energy subsidiaries. In addition, I am responsible for monitoring over 2,000 balance-sheet account reconciliations and performing monthly balance-sheet analysis. Furthermore, I am responsible for accounting for all employee-benefits programs, playing a key liaison role with the Human Resources department, external actuaries, and senior management with benefit fiduciary roles.

Previous Employment (1996 to 2013)

Director, Corporate and Benefits Accounting
Manager, Corporate Accounting
Financial Consultant
Financial Analyst
Controller
Assistant Controller
Staff Accountant
Branch Manager

Education

Marquette University, Milwaukee, WI
Bachelor of Science – Finance (1996)

Benefit Costs

NSPM Total Company Electric O&M

	2011 Actual	2012 Actual	2013 Actual	2014 Actual	Amount Included in Docket No. E002/GR-13-868 (2014 Test Year) (D)	2015 Forecast	2016 Test Year	2017 Plan Year	2018 Plan Year
Retirement									
401K Match	8,335,273	8,614,884	9,107,630	9,607,551	9,152,672	9,896,201	10,261,324	10,559,931	10,884,454
Qualified Pension (A)	14,050,084	27,213,366	25,122,880	24,995,216	25,017,729	23,597,387	22,324,841	20,850,202	19,904,477
Nonqualified Pension	1,620,098	1,529,493	1,274,582	1,280,610	(0)	1,674,004	-	-	-
Deferred Compensation Plan	39,731	33,933	32,393	48,348	37,475	49,270	41,790	45,112	48,401
NMC Employer Retirement Contribution	642,479	735,539	870,025	882,897	871,746	909,428	1,027,900	1,058,786	1,090,556
Retirement & Compensation Consulting	634,256	776,232	727,347	651,239	763,244	714,156	705,679	686,782	628,138
FAS 88 nonqualified settlement	-	2,929,505	503,325	-	-	954,012	-	-	-
Other	1,960	(221,490)	(49,371)	(86,843)	-	(66,224)	(85,263)	(85,040)	(85,117)
Total Retirement	25,323,881	41,611,461	37,588,812	37,379,018	35,842,866	37,728,233	34,276,271	33,115,772	32,470,909
Health & Welfare									
Active Health Care	33,774,902	34,746,183	33,549,643	39,343,390	36,861,125	40,617,899	43,379,162	45,841,754	48,715,151
Adjust to Incurred Claims	(538,325)	(534,168)	1,814,782	(817,425)	-	502,925	-	-	-
Life & LTD insurance, Misc Ben Programs	3,765,990	3,536,596	3,844,800	4,555,363	3,631,799	4,644,291	4,836,136	4,909,198	4,963,415
FAS 106 Retiree Medical	6,464,635	7,020,001	4,865,777	3,786,569	2,516,195	1,724,092	1,586,923	1,458,881	1,326,563
FAS 112 LTD (long-term disability)	1,232,511	1,166,909	1,352,510	(198,672)	196,421	705,276	213,608	200,549	189,019
Other	-	-	-	-	-	-	-	-	-
Total Health & Welfare	44,699,713	45,935,520	45,427,512	46,669,224	43,205,540	48,194,484	50,015,830	52,410,383	55,194,148
Annual Incentive (B) (C)	21,567,357	26,737,113	21,379,822	24,777,325	22,192,214	23,259,246	24,701,885	25,446,496	26,222,762
Total Benefits	91,590,951	114,284,093	104,396,145	108,825,567	101,240,620	109,181,963	108,993,986	110,972,651	113,887,819

(A) Amounts are consistent with the data in the annual pension compliance filing
(B) For actual years, the annual incentive plan amounts represent the actual payout for each year.
(C) 2015 amounts are not final. Incentive is accrued during 2015, and the amount listed is an estimate. The final amount will be paid in March 2016.
(D) The entire amount for 2014 rate case adjustments were applied to O&M even though they were calculated for O&M and capital.

NSPM Electric O&M for Minnesota Jurisdiction

	2011 Actual	2012 Actual	2013 Actual	2014 Actual	Amount Included in Docket No. E002/GR-13-868 (2014 Test Year) (D)	2015 Forecast	2016 Test Year	2017 Plan Year	2018 Plan Year
Retirement									
401K Match	7,326,371	7,576,825	7,974,641	8,380,571	8,012,615	8,616,872	8,934,795	9,194,800	9,477,369
Qualified Pension (A)	12,349,461	23,934,264	21,043,942	20,923,341	20,923,341	19,845,733	18,920,755	17,859,309	17,194,011
Nonqualified Pension	1,424,002	1,345,195	1,116,024	1,117,063	(0)	1,457,597	-	-	-
Deferred Compensation Plan	34,922	29,844	28,364	42,173	32,807	42,900	36,387	39,280	42,144
NMC Employer Retirement Contribution	564,714	646,909	761,794	770,143	763,161	791,862	895,019	921,911	949,575
Retirement & Compensation Consulting	557,486	682,699	636,865	568,069	668,174	621,833	614,453	597,998	546,936
FAS 88 nonqualified settlement	-	2,576,511	440,712	-	-	830,682	-	-	-
Other	1,723	(194,802)	(43,229)	(75,753)	4,962	(57,662)	(74,241)	(74,047)	(74,113)
Total Retirement	22,258,678	36,597,446	31,959,113	31,725,608	30,405,060	32,149,818	29,327,168	28,539,252	28,135,921
Health & Welfare									
Active Health Care	29,686,788	30,559,407	29,376,067	34,318,845	32,207,553	35,367,033	37,771,334	39,915,575	42,417,514
Adjust to Incurred Claims	(473,166)	(469,803)	1,587,982	(712,244)	-	437,910	-	-	-
Life & LTD insurance, Misc Ben Programs	3,310,154	3,110,450	3,366,507	3,973,597	3,179,514	4,043,902	4,210,946	4,274,563	4,321,771
FAS 106 Retiree Medical	5,682,156	6,174,119	4,260,474	3,302,986	2,202,778	1,501,210	1,381,774	1,270,285	1,155,072
FAS 112 LTD (long-term disability)	1,083,328	1,026,301	1,184,258	(173,300)	171,948	614,102	185,994	174,623	164,583
Other	-	-	-	-	(43,718)	-	-	-	-
Total Health & Welfare	39,289,260	40,400,473	39,775,288	40,709,885	37,718,075	41,964,156	43,550,048	45,635,046	48,058,942
Annual Incentive (B) (C)	17,020,466	23,513,110	17,189,506	21,688,003	19,453,696	20,323,336	21,584,413	22,235,055	22,913,363
Total Benefits	78,568,404	100,511,030	88,923,907	94,123,496	87,576,832	94,437,310	94,461,629	96,409,353	99,108,226

(A) Amounts are consistent with the data in the annual pension compliance filing
(B) For actual years, the annual incentive plan amounts represent the actual payout for each year.
(C) 2015 amounts are not final. Incentive is accrued during 2015, and the amount listed is an estimate. The final amount will be paid in March 2016.
(D) The entire amount for 2014 rate case adjustments were applied to O&M even though they were calculated for O&M and capital.

Benefit Costs

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

	2011 Actual	2012 Actual	2013 Actual	2014 Actual	Amount Included in Docket No. E002/GR-13-868 (2014 Test Year)	2015 Forecast	2016 Test Year	2017 Plan Year	2018 Plan Year
Retirement									
401K Match	8,565,194	9,030,658	9,438,420	10,105,425	9,551,937	10,363,458	10,688,751	11,009,414	11,339,696
Qualified Pension	12,728,000	29,958,000	33,338,523	31,216,151	30,663,882	28,628,275	27,005,651	24,948,253	23,777,758
Nonqualified Pension	515,000	554,000	466,000	547,000	-	584,000	-	-	-
Deferred Compensation Plan	-	10,449	2,929	16,878	8,927	17,233	16,121	17,614	18,952
NMC Employer Retirement Contribution	692,327	782,988	925,362	975,757	917,802	986,679	1,114,073	1,147,495	1,181,920
Retirement & Compensation Consulting	630,040	689,276	732,958	630,665	632,296	537,172	503,825	483,530	464,865
FAS 88 nonqualified settlement	-	-	-	-	-	-	-	-	-
Other	3,266	(363,127)	(102,961)	(124,860)	-	(110,000)	(140,000)	(140,000)	(140,000)
Total Retirement	23,133,827	40,662,244	44,801,231	43,367,016	41,774,844	41,006,816	39,188,421	37,466,306	36,643,191
Health & Welfare									
Active Health Care	36,459,331	37,785,621	35,858,464	43,176,214	41,067,704	44,891,620	47,431,704	50,188,520	53,298,957
Life & LTD insurance, Misc Ben Programs	3,056,157	2,879,431	3,206,861	4,375,414	3,274,424	4,988,924	5,106,372	5,192,970	5,249,306
FAS 106 Retiree Medical	10,460,000	11,220,000	6,873,000	5,259,000	3,304,658	2,262,000	2,012,000	1,810,000	1,599,000
FAS 112 LTD (long-term disability)	2,095,000	1,910,000	2,292,000	(339,000)	329,000	837,000	335,000	317,000	300,000
Other	-	-	-	-	-	-	-	-	-
Total Health & Welfare	52,070,488	53,795,052	48,230,325	52,471,628	47,975,786	52,979,544	54,885,076	57,508,490	60,447,263
Annual Incentive	13,170,200	17,469,523	14,317,358	17,535,034	15,641,278	16,352,782	16,746,874	17,249,288	17,766,775
Total Benefits	88,374,515	111,926,819	107,348,914	113,373,678	105,391,908	110,339,142	110,820,371	112,224,084	114,857,229

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

	2011 Actual	2012 Actual	2013 Actual	2014 Actual	Amount Included in Docket No. E002/GR-13-868 (2014 Test Year)	2015 Forecast	2016 Test Year	2017 Plan Year	2018 Plan Year
Retirement									
401K Match	6,938,177	6,821,770	7,562,831	8,313,469	7,214,679	8,492,104	8,811,653	9,076,003	9,348,283
Qualified Pension	19,515,000	27,735,000	33,394,000	26,989,000	26,989,000	29,148,000	25,520,000	22,398,000	19,636,000
Nonqualified Pension	4,113,000	3,974,000	3,397,000	3,238,000	-	4,681,000	-	-	-
Deferred Compensation Plan	127,000	87,946	101,047	114,728	106,397	121,902	100,810	108,155	115,525
Retirement & Compensation Consulting	629,085	981,662	760,627	778,307	1,074,440	1,234,398	1,280,517	1,264,666	1,096,736
FAS 88 nonqualified settlement	-	9,900,000	1,716,000	-	-	3,200,000	-	-	-
Other	-	-	36,000	(36,000)	-	-	-	-	-
Total Retirement	31,322,262	49,500,378	46,967,505	39,397,504	35,384,516	46,877,404	35,712,980	32,846,824	30,196,544
Health & Welfare									
Active Health Care	28,208,623	28,927,854	31,007,036	35,555,260	32,040,433	33,758,137	38,322,559	40,513,639	43,002,695
Life & LTD insurance, Misc Ben Programs	5,164,887	4,956,601	5,285,314	5,555,635	4,183,167	4,925,268	5,293,175	5,375,076	5,429,692
FAS 106 Retiree Medical	681,000	749,000	2,644,000	2,279,000	1,541,560	1,223,000	1,211,000	1,201,000	1,180,000
FAS 112 LTD (long-term disability)	(74,000)	20,000	(12,000)	1,000	32,000	733,000	35,000	29,000	24,000
Other	-	-	-	-	-	-	-	-	-
Total Health & Welfare	33,980,510	34,653,455	38,924,350	43,390,895	37,797,160	40,639,405	44,861,734	47,118,715	49,636,387
Annual Incentive	23,479,649	32,489,917	26,992,148	25,035,788	25,937,672	29,659,862	31,114,959	32,048,417	33,009,854
Total Benefits	88,782,421	116,643,750	112,884,004	107,824,187	99,119,348	117,176,671	111,689,673	112,013,956	112,842,785

Benefit Costs

NSPM Total Company Electric Charged to Capital

	2011 Actual	2012 Actual	2013 Actual	2014 Actual	Amount Included in Docket No. E002/GR-13-868 (2014 Test Year)	2015 Forecast	2016 Test Year	2017 Plan Year	2018 Plan Year
Retirement									
401K Match	1,472,884	1,559,514	1,615,445	1,614,795	1,601,893	1,684,892	1,857,237	1,911,841	1,951,427
Qualified Pension	2,875,969	6,445,782	9,202,583	7,379,325	7,738,043	6,874,747	6,431,755	5,629,177	5,028,402
Nonqualified Pension	185,641	227,375	198,233	187,490	224,313	222,953	-	-	-
Deferred Compensation Plan	2,836	4,139	3,281	4,644	4,519	4,475	6,110	6,585	6,992
NMC Employer Retirement Contribution	49,940	44,265	55,352	66,254	46,060	65,713	74,197	76,423	78,716
Retirement & Compensation Consulting	117,267	141,033	143,456	116,775	131,246	115,287	134,014	130,212	118,551
FAS 88 nonqualified settlement	-	303,495	52,751	-	-	-	-	-	-
Other	655	(73,904)	(20,852)	(22,306)	-	(20,865)	(25,174)	(25,151)	(24,841)
Total Retirement	4,705,191	8,651,700	11,250,249	9,346,977	9,746,075	8,947,202	8,478,140	7,729,087	7,159,246
Health & Welfare									
Active Health Care	7,096,744	7,181,989	7,576,699	7,924,330	8,269,802	7,592,279	8,743,157	9,276,302	9,798,473
Life & LTD insurance, Misc Ben Programs	649,983	598,367	698,529	862,548	601,884	940,797	1,049,858	1,070,816	1,077,199
FAS 106 Retiree Medical	1,847,463	2,327,163	1,626,620	1,069,480	1,321,441	560,852	514,483	468,602	415,981
FAS 112 LTD (long-term disability)	365,354	391,477	518,889	(65,543)	216,895	171,828	60,339	57,127	53,586
Other	-	-	-	-	-	-	-	-	-
Total Health & Welfare	9,959,544	10,498,996	10,420,737	9,790,815	10,410,022	9,265,757	10,367,837	10,872,847	11,345,239
Annual Incentive	1,836,716	2,601,967	922,386	793,246	843,949	1,250,642	1,311,997	1,351,358	1,391,898
Total Benefits	16,501,451	21,752,663	22,593,372	19,931,038	21,000,046	19,463,600	20,157,974	19,953,292	19,896,383

NSPM Electric Charged to Capital for Minnesota Jurisdiction

	2011 Actual	2012 Actual	2013 Actual	2014 Actual	Amount Included in Docket No. E002/GR-13-868 (2014 Test Year)	2015 Forecast	2016 Test Year	2017 Plan Year	2018 Plan Year
Retirement									
401K Match	1,301,700	1,373,309	1,412,186	1,400,964	1,404,385	1,417,656	1,574,831	1,634,079	1,687,690
Qualified Pension	2,541,713	5,676,160	8,044,694	6,402,154	6,783,969	5,784,360	5,453,759	4,811,343	4,348,809
Nonqualified Pension	164,065	200,227	173,291	162,663	196,656	187,591	-	-	-
Deferred Compensation Plan	2,506	3,645	2,869	4,029	3,962	3,765	5,181	5,629	6,047
NMC Employer Retirement Contribution	44,136	38,980	48,388	57,481	40,381	55,290	62,915	65,320	68,077
Retirement & Compensation Consulting	103,638	124,194	125,406	101,311	115,064	97,002	113,636	111,294	102,528
FAS 88 nonqualified settlement	-	267,258	46,114	-	-	-	-	-	-
Other	579	(65,080)	(18,229)	(19,352)	-	(17,555)	(21,347)	(21,497)	(21,484)
Total Retirement	4,158,336	7,618,692	9,834,718	8,109,248	8,544,418	7,528,108	7,188,975	6,606,168	6,191,667
Health & Welfare									
Active Health Care	6,271,933	6,324,464	6,623,382	6,874,989	7,250,164	6,388,086	7,413,695	7,928,595	8,474,200
Life & LTD insurance, Misc Ben Programs	574,439	526,922	610,639	748,330	527,674	791,580	890,219	915,243	931,614
FAS 106 Retiree Medical	1,632,744	2,049,302	1,421,955	927,859	1,158,512	471,897	436,252	400,521	359,761
FAS 112 LTD (long-term disability)	322,891	344,735	453,601	(56,864)	190,153	144,575	51,164	48,827	46,344
Other	-	-	-	-	-	-	-	-	-
Total Health & Welfare	8,802,007	9,245,423	9,109,577	8,494,313	9,126,503	7,796,138	8,791,330	9,293,186	9,811,919
Annual Incentive	1,623,246	2,291,294	806,330	688,204	739,893	1,052,280	1,112,498	1,155,026	1,203,782
Total Benefits	14,583,589	19,155,409	19,750,625	17,291,765	18,410,813	16,376,526	17,092,804	17,054,380	17,207,368

Explanation of Schedule 3

Gains and losses arising from any individual event such as the 2008 market loss are not tracked separately under the ACM or SFAS 87. Instead, all gains and losses are combined and a portion of the unfunded liability (under ACM) or net unrecognized gain or loss (under SFAS 87) is recognized in annual pension cost. Further, the portion of unfunded liability (ACM) or net unrecognized gain or loss (SFAS 87) recognized in pension cost can change from year to year as future gains and losses occur. Therefore, specific amortization schedules for individual events do not exist under either the ACM or SFAS 87 as the exact recognition amount is dependent on future gain and loss experience.

However, to comply with Order Point 40, the Company had its actuary, Towers Watson, create Schedule 3 which approximates the asset and liability gain/loss amortization amounts by Plan and by year from 2008 to 2014. A point-by-point walkthrough explaining this schedule is provided below.

I. The General Layout of the Schedule

- The schedule is first broken into two sections. Section I shows the NSPM plan activity and is on pages 1-2. Section II shows the XES plan activity and is on pages 3-4.
- Within each section the information is broken down further by year from 2008-2014. These seven subsections are labeled by year 2008 Experience, 2009 Experience, etc. The activity within these seven subsections is then split between two categories Asset and Liability. The liability category is shaded in gray to help distinguish it from the asset category. The asset and liability experience within these five subsections from 2008-2014 represents actual results. The estimated amortization of these actual results are then shown through 2029.
- To better identify points of conversation, each page within the schedule has numbers down the left side identifying each row and letters along the top identifying each column. This enables the reader to identify a specific number within the schedule by a page and line number. For example a reference to Page-1 Line-A1 would point to the 2008 market Loss for the NSPM Plan of $200.3 million.

II. The Seven Subsections 2008 Experience to 2014 Experience

- As mentioned above, these sections represent the actual asset and liability gains and losses for the specific year. Asset gains/losses are

phased-in at 20% per year while liability gains/losses are moved into the amortization pool at 100% in the first year.

- For example, on page 1 the total 2008 asset loss is $200,340 (A1) and the total liability loss is $20,518 (A6). To illustrate the phase-in of assets the $200,340 is built up in row 1 at 20% increments each year: $40,068 (B1), $80,136 (C1), $120,204 (D1), $160,272 (E1) and $200,340 (F1). The $200,340 is then shown out until 2029 to represent that the loss has been fully phased into the calculation. This methodology is the same for both the NSPM Plan (Section I) and the XES Plan (Section II).

- The NSPM Plan had a $120,608 surplus prior to 2008.
  - This surplus application is illustrated as offsetting losses from 2008 asset experience and 2008-2009 liability experience on page 1.
  - To see the application of the surplus in Schedule 3, please refer to the following points
    - 2008 Experience Section: In 2009, the surplus offset the entire first 20% of the 2008 Market loss of $40,068 (B2) and the entire 2008 liability loss of $20,518 (B7). In 2010, the surplus offset another 20% of the 2008 Market Loss of $40,068 or $80,136 (C2) in total
    - 2009 Experience Section: In 2009 $19,954 (C16) of the $50,560 (A15) 2009 liability loss was offset by the surplus.
    - The application of the surplus related to 2008 and 2009 Experience extinguished the entire $120,608 surplus.
    - Surplus is not applicable for the XES Plan as SFAS87 requires amortization of surplus through recognition of pension income.

- In both the NSPM (ACM) and XES (SFAS 87) sections, the "Asset gain/loss amortization" or "Liability gain/loss amortization" previously amortized is then subtracted to arrive at the "Asset or Liability loss remaining to amortize". On Page 1, in the 2008 Experience section, these amounts are referenced by line 4 for Assets and 9 for Liabilities. This amount is then divided by the amortization period to arrive at the Asset or Liability gain/loss amortization; this can be seen on Page 1 line 5 for Assets and 10 for Liabilities.

- These amortization amounts are then added up for the seven years to arrive at the "Total 2008-2014 asset experience amortization" and the "Total 2008-2014 liability experience amortization" at the bottom of

each section. This is represented on lines 60 and 61 for the NSPM Plan (Section I) and 57 and 58 for the XES Plan (Section II).

III. Other Impacts

- For the NSPM Plan (Section I) there are other factors within the ACM that are added to the asset and liability experience amortizations to arrive at the total ACM amount that is recognized. These factors include the 20% limit on the difference between the market value of assets and valuation assets (AVA limit) which applied for 2009 and 2010, contributions and changes in the allocation of cost to the MN electric jurisdiction.
- For the XES Plan (Section II) there are other factors within SFAS 87 that are added to the asset and liability experience amortizations to arrive at the net gain/loss amount that is recognized. These factors include the SFAS 87 corridor and the gain/loss position prior to 2008. If the net gains/losses are inside the corridor, they remain unrecognized until which time they are determined to be outside of the corridor. In the XES Section, pages 3-4, Line 61 indicates whether it is a year inside the corridor ("Yes") or outside ("No").
    - The net gain/loss amortization is then added to the other four components of SFAS 87 to arrive at the total net periodic pension expense that is recognized for the year.

Xcel Energy Inc. - MN Electric Rate Case - Order Point 40
Approximate Pension Cost Attributable to 2008-2014 Gains and Losses - Illustrative[1]
NSPM Aggregate Cost Method
($ in 000s)

Section 1	A (Gain)/Loss	B 2009	C 2010	D 2011	E 2012	F 2013	G 2014	H 2015	I 2016	J 2017	K 2018	L 2019
2008 Experience												
1 Asset loss (A) & Phase-in amount (B-V)	200,340	40,068	80,136	120,204	160,272	200,340	200,340	200,340	200,340	200,340	200,340	200,340
2 Asset loss offset by surplus[2]		(40,068)	(80,136)	(80,136)	(80,136)	(80,136)	(80,136)	(80,136)	(80,136)	(80,136)	(80,136)	(80,136)
3 Asset loss previously amortized		-	-	-	(5,415)	(15,266)	(24,682)	(33,253)	(41,055)	(48,157)	(54,622)	(60,507)
4 Asset loss remaining to amortize		-	-	40,068	74,721	104,938	95,522	86,951	79,149	72,047	65,582	59,697
5 Asset loss amortization		-	-	5,415	9,851	9,416	8,571	7,802	7,102	6,465	5,885	5,357
6 Liability loss[3]	20,518	20,518	20,518	20,518	20,518	20,518	20,518	20,518	20,518	20,518	20,518	20,518
7 Liability loss offset by surplus[2]		(20,518)	(20,518)	(20,518)	(20,518)	(20,518)	(20,518)	(20,518)	(20,518)	(20,518)	(20,518)	(20,518)
8 Liability loss previously amortized		-	-	-	-	-	-	-	-	-	-	-
9 Liability loss remaining to amortize		-	-	-	-	-	-	-	-	-	-	-
10 Liability loss amortization		-	-	-	-	-	-	-	-	-	-	-
2009 Experience												
11 Asset gain (A) & Phase-in amount (C-V)	(13,435)		(2,687)	(5,374)	(8,061)	(10,748)	(13,435)	(13,435)	(13,435)	(13,435)	(13,435)	(13,435)
12 Asset gain previously amortized			-	(363)	(1,040)	(1,966)	(2,754)	(3,712)	(4,584)	(5,378)	(6,101)	(6,759)
13 Asset gain remaining to amortize			(2,687)	(5,011)	(7,021)	(8,782)	(10,681)	(9,723)	(8,851)	(8,057)	(7,334)	(6,676)
14 Asset gain amortization			(363)	(677)	(926)	(788)	(958)	(872)	(794)	(723)	(658)	(599)
15 Liability loss[3]	50,560		50,560	50,560	50,560	50,560	50,560	50,560	50,560	50,560	50,560	50,560
16 Liability loss offset by surplus[2]			(19,954)	(19,954)	(19,954)	(19,954)	(19,954)	(19,954)	(19,954)	(19,954)	(19,954)	(19,954)
17 Liability loss previously amortized			-	(4,136)	(7,713)	(10,731)	(12,514)	(14,137)	(15,615)	(16,960)	(18,184)	(19,299)
18 Liability loss to amortize			30,606	26,470	22,893	19,875	18,092	16,469	14,991	13,646	12,422	11,307
19 Liability loss amortization			4,136	3,577	3,018	1,783	1,623	1,478	1,345	1,224	1,115	1,015
2010 Experience												
20 Asset gain (A) & Phase-in amount (D-V)	(18,960)			(3,792)	(7,584)	(11,376)	(15,168)	(18,960)	(18,960)	(18,960)	(18,960)	(18,960)
21 Asset gain previously amortized				-	(512)	(1,444)	(2,335)	(3,486)	(4,874)	(6,138)	(7,289)	(8,336)
22 Asset gain remaining to amortize				(3,792)	(7,072)	(9,932)	(12,833)	(15,474)	(14,086)	(12,822)	(11,671)	(10,624)
23 Asset gain amortization				(512)	(932)	(891)	(1,151)	(1,388)	(1,264)	(1,151)	(1,047)	(953)
24 Liability loss[3]	12,224			12,224	12,224	12,224	12,224	12,224	12,224	12,224	12,224	12,224
25 Liability loss previously amortized				-	1,652	3,046	3,870	4,620	5,302	5,923	6,488	7,003
26 Liability loss to amortize				12,224	10,572	9,178	8,354	7,604	6,922	6,301	5,736	5,221
27 Liability loss amortization				1,652	1,394	824	750	682	621	565	515	468
2011 Experience												
28 Asset loss (A) & Phase-in amount (E-V)	7,909				1,582	3,164	4,746	6,328	7,909	7,909	7,909	7,909
29 Asset loss previously amortized					-	209	474	857	1,348	1,937	2,473	2,961
30 Asset loss remaining to amortize					1,582	2,955	4,272	5,471	6,561	5,972	5,436	4,948
31 Asset loss amortization					209	265	383	491	589	536	488	444
32 Liability loss[3]	28,302				28,302	28,302	28,302	28,302	28,302	28,302	28,302	28,302
33 Liability loss previously amortized					-	3,731	5,936	7,943	9,770	11,433	12,947	14,325
34 Liability loss to amortize					28,302	24,571	22,366	20,359	18,532	16,869	15,355	13,977
35 Liability loss amortization					3,731	2,205	2,007	1,827	1,663	1,514	1,378	1,254
2012 Experience												
36 Asset gain (A) & Phase-in amount (F-V)	(18,826)					(3,765)	(7,530)	(11,295)	(15,060)	(18,826)	(18,826)	(18,826)
37 Asset gain previously amortized						-	(338)	(983)	(1,908)	(3,088)	(4,500)	(5,785)
38 Asset gain remaining to amortize						(3,765)	(7,192)	(10,312)	(13,152)	(15,738)	(14,326)	(13,041)
39 Asset gain amortization						(338)	(645)	(925)	(1,180)	(1,412)	(1,285)	(1,170)
40 Liability loss[3]	21,129					21,129	21,129	21,129	21,129	21,129	21,129	21,129
41 Liability loss previously amortized						-	1,896	3,622	5,193	6,623	7,925	9,110
42 Liability loss to amortize						21,129	19,233	17,507	15,936	14,506	13,204	12,019
43 Liability loss amortization						1,896	1,726	1,571	1,430	1,302	1,185	1,078
2013 Experience												
44 Asset loss (A) & Phase-in amount (G-V)	1,138						228	456	683	911	1,138	1,138
45 Asset loss previously amortized							-	20	59	115	186	271
46 Asset loss remaining to amortize							228	436	624	796	952	867
47 Asset loss amortization							20	39	56	71	85	78
48 Liability loss[3]	14,141						14,141	14,141	14,141	14,141	14,141	14,141
49 Liability loss previously amortized							-	1,269	2,424	3,475	4,432	5,303
50 Liability loss to amortize							14,141	12,872	11,717	10,666	9,709	8,838
51 Liability loss amortization							1,269	1,155	1,051	957	871	793
2014 Experience												
52 Asset gain (A) & Phase-in amount (H-V)	(239)							(48)	(96)	(144)	(192)	(239)
53 Asset gain previously amortized								-	(4)	(12)	(24)	(39)
54 Asset gain remaining to amortize								(48)	(92)	(132)	(168)	(200)
55 Asset gain amortization								(4)	(8)	(12)	(15)	(18)
56 Liability gain[3]	(7,624)							(7,624)	(7,624)	(7,624)	(7,624)	(7,624)
57 Liability gain previously amortized								-	(684)	(1,307)	(1,874)	(2,390)
58 Liability gain to amortize								(7,624)	(6,940)	(6,317)	(5,750)	(5,234)
59 Liability gain amortization								(684)	(623)	(567)	(516)	(470)
Total 2008-2014 Experience												
60 Total 2008-2014 asset experience amortization		-	(363)	4,226	8,202	7,664	6,220	5,143	4,501	3,774	3,453	3,139
61 Total 2008-2014 liability experience amortization		-	4,136	5,229	8,143	6,708	7,375	6,029	5,487	4,995	4,548	4,138
62 Other impacts including AVA limits, contributions and allocation percents[4]		-	(242)	(2,488)	349	1,079	1,211	3,170	3,554	3,711	3,815	3,824
63 Total aggregate normal cost		-	3,531	6,967	16,694	15,451	14,806	14,342	13,542	12,480	11,816	11,101

[1,2,3,4] See page 5 for footnotes.

Xcel Energy Inc. - MN Electric Rate Case - Order Point 40
Approximate Pension Cost Attributable to 2008-2014 Gains and Losses - Illustrative[1]
NSPM Aggregate Cost Method
($ in 000s)

Section 1	A (Gain)/Loss	M 2020	N 2021	O 2022	P 2023	Q 2024	R 2025	S 2026	T 2027	U 2028	V 2029	W Total
2008 Experience												
1 Asset loss (A) & Phase-in amount (B-V)	200,340	200,340	200,340	200,340	200,340	200,340	200,340	200,340	200,340	200,340	200,340	
2 Asset loss offset by surplus[2]		(80,136)	(80,136)	(80,136)	(80,136)	(80,136)	(80,136)	(80,136)	(80,136)	(80,136)	(80,136)	
3 Asset loss previously amortized		(65,864)	(70,740)	(75,178)	(79,218)	(82,896)	(86,244)	(89,291)	(92,065)	(94,590)	(96,888)	
4 Asset loss remaining to amortize		54,340	49,464	45,026	40,986	37,308	33,960	30,913	28,139	25,614	23,316	
5 Asset loss amortization		4,876	4,438	4,040	3,678	3,348	3,047	2,774	2,525	2,298	2,092	98,980
6 Liability loss[3]	20,518	20,518	20,518	20,518	20,518	20,518	20,518	20,518	20,518	20,518	20,518	
7 Liability loss offset by surplus[2]		(20,518)	(20,518)	(20,518)	(20,518)	(20,518)	(20,518)	(20,518)	(20,518)	(20,518)	(20,518)	
8 Liability loss previously amortized		-	-	-	-	-	-	-	-	-	-	
9 Liability loss remaining to amortize		-	-	-	-	-	-	-	-	-	-	
10 Liability loss amortization		-	-	-	-	-	-	-	-	-	-	
2009 Experience												
11 Asset gain (A) & Phase-in amount (C-V)	(13,435)	(13,435)	(13,435)	(13,435)	(13,435)	(13,435)	(13,435)	(13,435)	(13,435)	(13,435)	(13,435)	
12 Asset gain previously amortized		(7,358)	(7,903)	(8,399)	(8,851)	(9,262)	(9,636)	(9,977)	(10,287)	(10,569)	(10,826)	
13 Asset gain remaining to amortize		(6,077)	(5,532)	(5,036)	(4,584)	(4,173)	(3,799)	(3,458)	(3,148)	(2,866)	(2,609)	
14 Asset gain amortization		(545)	(496)	(452)	(411)	(374)	(341)	(310)	(282)	(257)	(234)	(11,060)
15 Liability loss[3]	50,560	50,560	50,560	50,560	50,560	50,560	50,560	50,560	50,560	50,560	50,560	
16 Liability loss offset by surplus[2]		(19,954)	(19,954)	(19,954)	(19,954)	(19,954)	(19,954)	(19,954)	(19,954)	(19,954)	(19,954)	
17 Liability loss previously amortized		(20,314)	(21,237)	(22,078)	(22,843)	(23,540)	(24,174)	(24,751)	(25,276)	(25,754)	(26,189)	
18 Liability loss to amortize		10,292	9,369	8,528	7,763	7,066	6,432	5,855	5,330	4,852	4,417	
19 Liability loss amortization		923	841	765	697	634	577	525	478	435	396	
2010 Experience												
20 Asset gain (A) & Phase-in amount (D-V)	(18,960)	(18,960)	(18,960)	(18,960)	(18,960)	(18,960)	(18,960)	(18,960)	(18,960)	(18,960)	(18,960)	
21 Asset gain previously amortized		(9,289)	(10,157)	(10,947)	(11,666)	(12,320)	(12,916)	(13,458)	(13,952)	(14,401)	(14,810)	
22 Asset gain remaining to amortize		(9,671)	(8,803)	(8,013)	(7,294)	(6,640)	(6,044)	(5,502)	(5,008)	(4,559)	(4,150)	
23 Asset gain amortization		(868)	(790)	(719)	(654)	(596)	(542)	(494)	(449)	(409)	(372)	(15,182)
24 Liability loss[3]	12,224	12,224	12,224	12,224	12,224	12,224	12,224	12,224	12,224	12,224	12,224	
25 Liability loss previously amortized		7,471	7,897	8,285	8,638	8,960	9,253	9,520	9,763	9,984	10,185	
26 Liability loss to amortize		4,753	4,327	3,939	3,586	3,264	2,971	2,704	2,461	2,240	2,039	
27 Liability loss amortization		426	388	353	322	293	267	243	221	201	183	
2011 Experience												
28 Asset loss (A) & Phase-in amount (E-V)	7,909	7,909	7,909	7,909	7,909	7,909	7,909	7,909	7,909	7,909	7,909	
29 Asset loss previously amortized		3,405	3,809	4,177	4,512	4,817	5,094	5,347	5,577	5,786	5,976	
30 Asset loss remaining to amortize		4,504	4,100	3,732	3,397	3,092	2,815	2,562	2,332	2,123	1,933	
31 Asset loss amortization		404	368	335	305	277	253	230	209	190	173	6,149
32 Liability loss[3]	28,302	28,302	28,302	28,302	28,302	28,302	28,302	28,302	28,302	28,302	28,302	
33 Liability loss previously amortized		15,579	16,721	17,760	18,706	19,567	20,351	21,064	21,713	22,304	22,842	
34 Liability loss to amortize		12,723	11,581	10,542	9,596	8,735	7,951	7,238	6,589	5,998	5,460	
35 Liability loss amortization		1,142	1,039	946	861	784	713	649	591	538	490	
2012 Experience												
36 Asset gain (A) & Phase-in amount (F-V)	(18,826)	(18,826)	(18,826)	(18,826)	(18,826)	(18,826)	(18,826)	(18,826)	(18,826)	(18,826)	(18,826)	
37 Asset gain previously amortized		(6,955)	(8,020)	(8,990)	(9,873)	(10,676)	(11,407)	(12,073)	(12,679)	(13,231)	(13,733)	
38 Asset gain remaining to amortize		(11,871)	(10,806)	(9,836)	(8,953)	(8,150)	(7,419)	(6,753)	(6,147)	(5,595)	(5,093)	
39 Asset gain amortization		(1,065)	(970)	(883)	(803)	(731)	(666)	(606)	(552)	(502)	(457)	(14,190)
40 Liability loss[3]	21,129	21,129	21,129	21,129	21,129	21,129	21,129	21,129	21,129	21,129	21,129	
41 Liability loss previously amortized		10,188	11,170	12,064	12,877	13,617	14,291	14,905	15,463	15,971	16,434	
42 Liability loss to amortize		10,941	9,959	9,065	8,252	7,512	6,838	6,224	5,666	5,158	4,695	
43 Liability loss amortization		982	894	813	740	674	614	558	508	463	421	
2013 Experience												
44 Asset loss (A) & Phase-in amount (G-V)	1,138	1,138	1,138	1,138	1,138	1,138	1,138	1,138	1,138	1,138	1,138	
45 Asset loss previously amortized		349	420	484	543	596	645	689	729	766	799	
46 Asset loss remaining to amortize		789	718	654	595	542	493	449	409	372	339	
47 Asset loss amortization		71	64	59	53	49	44	40	37	33	30	829
48 Liability loss[3]	14,141	14,141	14,141	14,141	14,141	14,141	14,141	14,141	14,141	14,141	14,141	
49 Liability loss previously amortized		6,096	6,818	7,475	8,073	8,617	9,113	9,564	9,975	10,349	10,689	
50 Liability loss to amortize		8,045	7,323	6,666	6,068	5,524	5,028	4,577	4,166	3,792	3,452	
51 Liability loss amortization		722	657	598	544	496	451	411	374	340	310	
2014 Experience												
52 Asset gain (A) & Phase-in amount (H-V)	(239)	(239)	(239)	(239)	(239)	(239)	(239)	(239)	(239)	(239)	(239)	
53 Asset gain previously amortized		(57)	(73)	(88)	(102)	(114)	(125)	(135)	(144)	(153)	(161)	
54 Asset gain remaining to amortize		(182)	(166)	(151)	(137)	(125)	(114)	(104)	(95)	(86)	(78)	
55 Asset gain amortization		(16)	(15)	(14)	(12)	(11)	(10)	(9)	(9)	(8)	(7)	(168)
56 Liability gain[3]	(7,624)	(7,624)	(7,624)	(7,624)	(7,624)	(7,624)	(7,624)	(7,624)	(7,624)	(7,624)	(7,624)	
57 Liability gain previously amortized		(2,860)	(3,287)	(3,676)	(4,030)	(4,352)	(4,646)	(4,913)	(5,156)	(5,377)	(5,579)	
58 Liability gain to amortize		(4,764)	(4,337)	(3,948)	(3,594)	(3,272)	(2,978)	(2,711)	(2,468)	(2,247)	(2,045)	
59 Liability gain amortization		(427)	(389)	(354)	(322)	(294)	(267)	(243)	(221)	(202)	(183)	
Total 2008-2014 Experience												
60 Total 2008-2014 asset experience amortization		2,857	2,599	2,366	2,156	1,962	1,785	1,625	1,479	1,345	1,225	65,358
61 Total 2008-2014 liability experience amortization		3,768	3,430	3,121	2,842	2,587	2,355	2,143	1,951	1,775	1,617	82,377
62 Other impacts including AVA limits, contributions and allocation percents[4]		3,746	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
63 Total aggregate normal cost		10,371	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

[1,2,3,4] See page 5 for footnotes.

Xcel Energy Inc. - MN Electric Rate Case - Order Point 40
Approximate Pension Cost Attributable to 2008-2014 Gains and Losses - Illustrative[1]
XES ASC 715 (FAS 87)
($ in 000s)

Section 2	A (Gain)/Loss	B 2009	C 2010	D 2011	E 2012	F 2013	G 2014	H 2015	I 2016	J 2017	K 2018	L 2019
2008 Experience												
1 Asset loss (A) & Phase-in amount (B-V)	48,577	9,715	19,430	29,145	38,861	48,577	48,577	48,577	48,577	48,577	48,577	48,577
2 Asset loss previously amortized		-	(933)	(2,725)	(5,295)	(8,595)	(12,462)	(15,979)	(19,051)	(21,823)	(24,335)	(26,611)
3 Asset loss remaining to amortize		9,715	18,497	26,420	33,566	39,982	36,115	32,598	29,526	26,754	24,242	21,966
4 Asset loss amortization[6]		933	1,792	2,570	3,300	3,867	3,517	3,072	2,772	2,512	2,276	2,061
5 Liability gain[7]	(6,144)	(6,144)	(6,144)	(6,144)	(6,144)	(6,144)	(6,144)	(6,144)	(6,144)	(6,144)	(6,144)	(6,144)
6 Liability gain previously amortized		-	(590)	(1,128)	(1,616)	(2,061)	(2,456)	(2,815)	(3,129)	(3,412)	(3,669)	(3,901)
7 Liability gain remaining to amortize		(6,144)	(5,554)	(5,016)	(4,528)	(4,083)	(3,688)	(3,329)	(3,015)	(2,732)	(2,475)	(2,243)
8 Liability gain amortization[6]		(590)	(538)	(488)	(445)	(395)	(359)	(314)	(283)	(257)	(232)	(210)
2009 Experience												
9 Asset loss (A) & Phase-in amount (C-V)	249		50	100	150	200	249	249	249	249	249	249
10 Asset loss previously amortized			-	5	14	27	44	64	81	97	111	124
11 Asset loss remaining to amortize			50	95	136	173	205	185	168	152	138	125
12 Asset loss amortization[6]			5	9	13	17	20	17	16	14	13	12
13 Liability loss[7]	4,950		4,950	4,950	4,950	4,950	4,950	4,950	4,950	4,950	4,950	4,950
14 Liability loss previously amortized			-	(480)	(915)	(1,312)	(1,664)	(1,984)	(2,264)	(2,516)	(2,745)	(2,952)
15 Liability loss to amortize			4,950	4,470	4,035	3,638	3,286	2,966	2,686	2,434	2,205	1,998
16 Liability loss amortization[6]			480	435	397	352	320	280	252	229	207	187
2010 Experience												
17 Asset gain (A) & Phase-in amount (D-V)	(1,791)			(358)	(716)	(1,074)	(1,432)	(1,791)	(1,791)	(1,791)	(1,791)	(1,791)
18 Asset gain previously amortized				-	(35)	(102)	(196)	(316)	(455)	(580)	(694)	(797)
19 Asset gain remaining to amortize				(358)	(681)	(972)	(1,236)	(1,475)	(1,336)	(1,211)	(1,097)	(994)
20 Asset gain amortization[6]				(35)	(67)	(94)	(120)	(139)	(125)	(114)	(103)	(93)
21 Liability loss[7]	3,342			3,342	3,342	3,342	3,342	3,342	3,342	3,342	3,342	3,342
22 Liability loss previously amortized				-	325	622	885	1,124	1,333	1,522	1,693	1,848
23 Liability loss to amortize				3,342	3,017	2,720	2,457	2,218	2,009	1,820	1,649	1,494
24 Liability loss amortization[6]				325	297	263	239	209	189	171	155	140
2011 Experience												
25 Asset loss (A) & Phase-in amount (E-V)	3,628				726	1,452	2,178	2,903	3,628	3,628	3,628	3,628
26 Asset loss previously amortized					-	71	205	397	633	914	1,169	1,400
27 Asset loss remaining to amortize					726	1,381	1,973	2,506	2,995	2,714	2,459	2,228
28 Asset loss amortization[6]					71	134	192	236	281	255	231	209
29 Liability loss[7]	8,038				8,038	8,038	8,038	8,038	8,038	8,038	8,038	8,038
30 Liability loss previously amortized					-	790	1,491	2,128	2,685	3,188	3,643	4,056
31 Liability loss to amortize					8,038	7,248	6,547	5,910	5,353	4,850	4,395	3,982
32 Liability loss amortization[6]					790	701	637	557	503	455	413	374
2012 Experience												
33 Asset gain (A) & Phase-in amount (F-V)	(3,403)					(681)	(1,362)	(2,043)	(2,723)	(3,403)	(3,403)	(3,403)
34 Asset gain previously amortized						-	(66)	(192)	(366)	(587)	(851)	(1,091)
35 Asset gain remaining to amortize						(681)	(1,296)	(1,851)	(2,357)	(2,816)	(2,552)	(2,312)
36 Asset gain amortization[6]						(66)	(126)	(174)	(221)	(264)	(240)	(217)
37 Liability loss[7]	17,295					17,295	17,295	17,295	17,295	17,295	17,295	17,295
38 Liability loss previously amortized						-	1,673	3,194	4,523	5,722	6,809	7,794
39 Liability loss to amortize						17,295	15,622	14,101	12,772	11,573	10,486	9,501
40 Liability loss amortization[6]						1,673	1,521	1,329	1,199	1,087	985	891
2013 Experience												
41 Asset loss (A) & Phase-in amount (G-V)	356						71	142	213	284	356	356
42 Asset loss previously amortized							-	7	20	38	61	89
43 Asset loss remaining to amortize							71	135	193	246	295	267
44 Asset loss amortization[6]							7	13	18	23	28	25
45 Liability gain[7]	(4,553)						(4,553)	(4,553)	(4,553)	(4,553)	(4,553)	(4,553)
46 Liability gain previously amortized							-	(443)	(830)	(1,180)	(1,497)	(1,784)
47 Liability gain to amortize							(4,553)	(4,110)	(3,723)	(3,373)	(3,056)	(2,769)
48 Liability gain amortization[6]							(443)	(387)	(350)	(317)	(287)	(260)
2014 Experience												
49 Asset loss (A) & Phase-in amount (H-V)	126							25	50	75	100	126
50 Asset loss previously amortized								-	2	7	13	21
51 Asset loss remaining to amortize								25	48	68	87	105
52 Asset loss amortization[6]								2	5	6	8	10
53 Liability loss[7]	12,860							12,860	12,860	12,860	12,860	12,860
54 Liability loss previously amortized								-	1,212	2,306	3,297	4,195
55 Liability loss to amortize								12,860	11,648	10,554	9,563	8,665
56 Liability loss amortization[6]								1,212	1,094	991	898	813
Total 2008-2014 Experience												
57 Total 2008-2014 asset experience amortization		933	1,797	2,544	3,317	3,858	3,490	3,027	2,746	2,432	2,213	2,007
58 Total 2008-2014 liability experience amortization		(590)	(58)	272	1,039	2,594	1,915	2,886	2,604	2,359	2,139	1,935
59 Other impacts including corridor and net gain/loss position prior to 2008[8]		(343)	(1,217)	(1,191)	(1,546)	(1,913)	(1,928)	(2,083)	(1,942)	(1,798)	(1,663)	(1,535)
60 Total gain/loss amortization		-	522	1,625	2,810	4,539	3,477	3,830	3,408	2,993	2,689	2,407
61 Inside gain/loss recognition corridor (Yes/No)		Yes	No	No	No	No	No	No	No	No	No	No

[5,6,7,8] See page 5 for footnotes.

Xcel Energy Inc. - MN Electric Rate Case - Order Point 40
Approximate Pension Cost Attributable to 2008-2014 Gains and Losses - Illustrative[1]
XES ASC 715 (FAS 87)
($ in 000s)

Section 2	A (Gain)/Loss	M 2020	N 2021	O 2022	P 2023	Q 2024	R 2025	S 2026	T 2027	U 2028	V 2029	W Total
2008 Experience												
1 Asset loss (A) & Phase-in amount (B-V)	48,577	48,577	48,577	48,577	48,577	48,577	48,577	48,577	48,577	48,577	48,577	
2 Asset loss previously amortized		(28,672)	(30,529)	(32,200)	(33,716)	(35,092)	(36,341)	(37,474)	(38,502)	(39,435)	(40,281)	
3 Asset loss remaining to amortize		19,905	18,048	16,377	14,861	13,485	12,236	11,103	10,075	9,142	8,296	
4 Asset loss amortization[6]		1,857	1,671	1,516	1,376	1,249	1,133	1,028	933	846	768	41,049
5 Liability gain[7]	(6,144)	(6,144)	(6,144)	(6,144)	(6,144)	(6,144)	(6,144)	(6,144)	(6,144)	(6,144)	(6,144)	
6 Liability gain previously amortized		(4,111)	(4,301)	(4,472)	(4,627)	(4,767)	(4,895)	(5,011)	(5,116)	(5,211)	(5,297)	
7 Liability gain remaining to amortize		(2,033)	(1,843)	(1,672)	(1,517)	(1,377)	(1,249)	(1,133)	(1,028)	(933)	(847)	
8 Liability gain amortization[6]		(190)	(171)	(155)	(140)	(128)	(116)	(105)	(95)	(86)	(78)	
2009 Experience												
9 Asset loss (A) & Phase-in amount (C-V)	249	249	249	249	249	249	249	249	249	249	249	
10 Asset loss previously amortized		136	147	156	165	173	180	186	192	197	202	
11 Asset loss remaining to amortize		113	102	93	84	76	69	63	57	52	47	
12 Asset loss amortization[6]		11	9	9	8	7	6	6	5	5	4	206
13 Liability loss[7]	4,950	4,950	4,950	4,950	4,950	4,950	4,950	4,950	4,950	4,950	4,950	
14 Liability loss previously amortized		(3,139)	(3,308)	(3,460)	(3,598)	(3,723)	(3,837)	(3,940)	(4,034)	(4,119)	(4,196)	
15 Liability loss to amortize		1,811	1,642	1,490	1,352	1,227	1,113	1,010	916	831	754	
16 Liability loss amortization[6]		169	152	138	125	114	103	94	85	77	70	
2010 Experience												
17 Asset gain (A) & Phase-in amount (D-V)	(1,791)	(1,791)	(1,791)	(1,791)	(1,791)	(1,791)	(1,791)	(1,791)	(1,791)	(1,791)	(1,791)	
18 Asset gain previously amortized		(890)	(974)	(1,050)	(1,119)	(1,181)	(1,237)	(1,288)	(1,335)	(1,377)	(1,415)	
19 Asset gain remaining to amortize		(901)	(817)	(741)	(672)	(610)	(554)	(503)	(456)	(414)	(376)	
20 Asset gain amortization[6]		(84)	(76)	(69)	(62)	(56)	(51)	(47)	(42)	(38)	(35)	(1,450)
21 Liability loss[7]	3,342	3,342	3,342	3,342	3,342	3,342	3,342	3,342	3,342	3,342	3,342	
22 Liability loss previously amortized		1,988	2,114	2,228	2,331	2,425	2,510	2,587	2,657	2,720	2,778	
23 Liability loss to amortize		1,354	1,228	1,114	1,011	917	832	755	685	622	564	
24 Liability loss amortization[6]		126	114	103	94	85	77	70	63	58	52	
2011 Experience												
25 Asset loss (A) & Phase-in amount (E-V)	3,628	3,628	3,628	3,628	3,628	3,628	3,628	3,628	3,628	3,628	3,628	
26 Asset loss previously amortized		1,609	1,797	1,967	2,121	2,261	2,388	2,503	2,607	2,702	2,788	
27 Asset loss remaining to amortize		2,019	1,831	1,661	1,507	1,367	1,240	1,125	1,021	926	840	
28 Asset loss amortization[6]		188	170	154	140	127	115	104	95	86	78	2,866
29 Liability loss[7]	8,038	8,038	8,038	8,038	8,038	8,038	8,038	8,038	8,038	8,038	8,038	
30 Liability loss previously amortized		4,430	4,767	5,070	5,345	5,594	5,820	6,025	6,211	6,380	6,534	
31 Liability loss to amortize		3,608	3,271	2,968	2,693	2,444	2,218	2,013	1,827	1,658	1,504	
32 Liability loss amortization[6]		337	303	275	249	226	205	186	169	154	139	
2012 Experience												
33 Asset gain (A) & Phase-in amount (F-V)	(3,403)	(3,403)	(3,403)	(3,403)	(3,403)	(3,403)	(3,403)	(3,403)	(3,403)	(3,403)	(3,403)	
34 Asset gain previously amortized		(1,308)	(1,503)	(1,679)	(1,839)	(1,984)	(2,115)	(2,234)	(2,342)	(2,440)	(2,529)	
35 Asset gain remaining to amortize		(2,095)	(1,900)	(1,724)	(1,564)	(1,419)	(1,288)	(1,169)	(1,061)	(963)	(874)	
36 Asset gain amortization[6]		(195)	(176)	(160)	(145)	(131)	(119)	(108)	(98)	(89)	(81)	(2,610)
37 Liability loss[7]	17,295	17,295	17,295	17,295	17,295	17,295	17,295	17,295	17,295	17,295	17,295	
38 Liability loss previously amortized		8,685	9,488	10,211	10,867	11,462	12,002	12,492	12,937	13,341	13,707	
39 Liability loss to amortize		8,610	7,807	7,084	6,428	5,833	5,293	4,803	4,358	3,954	3,588	
40 Liability loss amortization[6]		803	723	656	595	540	490	445	404	366	332	
2013 Experience												
41 Asset loss (A) & Phase-in amount (G-V)	356	356	356	356	356	356	356	356	356	356	356	
42 Asset loss previously amortized		114	137	157	175	192	207	221	234	245	255	
43 Asset loss remaining to amortize		242	219	199	181	164	149	135	122	111	101	
44 Asset loss amortization[6]		23	20	18	17	15	14	13	11	10	9	264
45 Liability gain[7]	(4,553)	(4,553)	(4,553)	(4,553)	(4,553)	(4,553)	(4,553)	(4,553)	(4,553)	(4,553)	(4,553)	
46 Liability gain previously amortized		(2,044)	(2,278)	(2,489)	(2,680)	(2,853)	(3,010)	(3,153)	(3,283)	(3,401)	(3,508)	
47 Liability gain to amortize		(2,509)	(2,275)	(2,064)	(1,873)	(1,700)	(1,543)	(1,400)	(1,270)	(1,152)	(1,045)	
48 Liability gain amortization[6]		(234)	(211)	(191)	(173)	(157)	(143)	(130)	(118)	(107)	(97)	
2014 Experience												
49 Asset loss (A) & Phase-in amount (H-V)	126	126	126	126	126	126	126	126	126	126	126	
50 Asset loss previously amortized		31	40	48	55	62	68	73	78	82	86	
51 Asset loss remaining to amortize		95	86	78	71	64	58	53	48	44	40	
52 Asset loss amortization[6]		9	8	7	7	6	5	5	4	4	4	90
53 Liability loss[7]	12,860	12,860	12,860	12,860	12,860	12,860	12,860	12,860	12,860	12,860	12,860	
54 Liability loss previously amortized		5,008	5,740	6,399	6,997	7,540	8,033	8,480	8,886	9,254	9,588	
55 Liability loss to amortize		7,852	7,120	6,461	5,863	5,320	4,827	4,380	3,974	3,606	3,272	
56 Liability loss amortization[6]		732	659	598	543	493	447	406	368	334	303	
Total 2008-2014 Experience												
57 Total 2008-2014 asset experience amortization		1,809	1,626	1,475	1,341	1,217	1,103	1,001	908	824	747	40,415
58 Total 2008-2014 liability experience amortization		1,743	1,569	1,424	1,293	1,173	1,063	966	876	796	721	28,719
59 Other impacts including corridor and net gain/loss position prior to 2008[8]		(1,410)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
60 Total gain/loss amortization		2,142	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
61 Inside gain/loss recognition corridor (Yes/No)		No	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

[5,6,7,8] See page 5 for footnotes.

Footnotes

Applicable to Section 1 - NSPM Aggregate Cost Method

[1] The aggregate cost method does not explicitly track gains/(losses) and amortization schedules are not created for any individual gain/(loss). The amortizations included in this exhibit are intended to illustrate the pension costs attributable to the asset and liability experience.
[2] Surplus is used to offset losses in the order in which they occur, assuming liability losses are offset first.
[3] Liability loss amounts are estimated based on total losses for the Xcel Energy Pension Plan allocated to NSPM using the percentage of PBO attributable to NSPM for each year. Includes discount rate changes, other assumption changes and demographic experience.
[4] Subsequent experience is combined to determine the net funded status for the year. Contributions since 2008 have also reduced the unfunded position and annual cost.

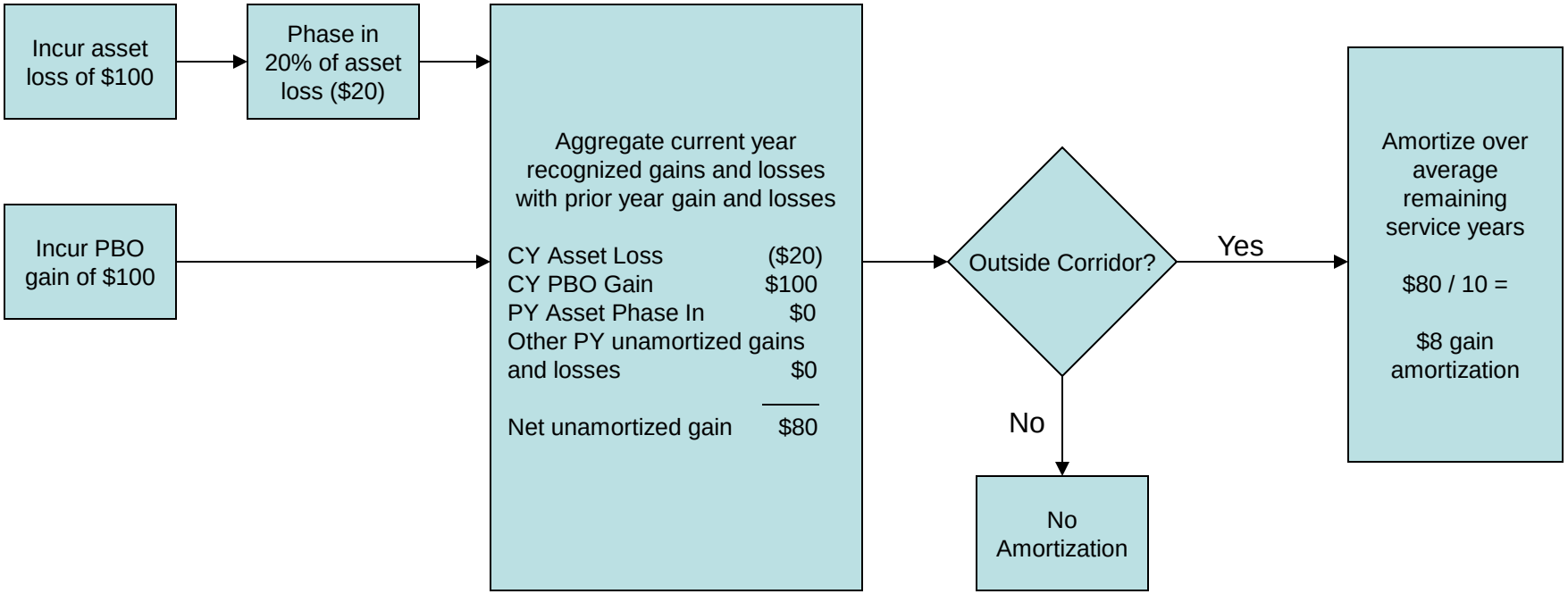
Amortization factor for 2009-2012 is equal to the present value of all future pensionable compensation divided by current year pensionable compensation.
Amortization factor for 2013 and beyond is a 20-year principal and interest factor using the discount rate for the current year.

Applicable to Section 2 - XES ASC 715 (FAS 87)

[5] ASC 715 does not explicitly track gains/(losses) and amortization schedules are not created for any individual gain/(loss). The amortizations included in this exhibit are intended to illustrate the pension costs attributable to the asset and liability experience.
[6] Amortization amounts do not reflect the gain/loss amortization corridor.
[7] Liability experience amounts are equal to the actuarial gain/loss component from the projected benefit obligation reconciliation included in the annual disclosures and include discount rate changes, other assumption changes and demographic experience.
[8] Prior to 2008, the plan was in a net gain position and subsequent experience is combined to determine the net outstanding position and amortization for the year.

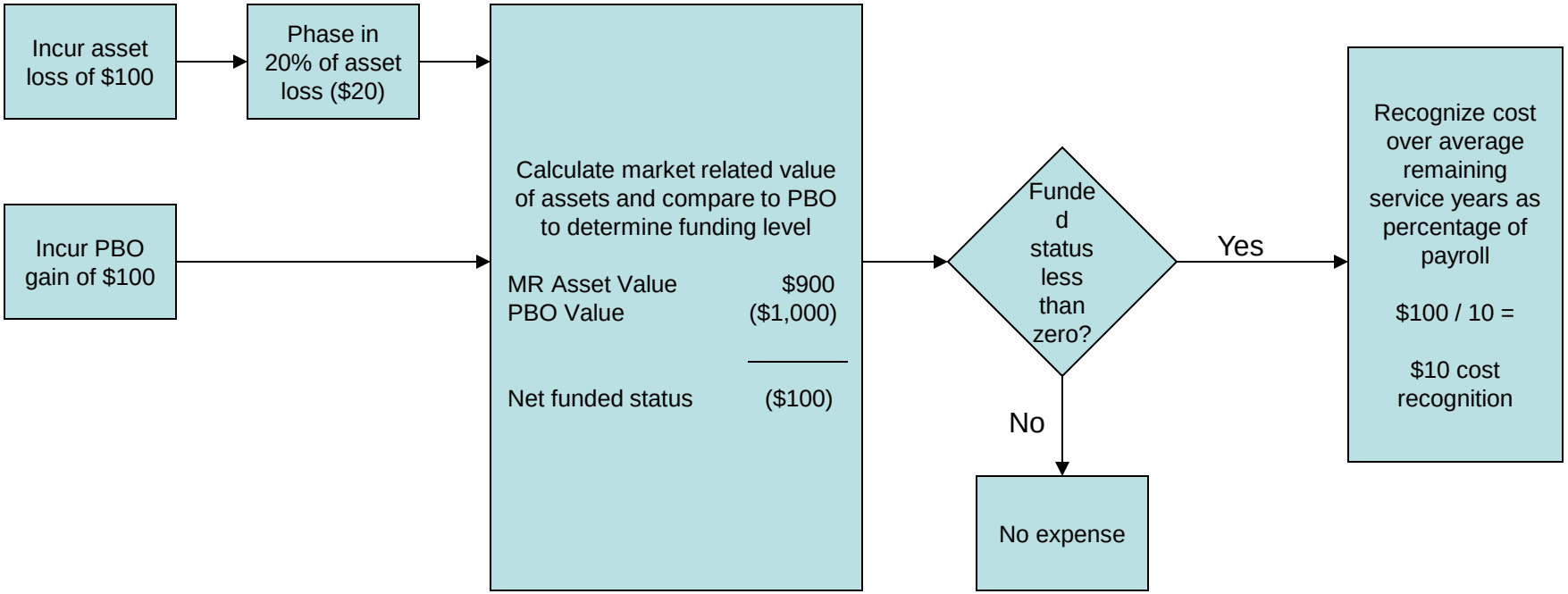
SFAS 87 Amortization

Assumes no prior year gain or loss balance



ACM Amortization

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



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

A. Aggregate Cost Method

1. Components of the Aggregate Cost Method

The costs are determined using the following components:

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

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

2. Present Value of Future Benefits

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

3. Valuation Assets

Valuation Assets are based on adjusted market value of assets, which is a calculated value that recognizes changes in fair value in a systematic and rational manner over not more than five years. The adjusted market value is subject to restriction that it be not less than 80 percent and not more than 120

percent of the market value of assets. Contributions that have been included in prior costs but have not been contributed to the pension fund are added to the Valuation Assets. Contributions that have been contributed to the pension fund but have not been included in prior costs are subtracted from the Valuation Assets.

4. Present Value Of Future Compensation

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

5. Aggregate Cost Rate of Return

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

6. Aggregate Cost Discount Rate

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

7. Validation of Reasonableness of the Assumptions

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

B. FAS 87 (ASC 715)

1. Components of the ASC 715 Method

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

a) the value of pension benefits that employees will earn during the current year ("Service Cost");

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

2. Service Cost

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

3. Interest Cost

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

4. Expected Return On Assets

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

5. Amortization Of Unrecognized Gains And Losses

Gains and losses are changes in the amount of either the projected benefit obligation or plan assets resulting from experience different from that assumed or from changes in assumptions. ASC 715 does not distinguish between sources of gains and losses. Asset gains and losses are the differences between the actual return on assets during a period and the expected return on assets for

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

6. Amortization Of Unrecognized Prior Service Cost

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

7. FAS 87 Rate of Return

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

8. FAS 87 Discount Rate

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

9. Validation of Reasonableness Of The Assumptions Used

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

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

The Company "phases in" losses over 5 years and then amortizes these losses over the average years to retirement. SFAS 87 allows the Company to use a calculation referred to as the "market-related value of plan assets" to recognize changes in asset values over a period not to exceed five years. For example, assume the Company had plan assets with a fair value of $3,000,000 and those assets then lost $1,000,000 in value. The accounting standard allows the Company to recognize the change in the value of these assets through the market related value of these assets. As a result, the Company would recognize only $200,000 ($1,000,000 x 1/5) of market loss per year for a period of five years. In the year of the losses, the market related value of assets would be $2,800,000 ($3,000,000 – $200,000). The $200,000 represents one-fifth of the actual losses. This loss would then be amortized over the average remaining years of service (10 years). As a result, in year 1 loss amortization would be $200,000 divided by 10, or $20,000. The table below shows how losses would be phased in and then amortized.

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

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

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

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

XEPP Fund Analysis

(Amounts in Thousands)

8/31/15

Year	Beginning of Year Market Value	Contributions	Earnings on Fund Investments	Pension Payments	Acquisitions/Transfers	Settlements	End of Year Market Value	Return on Assets
1950	-	1,023	(17)	(16)	-		989	-3.46%
1951	989	2,185	13	(145)	-		3,043	0.63%
1952	3,043	2,184	316	(200)	-		5,342	7.83%
1953	5,342	2,394	8	(263)	-		7,481	0.13%
1954	7,481	2,626	1,266	(346)	-		11,026	14.67%
1955	11,026	2,851	1,544	(444)	-		14,977	12.61%
1956	14,977	2,841	879	(534)	-		18,163	5.45%
1957	18,163	3,511	97	(772)	-		21,000	0.50%
1958	21,000	3,715	1,528	(958)	-		25,284	6.83%
1959	25,284	4,045	3,929	(1,135)	-		32,123	14.69%
1960	32,123	4,267	2,571	(1,359)	-		37,602	7.65%
1961	37,602	4,716	4,121	(1,557)	-		44,882	10.51%
1962	44,882	5,047	(4,158)	(1,785)	-		43,987	-8.94%
1963	43,987	5,219	7,373	(2,094)	-		54,485	16.18%
1964	54,485	5,469	6,666	(2,442)	-		64,177	11.90%
1965	64,177	5,749	3,023	(2,763)	-		70,186	4.60%
1966	70,186	5,690	3,252	(3,269)	-		75,860	4.56%
1967	75,860	5,650	5,727	(3,631)	-		83,606	7.45%
1968	83,606	5,647	7,919	(4,017)	-		93,154	9.38%
1969	93,154	5,785	(2,745)	(4,590)	-		91,604	-2.93%
1970	91,604	5,857	(11,557)	(5,267)	-		80,637	-12.57%
1971	80,637	6,203	18,077	(5,743)	-		99,174	22.34%
1972	99,174	6,939	13,010	(5,967)	-		113,157	13.05%
1973	113,157	7,533	(3,960)	(6,767)	-		109,963	-3.49%
1974	109,963	7,138	(10,668)	(7,590)	-		98,842	-9.72%
1975	98,842	8,967	16,770	(8,079)	-		116,500	16.88%
1976	116,500	10,790	12,240	(8,823)	-		130,707	10.40%
1977	130,707	13,128	5,803	(10,136)	-		139,503	4.38%
1978	139,503	16,308	7,166	(10,037)	-		152,940	5.02%
1979	152,940	18,071	26,014	(10,609)	-		186,416	16.59%
1980	186,416	20,523	41,250	(11,590)	-		236,599	21.59%
1981	236,599	23,131	(15,502)	(12,705)	-		231,523	-6.41%
1982	231,523	27,270	59,048	(14,242)	-		303,599	24.80%
1983	303,599	27,740	66,064	(5,743)	-		391,659	21.37%
1984	391,659	28,520	24,017	(19,084)	-		425,113	6.06%
1985	425,113	27,633	115,267	(22,959)	-		545,054	26.97%
1986	545,054	26,360	89,279	(24,836)	-		635,857	16.36%
1987	635,857	23,621	48,170	(27,898)	-		679,750	7.60%
1988	679,750	22,583	83,165	(40,645)	-		744,853	12.40%
1989	744,853	22,154	192,138	(44,303)	-		914,842	26.18%
1990	914,842	20,224	(11,273)	(56,827)	-		866,966	-1.26%
1991	866,966	22,248	248,374	(57,966)	-		1,079,623	29.25%
1992	1,079,623	21,516	121,945	(66,077)	-		1,157,007	11.53%
1993	1,157,007	-	153,083	(65,818)	-		1,244,272	13.62%
1994	1,244,272	-	15,665	(94,120)	-		1,165,817	1.31%
1995	1,165,817	-	345,631	(54,811)	-		1,456,637	30.36%
1996	1,456,637	-	274,978	(96,827)	-		1,634,787	19.53%
1997	1,634,787	-	428,004	(84,201)	-		1,978,590	26.87%
1998	1,978,590	-	330,836	(87,526)	-		2,221,900	17.10%
1999	2,221,900	-	305,501	(108,764)	-		2,418,637	13.98%
2000	2,418,637	-	89,651	(135,462)	38,412		2,411,238	6.90%
2001	2,411,238	-	(204,933)	(115,459)	-		2,090,846	-8.31%
2002	2,090,846	912	(318,389)	(155,606)	157,157	(994)	1,773,926	-10.90%
2003	1,773,926	1,712	372,354	(169,645)	-	(9,546)	1,968,801	22.61%
2004	1,968,801	-	179,697	(161,054)	-	(27,627)	1,959,817	9.34%
2005	1,959,817	-	160,630	(168,429)	-		1,952,018	8.73%
2006	1,952,018	-	189,246	(175,904)	-		1,965,360	10.24%
2007	1,965,360	-	121,057	(153,335)	-		1,933,082	6.60%
2008	1,933,082	-	(479,747)	(164,179)	-		1,289,156	-25.26%
2009	1,289,156	-	132,142	(113,427)	-		1,307,871	11.94%
2010	1,307,871	34,132	145,913	(147,452)	-		1,340,464	12.77%
2011	1,340,464	70,635	78,696	(153,274)	-		1,336,521	6.28%
2012	1,336,521	142,581	164,743	(146,248)	-		1,497,597	11.64%
2013	1,497,597	125,175	105,333	(178,392)	(14,931)		1,534,782	7.08%
2014	1,534,782	90,029	108,591	(184,049)	12,950		1,562,303	7.22%
Totals		960,245	3,876,833	(3,430,196)	193,588	(38,167)		

EEI Index Companies
2014 10-K

Ticker Symbol	Name	Pension Service Cost	Assumption at 12/31/2014 Used to determine 2015 Forecast & 2016 Test Year for Xcel Energy Discount Rate	EROA	Salary Scale	Funded Status 12/31/2012
XEL	Xcel Energy Inc - NSPM (ACM)	Yes	7.25%	7.25%	3.75%	80%
XEL	Xcel Energy Inc - XES (ASC 715)	Yes	4.67%	7.25%	3.75%	80%
AES	AES Corp	Yes	4.04%	6.92%	3.94%	86%
ALE	Allete Inc	Yes	4.30%	8.00%	4.00%	76%
LNT	Alliant Energy Corp	Yes	4.18%	7.60%	4.00%	78%
AEE	Ameren Corp	Yes	4.00%	7.25%	3.50%	86%
AEP	American Electric Power Co Inc	Yes	4.00%	6.00%	4.80%	95%
AVA	Avista Corp	Yes	4.21%	6.60%	4.87%	85%
BHE	Berkshire Hathaway Energy	Yes	4.00%	6.86%	2.75%	87%
BKH	Black Hills Corp	Yes	4.20%	6.75%	3.78%	79%
CNP	Centerpoint Energy Inc	Yes	4.05%	6.50%	4.00%	80%
CHG	Central Hudson Energy Group Inc	Yes	3.80%	6.25%	4.00%	81%
CNL	Cleco Corp	Yes	4.21%	6.76%	3.17%	83%
CMS	CMS Energy Corp	Yes	4.10%	7.50%	3.00%	78%
ED	Consolidated Edison Inc	Yes	3.80%	7.75%	N/A	77%
D	Dominion Resources Inc/VA	Yes	4.40%	8.75%	4.22%	97%
DTE	DTE Energy Co	Yes	4.12%	7.75%	4.65%	76%
DUK	Duke Energy Corp	Yes	4.10%	6.75%	4.20%	105%
EIX	Edison International	Yes	3.85%	7.00%	4.00%	76%
EE	El Paso Electric Co	Yes	4.00%	7.50%	4.50%	80%
EDE	Empire District Electric Co/The	Yes	4.06%	7.75%	3.50%	76%
EFH	Energy Future Holdings	Yes	3.96%	6.47%	3.29%	73%
ETR	Entergy Corp	Yes	4.40%	8.50%	4.23%	67%
NU	Eversource Energy	Yes	4.20%	8.25%	3.50%	75%
EXC	Exelon Corp	Yes	3.94%	7.00%	3.25%	81%
FE	FirstEnergy Corp	Yes	4.25%	7.75%	4.20%	63%
GXP	Great Plains Energy Inc	Yes	4.22%	7.24%	3.62%	62%
HE	Hawaiian Electric Industries	Yes	4.22%	7.75%	3.50%	69%
IDA	Idacorp Inc	Yes	4.25%	7.75%	4.30%	66%
TEG	Integrys Energy Group Inc	Yes	4.08%	8.00%	4.23%	88%
ITC	ITC Holdings Corp	Yes	4.05%	6.75%	4.00%	59%
MDU	MDU Resources Group Inc	Yes	3.70%	7.00%	N/A	75%
MGE	MGE Energy Inc	Yes	4.11%	8.10%	3.85%	85%
NEE	Next Era Energy Inc	Yes	3.95%	7.75%	4.10%	150%
NWE	Northwestern Corporation	Yes	3.90%	5.80%	3.54%	81%
OGE	OGE Energy Corp	Yes	3.80%	7.50%	4.20%	98%
OTTR	Otter Tail Corp	Yes	4.35%	7.75%	3.13%	78%
POM	Pepco Holdings Inc	Yes	4.20%	7.00%	5.00%	85%
PCG	PG&E Corp	Yes	4.00%	6.20%	4.00%	85%
PNW	Pinnacle West Capital Corp	Yes	4.02%	7.00%	4.00%	85%
PNM	PNM Resources Inc	No	4.48%	7.20%	N/A	89%
POR	Portland General Electric Company	Yes	4.02%	7.50%	3.65%	76%
PPL	PPL Corp	Yes	4.25%	7.00%	3.92%	83%
PEG	Public Service Enterprise Group Inc	Yes	4.20%	8.00%	3.61%	93%
PSD	Puget Energy	Yes	4.25%	7.75%	4.50%	91%
SCG	SCANA Corp	Yes	4.20%	8.00%	3.00%	101%
SO	Southern Co/The	Yes	4.17%	8.20%	3.59%	89%
TE	TECO Energy Inc	Yes	4.26%	7.00%	3.87%	89%
UGI	UGI Corp	Yes	4.60%	7.75%	3.25%	80%
UIL	UIL Holdings Corp	Yes	4.30%	7.50%	3.80%	73%
UTL	Unitil Corp	Yes	4.00%	8.00%	3.00%	63%
VVC	Vectren Corp	Yes	4.05%	7.75%	3.50%	87%
WR	Westar Energy Inc	Yes	4.17%	6.50%	4.00%	64%
WEC	WEC Energy Group	Yes	4.15%	7.25%	4.00%	96%
		Other Utilities Average	4.12%	7.33%	3.85%	82.3%

Discount Rate Benchmarks

	December 31, 2013 Bond Matching[1]	December 31, 2014 Bond Matching[1]	Change From December 31, 2013
Xcel Energy Pension Plan	4.74%	4.09%	(0.65%)
NCE Non-bargaining Plan	4.32%	3.84%	(0.48%)
SPS Bargaining Plan	5.00%	4.21%	(0.79%)
PSCo Bargaining Plan	4.89%	4.15%	(0.74%)
All Pension Plans Combined	4.75%	4.11%	(0.64%)
Nonqualified Pension	4.56%	3.90%	(0.66%)
Post-Retirement Medical Plan	4.82%	4.08%	(0.74%)
Workers Compensation and LTD[2]	5.08%	3.85%	(1.23%)
Citigroup Benchmark	4.95%	3.95%	(1.00%)
Citigroup Above Median Benchmark	5.06%	4.05%	(1.01%)

1 Based on Towers Watson BOND:Link model. Excludes collateralized bonds from model portfolio
2 Fiscal year 2015 budget estimates will use a discount rate of 3.85% until 2015 census data is available to determine actual discount rate for 2015 cost

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PTAC Proposal

Target Asset Allocations (as of October 31, 2014)

Asset Class	XEPP	PSCO	SPS	NCE	MPT	VEBA
Cash and Derivatives	2.00%	3.00%	2.00%	2.00%	2.30%	4.60%
US Equity - Large Cap	14.00%	11.00%	14.00%	14.00%	13.10%	8.50%
US Equity - Small Cap	4.00%	3.00%	4.00%	4.00%	3.70%	2.60%
Non-US Equity - EAFE	14.00%	11.00%	14.00%	14.00%	13.10%	10.90%
Non-US Equity - EM	7.00%	6.00%	7.00%	7.00%	6.70%	3.00%
Fixed Income - Barclays Aggregate	2.00%	2.00%	2.00%	2.00%	2.00%	44.40%
Fixed Income - High Yield	6.00%	5.00%	6.00%	6.00%	5.70%	5.00%
Fixed Income - EM Debt	6.00%	5.00%	6.00%	6.00%	5.70%	8.00%
Alternatives - Hedge Fund of Funds	7.00%	6.00%	7.00%	7.00%	6.70%	13.00%
Alternatives - Private Equity	5.00%	3.00%	5.00%	5.00%	4.40%	0.00%
Alternatives - Real Estate	6.00%	5.00%	6.00%	6.00%	5.70%	0.00%
Alternatives - Commodities	4.00%	3.00%	4.00%	4.00%	3.70%	0.00%
LDFI	10.00%	10.00%	10.00%	10.00%	10.00%	0.00%
Treasury Strips	13.00%	27.00%	13.00%	13.00%	17.20%	0.00%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

	XEPP	PSCO	SPS	NCE	MPT	VEBA
Expected Portfolio Returns - Net of Investment Expenses						
Pacific Global Advisors 2014 Model (including term premium - geometric 10-years)	7.48%	6.79%	7.48%	7.48%	7.29%	5.80%
Towers Watson October 2014 Return Estimator Model (50th Percentile + 100 bps - geometric 20-years)	7.52%	6.88%	7.52%	7.52%	7.32%	6.66%
Expected 2015 Administrative Expenses	-0.23%	-0.32%	-0.17%	-0.38%	-0.27%	-0.08%
Expected Portfolio Returns - Net of Investment and Administrative Expenses						
Pacific Global Advisors 2014 Model	7.25%	6.47%	7.31%	7.10%	7.02%	5.72%
Towers Watson October 2014 Model	7.29%	6.56%	7.35%	7.14%	7.05%	6.58%
2015 EROA Assumption	7.25%	6.75%	7.25%	7.10%	7.09%	5.80%
Implied Alpha Above Towers Watson October 2014 Model	-0.04%	0.19%	-0.10%	-0.04%	0.03%	-0.78%
2014 EROA Assumption	7.25%	6.75%	6.85%	7.10%	7.05%	7.17%

Administrative Expense Assumptions

FAS expected return assumption is net of administrative expenses as these are paid from plan assets
Expected administrative expenses equal annualized amounts paid through September 2014 plus expected increases in PBGC premiums
Does not include PGA management fees (20 bp pension, 10 bp VEBA) as these costs are assumed to be paid through additional portfolio investment returns not included above

Model Return Comments

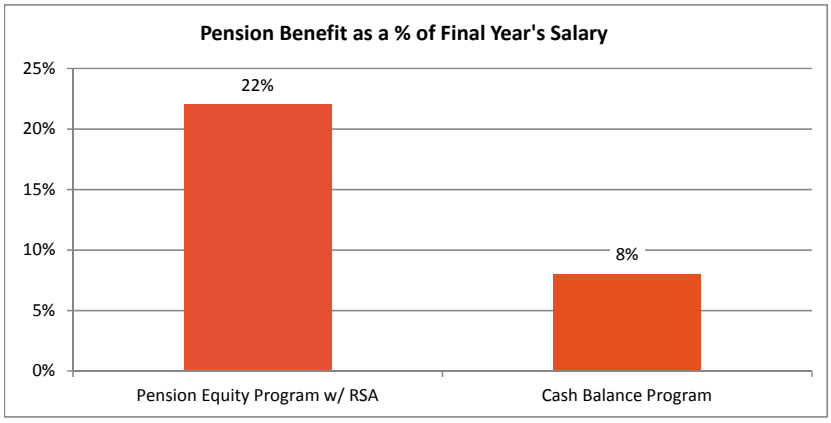
TW model based on passive returns and does not include alpha

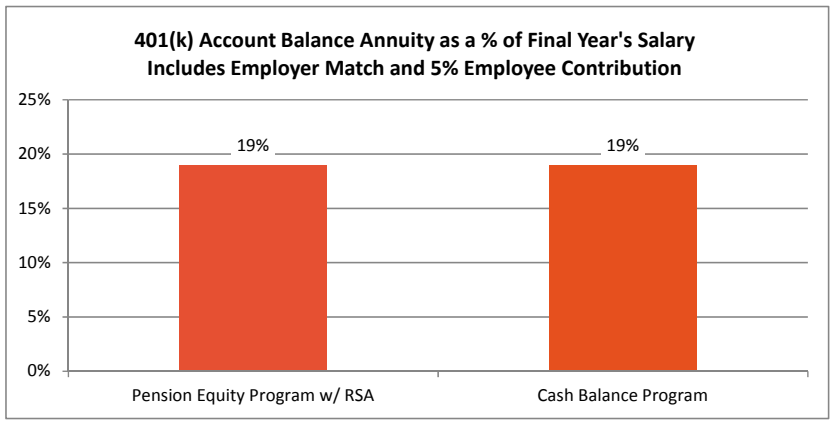
Twenty Largest Minnesota Based Companies
(Revenues)
2014 10-K

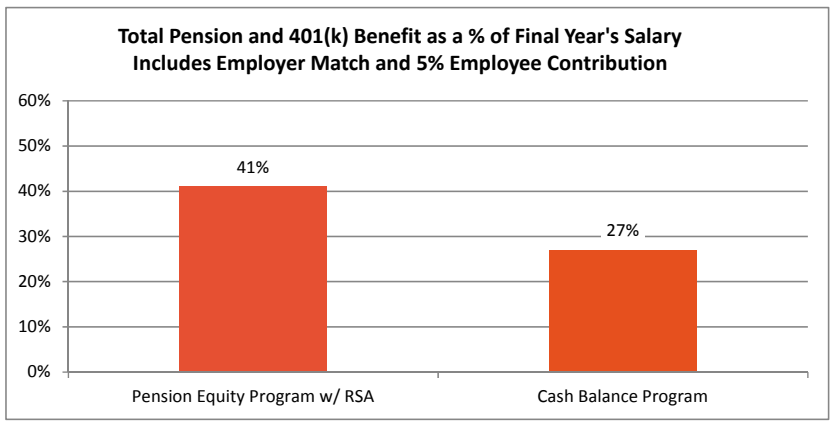
MN Rank	Company	Ticker Symbol	Industry Category	Pension Service Cost
1	UnitedHealth Group Inc.	UNH	Healthcare	No
2	Target Corp.	TGT	Retail/Services	Yes
3	Best Buy Co. Inc.	BBY	Retail/Services	No
4	3M Co.	MMM	Manufacturing	Yes
5	U.S. Bancorp	USB	Financial Services	Yes
6	General Mills Inc.	GIS	Manufacturing	Yes
7	Medtronic Inc.	MDT	Healthcare	Yes
8	Supervalu Inc.	SVU	Retail/Services	No
9	Ecolab Inc.	ECL	Retail/Services	No
10	C.H. Robinson Worldwide Inc.	CHRW	Retail/Services	No
11	Xcel Energy Inc.	XEL	Energy	Yes
12	Ameriprise Financial Inc.	AMP	Financial Services	Yes
13	Hormel Foods Corp.	HRL	Manufacturing	No
14	Mosaic Co.	MOS	Manufacturing	Yes
15	Pentair Inc.	PNR	Manufacturing	Yes
16	St. Jude Medical Inc.	STJ	Healthcare	No
17	Valspar Corp.	VAL	Manufacturing	Yes
18	Polaris Industires Inc.	PII	Manufacturing	No
19	Patterson Cos Inc.	PDCO	Healthcare	No
20	Fastenal Co.	FAST	Retail/Services	No

2015 Retirement Assuming 5% Employee Annual 401(k) Deferrals
$60,000 Final Year's Salary

Xcel Energy Inc.
Replacement Ratios for MN Rate Case







Assumptions:
Age at retirement: 66
Credited Service at retirement: 25
Final Year's Salary: $60,000
Final high-four average salary (PEP): $57,708
Salary scale: 3.75%
Lump sum/annuity conversion rate: 4.00%
Conversion mortality: Combined annuitant and non-annuitant RP-2014 male/female tables
projected with scale MP-2014 to the commencement year (2015) plus 10 years (21.3 year life expectancy)
401(k) annual investment return: 6.5%
Cash Balance interest crediting rate: 3.00%
RSA interest crediting rate: 1.25%

XCEL ENERGY INC. - Qualified Pension Plans
Cost Estimates by Legal Entity for MN Electric Rate Case
($ in Thousands)

2015	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	Aggregate Cost Compensation Method	Aggregate Cost 20-year Amortization Method	January 1 Prepaid (Accrued)[1]	Contribution
Xcel Energy Pension Plan (XEPP)										
Xcel Energy Nuclear	7,270	4,004	(5,829)	44	1,239	6,728	3,149	2,401	(3,648)	3,010
NSP - MN	24,286	39,210	(57,001)	892	44,953	52,340	31,064	23,689	401,607	29,693
Xcel Services[2]	22,205	25,398	(34,271)	245	13,307	26,884	N/A	N/A	92,732	17,811

2016	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	Aggregate Cost Compensation Method	Aggregate Cost 20-year Amortization Method	January 1 Prepaid (Accrued)	Contribution
Xcel Energy Pension Plan (XEPP)										
Xcel Energy Nuclear	6,838	4,162	(6,179)	44	896	5,761	3,015	2,364	(7,366)	3,271
NSP - MN	23,174	38,448	(57,018)	892	41,066	46,562	27,998	21,957	378,960	30,373
Xcel Services[2]	21,090	25,467	(35,017)	245	11,803	23,588	N/A	N/A	83,659	18,612

2017	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	Aggregate Cost Compensation Method	Aggregate Cost 20-year Amortization Method	January 1 Prepaid (Accrued)	Contribution
Xcel Energy Pension Plan (XEPP)										
Xcel Energy Nuclear	6,589	4,284	(6,517)	44	573	4,973	2,773	2,282	(9,856)	3,183
NSP - MN	21,347	37,481	(56,947)	892	37,351	40,124	24,461	20,132	362,771	28,078
Xcel Services[2]	20,669	25,462	(35,899)	245	10,270	20,747	N/A	N/A	78,683	17,503

2018	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	Aggregate Cost Compensation Method	Aggregate Cost 20-year Amortization Method	January 1 Prepaid (Accrued)	Contribution
Xcel Energy Pension Plan (XEPP)										
Xcel Energy Nuclear	6,367	4,412	(6,865)	44	331	4,289	2,655	2,261	(11,646)	3,309
NSP - MN	21,165	36,426	(56,578)	892	34,378	36,283	22,185	18,889	350,725	27,648
Xcel Services[2]	20,073	25,549	(36,800)	245	9,149	18,216	N/A	N/A	75,439	17,831

[1] Includes $4,730 transfer from NCE to XEPP for non-de minimis asset transfer on December 31, 2014
[2] Includes Eloigne

Assumptions

Discount Rate - ASC 715 - for all years	
Xcel Energy Nuclear & NSP - MN	4.09%
Xcel Services	4.67% (Five-year average of discount rates: 4.09% at 12/31/2014; 4.74% at 12/31/2013; 4.03% at 12/31/2012; 5.00% at 12/31/2011; and 5.50% at 12/31/2010)
Discount Rate - Aggregate Normal Cost - for all years	7.25%
Salary Scale	3.75%
Expected Return on Assets	7.25%
Assumed Mortality Table	
Bargaining Participants	RP-2014 Blue Collar projected with generational mortality improvements using an adjusted SOA MP-2014 methodology
Non-bargaining Participants	RP-2014 White Collar, as adjusted for 2014 Xcel Energy mortality study, projected with generational mortality improvements using an adjusted SOA MP-2104 methodology

See May 7, 2015 letter for additional information on data, assumptions, methods and plan provisions.
2015 Contributions already made are allocated in accordance with the January 15, 2015 contribution directives provided by Xcel Energy on January 12, 2015.
Results for NSP-MN and Xcel Energy Nuclear are the same as provided on May 7, 2015. Xcel Services results assume the Xcel Energy Pension Plan cost is determined using the five-year average discount rate, including allocation of assets and contributions between legal entities.

Results shown above were developed using a five-year average discount rate for all years at the request of Xcel Energy Inc. for purposes of determining the revenue requirements/deferrals for the Minnesota electric jurisdiction. The five-year average discount rate is not intended to be a market discount rate at any of the measurement dates shown above. The results shown above are not intended for and may not be used for any purposes other than those described above, and Towers Watson accepts no responsibility or liability in this regard.

XCEL ENERGY INC.
Minnesota Rate Case - Postretirement Benefits Cost Estimates by Legal Entity
($ in Thousands)

2015 ASC 715 Cost	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Transition (Asset)/Obligation	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	January 1 Prepaid (Accrued)	Contribution
Xcel Energy Nuclear	17	33	-	-	49	(9)	90	(477)	13
NSP - MN[1]	117	4,121	(121)	-	(3,085)	1,140	2,172	(71,853)	8,947
Xcel Services[2]	40	1,282	(23)	-	(549)	473	1,223	(13,534)	1,602

2016 ASC 715 Cost	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Transition (Asset)/Obligation	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	January 1 Prepaid (Accrued)	Contribution
Xcel Energy Nuclear	15	35	-	-	49	(9)	90	(554)	15
NSP - MN[1]	107	3,880	(128)	-	(3,085)	1,148	1,922	(65,078)	8,637
Xcel Services[2]	38	1,266	(24)	-	(549)	480	1,211	(13,155)	1,548

2017 ASC 715 Cost	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Transition (Asset)/Obligation	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	January 1 Prepaid (Accrued)	Contribution
Xcel Energy Nuclear	13	37	-	-	49	(9)	90	(629)	17
NSP - MN[1]	101	3,674	(135)	-	(3,085)	1,165	1,720	(58,363)	8,270
Xcel Services[2]	36	1,254	(26)	-	(549)	486	1,201	(12,818)	1,563

2018 ASC 715 Cost	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Transition (Asset)/Obligation	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	January 1 Prepaid (Accrued)	Contribution
Xcel Energy Nuclear	13	38	-	-	49	(9)	91	(702)	18
NSP - MN[1]	92	3,472	(143)	-	(3,085)	1,172	1,508	(51,813)	8,021
Xcel Services[2]	34	1,241	(27)	-	(557)	489	1,180	(12,456)	1,563

[1]Includes Eloigne and Seren.

[2]Includes Executive Life Insurance benefits.

Assumptions

Discount Rate for all years	4.70% (Five-year average of discount rates: 4.08% at 12/31/2014; 4.82% at 12/31/2013; 4.08% at 12/31/2012; 5.00% at 12/31/2011; and 5.50% at 12/31/2010)
Expected Return on Assets	5.80%
Medical Trend	
Initial (2015)	6.50%
Ultimate	4.50%
Year Ultimate Reached	2019
Assumed Mortality Table	
Bargaining:	RP-2014 Blue Collar headcount-weighted table adjusted for Xcel Energy mortality study, projected with generational mortality improvements using an adjusted SOA MP-2014 methodology.
Non-bargaining:	RP-2014 White Collar headcount-weighted table adjusted for Xcel Energy mortality study, projected with generational mortality improvements using an adjusted SOA MP-2014 methodology.

Contributions are assumed equal to the expected benefit payments. See May 7, 2015 letter for additional information on data, assumptions, methods and plan provisions.

Results shown above were developed using a five-year average discount rate for all years at the request of Xcel Energy Inc. for purposes of determining the revenue requirements/deferrals for the Minnesota electrical jurisdiction. The five-year average discount rate is not intended to be a market discount rate at any of the measurement dates shown above. The results shown above are not intended for and may not be used for any purposes other than those described above, and Towers Watson accepts no responsibility or liability in this regard.

XCEL ENERGY INC. - LTD and Workers' Compensation
Benefit Cost Estimates by Legal Entity
($ in Thousands)

Fiscal Year Ending	2014	2015	2016	2017	2018	2019	2020
ASC 712	Actual	Budget	Budget	Budget	Budget	Budget	Budget
Discount Rate- Workers' Compensation	5.08%	3.86%	3.86%	3.86%	3.86%	3.86%	3.86%
Former NSP - Workers' Compensation [1]							
MN/SD	214	1,009	400	360	333	306	286
MI/WI	16	46	10	10	10	10	9
Subtotal	230	1,055	410	370	343	316	295
Former NCE - Workers' Compensation [1]							
Colorado - PSCo	(196)	(43)	71	64	61	58	55
Deductible States - Workers' Compensation							
Deductible States - SPS (KS, OK, NM, and TX)	(903)	-	-	-	-	-	-
Total Xcel Energy Workers' Compensation	**(869)**	**1,012**	**481**	**434**	**404**	**374**	**350**
Discount Rate - LTD Income	5.08%	3.86%	3.86%	3.86%	3.86%	3.86%	3.86%
LTD Income							
Discontinued Operations - Cheyenne	120	100	3	2	1	1	1
Discontinued Operations [2]	(470)	(1)	23	22	21	20	19
NSP-MN	(339)	837	335	317	300	283	266
NSP-WI	93	255	62	58	55	52	50
PSCo	(340)	223	94	75	59	44	32
SPS	(24)	166	37	30	25	21	17
Utility Engineering	58	59	2	2	2	1	1
Xcel Services	1	733	35	29	24	19	16
XEPC	6	9	3	1	2	-	-
Total Xcel Energy LTD Income	**(895)**	**2,381**	**594**	**536**	**489**	**441**	**402**
Total Xcel Energy ASC 712	**(1,764)**	**3,393**	**1,075**	**970**	**893**	**815**	**752**

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

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

See May 7, 2015 letter for additional information on data, assumptions, methods and plan provisions.

Actuarial Costs
2016 Test Year

	Qualified Pension (1)	Retiree Medical (2)	FAS 112 Long-Term Disability	FAS 112 Workers
NSPM				
Total Cost from Actuarial Report	21,957,000	1,922,000	335,000	400,000
Percent to NSPM Electric O&M	60.90%	60.88%	60.88%	56.69%
Amount to NSPM Electric O&M	13,372,260	1,170,209	203,965	226,765
Percent to State of Minnesota	87.073%	87.073%	87.073%	86.990%
Amount to State of Minnesota	11,643,565	1,018,930	177,597	197,263
Nuclear				
Total Cost from Actuarial Report	2,364,000	90,000		
Percent to NSPM Electric O&M	92.27%	92.27%		
Amount to NSPM Electric O&M	2,181,146	83,039		
Percent to State of Minnesota	87.073%	87.073%		
Amount to State of Minnesota	1,899,179	72,304		
Xcel Energy Services				
Total Cost from Actuarial Report	23,588,000	1,211,000	35,000	
Percent to NSPM Electric O&M	27.55%	27.55%	27.55%	
Amount to NSPM Electric O&M	6,499,048	333,675	9,644	
Percent to State of Minnesota	87.073%	87.073%	87.073%	
Amount to State of Minnesota	5,658,885	290,539	8,397	
Decrease to get to 2011 allowed levels	(280,873)			
Amount to State of Minnesota	5,378,012			
Total NSPM Electric O&M, State of Minnesota	**18,920,755**	**1,381,774**	**185,994**	**197,263**

(1) Total cost amounts are from the 8/19/2015 actuarial report and reflects NSPM calculated under the Aggregate Cost Method using a 20 year amortization and XES calculated using the 5 year average discount rate and the amount (deferred) / amortized resulting from XES pension costs being above or below the 2011 cap amount approved by the Commission in Docket No. E002/GR-12-961.
(2) Calculated using the 5 year average discount rate

Annual Qualified Pension Compliance Filing for NSPM Electric State of Minnesota
Summary

Schedule A

	2013	2014	2015 Forecast
NSPM Plan	22,979,050	21,935,926	18,972,305
XES Plan	6,432,369	6,682,265	6,458,153
Extend ACM amortization 10 to 20 years	(7,313,120)	(6,390,596)	(4,504,585)
Cap XES Plan	(1,054,357)	(1,304,253)	(1,080,141)
Total Pension Expense for Ratemaking	21,043,942	20,923,341	19,845,733

Annual Qualified Pension Compliance Filing for NSPM Electric State of Minnesota
XES Qualified Pension

Schedule B

	2013	2014	2015
Discount Rate Assumption	Equals EROA	5 Yr Avg of 5.05%	5 Yr Avg of 4.67%
Total Cost Amount	29,971,000	26,989,000	26,884,000
Required Ratemaking Adjustments:			
Discount Rate 5.00% to 7.50%	(3,420,000)		
Higher Actual 2012 ROA	(500,000)		
Wage Increase Change From 4.0% to 3.75%	(786,000)		
5 Year Average Discount Rate		(821,051)	
Total Cost Amount with Ratemaking Adjustments	25,265,000	26,167,949	26,884,000
Percent to Electric O&M	28.99%	29.17%	27.59%
Amount to Electric O&M	7,324,576	7,633,036	7,416,981
Percent to State of MN	87.82%	87.5440%	87.07%
Amount to State of MN Electric O&M	6,432,369	6,682,265	6,458,153
2011 State of MN Amount (cap)	5,378,012	5,378,012	5,378,012
Amount Above/(Below) 2011 Level	1,054,357	1,304,253	1,080,141
Amount of Expense Deferred *	**(1,054,357)**	**(1,304,253)**	**(1,080,141)**
Cumulative Amount of Expense Deferred *	**(1,054,357)**	**(2,358,610)**	**(3,438,750)**
Amount Used/Amortized to Satisfy the Deferral *	**-**	**-**	**-**

* Negative amounts reflect a reduction to expense or an increase to the deferral. Positive amounts reflect an increase to expense or a decrease to the deferral.

Annual Qualified Pension Compliance Filing for NSPM Electric State of Minnesota

NSPM ACM Qualified Pension

Schedule C

	2013			2014			2015 Forecast		
	Qualified Pension w/ 10 Yr Amortization	Qualified Pension w/ 20 Yr Amortization	Change (Adjustment)	Qualified Pension w/ 10 Yr Amortization	Qualified Pension w/ 20 Yr Amortization	Change (Adjustment)	Qualified Pension w/ 10 Yr Amortization	Qualified Pension w/ 20 Yr Amortization	Change (Adjustment)
MN									
Total Cost	38,501,000	26,248,000	(12,253,000)	35,485,000	25,147,000	(10,338,000)	31,064,000	23,689,000	(7,375,000)
Percent to electric O&M	60.17%	60.17%	60.17%	61.44%	61.44%	61.44%	60.69%	60.69%	60.69%
Amount to electric O&M	23,165,015	15,792,715	(7,372,300)	21,802,948	15,451,000	(6,351,948)	18,853,331	14,377,303	(4,476,027)
Percent to state of MN	87.82%	87.82%	87.82%	87.5440%	87.5440%	87.5440%	87.1683%	87.1683%	87.1683%
Amount to state of MN	20,343,748	13,869,320	(6,474,428)	19,087,173	13,526,424	(5,560,749)	16,434,136	12,532,457	(3,901,679)
Nuclear									
Total Cost	3,205,000	2,185,000	(1,020,000)	3,426,000	2,428,000	(998,000)	3,149,000	2,401,000	(748,000)
Percent to electric O&M	93.63%	93.63%	93.63%	94.98%	94.98%	94.98%	92.47%	92.47%	92.47%
Amount to electric O&M	3,000,765	2,045,763	(955,002)	3,254,081	2,306,161	(947,920)	2,911,801	2,220,145	(691,657)
Percent to state of MN	87.82%	87.82%	87.82%	87.5440%	87.5440%	87.5440%	87.1683%	87.1683%	87.1683%
Amount to state of MN	2,635,302	1,796,610	(838,692)	2,848,753	2,018,906	(829,847)	2,538,169	1,935,263	(602,906)
TOTAL									
TOTAL Amount to electric O&M	26,165,781	17,838,479	(8,327,302)	25,057,029	17,757,161	(7,299,868)	21,765,132	16,597,448	(5,167,684)
Percent to state of MN	87.82%	87.82%	87.82%	87.5440%	87.5440%	87.5440%	87.1683%	87.1683%	87.1683%
TOTAL Amount to state of MN	**22,979,050**	**15,665,930**	**(7,313,120)**	**21,935,926**	**15,545,329**	**(6,390,596)**	**18,972,305**	**14,467,721**	**(4,504,585)**
Cumulative Amount of Expense Deferred			**(7,313,120)**			**(13,703,716)**			**(18,208,301)**

Annual Qualified Pension Compliance Filing for NSPM Electric State of Minnesota
Qualified Pension Actuarial Reports

Schedule D

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

EXHIBIT IA
Page 1 of 2

Current Aggregate Normal Cost Method

2013	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	Aggregate Normal Cost	Recognized Cost
Xcel Energy Pension Plan (XEPP)								
Xcel Energy Nuclear	7,161	3,352	(4,833)	65	1,723	7,468	3,205	3,205
NSP - MN	26,006	40,382	(58,319)	1,992	51,265	61,326	38,501	38,501
Xcel Services[1]	22,612	22,040	(31,844)	2,913	17,673	33,394	N/A	33,394

2014	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	Aggregate Normal Cost	Recognized Cost
Xcel Energy Pension Plan (XEPP)								
Xcel Energy Nuclear	6,945	3,477	(5,215)	33	1,282	6,522	2,852	2,852
NSP - MN	23,643	39,158	(58,674)	1,436	46,654	52,217	32,315	32,315
Xcel Services[1]	21,955	21,877	(32,765)	165	15,772	27,004	N/A	27,004

2015	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	Aggregate Normal Cost	Recognized Cost
Xcel Energy Pension Plan (XEPP)								
Xcel Energy Nuclear	6,794	3,631	(5,709)	30	896	5,642	2,628	2,628
NSP - MN	24,129	38,195	(59,994)	1,436	42,552	46,318	27,867	27,867
Xcel Services[1]	21,471	21,713	(34,128)	157	13,855	23,068	N/A	23,068

[1] Includes Eloigne

Assumptions

Discount Rate - U.S. GAAP	4.03%
Discount Rate - Aggregate Cost	7.25%
Salary Scale	3.75%
Expected Return on Assets	7.25%
Assumed Asset Return	7.25%
Assumed Mortality table for 2013:	
Bargaining participants	RP-2000 Blue Collar projected with scale AA to 2013 for all participants
Non-bargaining participants	RP-2000 White Collar projected with scale AA to 2013 for all participants
Assumed Mortality table for 2014 and beyond:	
Bargaining participants	RP-2000 Blue Collar projected to the valuation date plus 7 years for retirees and 15 years for other participants
Non-bargaining participants	RP-2000 White Collar projected to the valuation date plus 7 years for retirees and 15 years for other participants

Recognized Cost: Total U.S. GAAP cost, excluding Minnesota and Xcel Energy Nuclear, plus aggregate normal cost allocated to Minnesota and Xcel Energy Nuclear.

See March 20, 2013 letter for additional information on data, assumptions, methods and plan provisions.

Annual Qualified Pension Compliance Filing for NSPM Electric State of Minnesota
Qualified Pension Actuarial Reports

Schedule D

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

EXHIBIT IB
Page 1 of 2

Alternative Aggregate Normal Cost Method

2013	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	Aggregate Normal Cost	Recognized Cost
Xcel Energy Pension Plan (XEPP)								
Xcel Energy Nuclear	7,161	3,352	(4,833)	65	1,723	7,468	2,185	2,185
NSP - MN	26,006	40,382	(58,319)	1,992	51,265	61,326	26,248	26,248
Xcel Services[1]	22,612	22,040	(31,844)	2,913	17,673	33,394	N/A	33,394

2014	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	Aggregate Normal Cost	Recognized Cost
Xcel Energy Pension Plan (XEPP)								
Xcel Energy Nuclear	6,945	3,477	(5,215)	33	1,282	6,522	2,046	2,046
NSP - MN	23,643	39,158	(58,674)	1,436	46,654	52,217	23,173	23,173
Xcel Services[1]	21,955	21,877	(32,765)	165	15,772	27,004	N/A	27,004

2015	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	Aggregate Normal Cost	Recognized Cost
Xcel Energy Pension Plan (XEPP)								
Xcel Energy Nuclear	6,794	3,631	(5,709)	30	896	5,642	1,972	1,972
NSP - MN	24,129	38,195	(59,994)	1,436	42,552	46,318	20,915	20,915
Xcel Services[1]	21,471	21,713	(34,128)	157	13,855	23,068	N/A	23,068

[1] Includes Eloigne

Assumptions

Discount Rate - U.S. GAAP	4.03%
Discount Rate - Aggregate Cost	7.25%
Salary Scale	3.75%
Expected Return on Assets	7.25%
Assumed Asset Return	7.25%
Assumed Mortality table for 2013:	
Bargaining participants	RP-2000 Blue Collar projected with scale AA to 2013 for all participants
Non-bargaining participants	RP-2000 White Collar projected with scale AA to 2013 for all participants
Assumed Mortality table for 2014 and beyond:	
Bargaining participants	RP-2000 Blue Collar projected to the valuation date plus 7 years for retirees and 15 years for other participants
Non-bargaining participants	RP-2000 White Collar projected to the valuation date plus 7 years for retirees and 15 years for other participants

Recognized Cost: Total U.S. GAAP cost, excluding Minnesota and Xcel Energy Nuclear, plus aggregate normal cost allocated to Minnesota and Xcel Energy Nuclear.

Starting in 2013, a 20 year interest and principal amortization factor of 11.14 is used to calculate aggregate normal cost under a discount rate of 7.25%. Factor will not change from year to year unless the discount rate changes.
See March 20, 2013 letter for additional information on data, assumptions, methods and plan provisions.

Annual Qualified Pension Compliance Filing for NSPM Electric State of Minnesota
Qualified Pension Actuarial Reports

Schedule D

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

EXHIBIT I
Page 2 of 2

2013	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	Aggregate Normal Cost	Recognized Cost	January 1 Prepaid (Accrued)	Contribution
Xcel Energy Pension Plan (XEPP)										
Discontinued Operations[1]	-	3,614	(4,650)	596	3,496	3,056	N/A	3,056	32,614	5,327
Xcel Energy Nuclear	6,300	3,723	(4,786)	65	1,053	6,355	2,823	2,823	372	5,510
NSP - MN	22,551	44,717	(57,444)	1,992	42,961	54,777	34,032	34,032	403,100	66,416
NSP - WI	4,560	7,599	(9,770)	417	6,478	9,284	N/A	9,284	58,271	11,237
Xcel Services[2]	21,012	24,244	(31,124)	2,913	12,926	29,971	N/A	29,971	82,226	36,130
XEPC (former EMI)	-	21	(27)	-	(19)	(25)	N/A	(25)	(318)	30
Total XEPP	54,423	83,918	(107,801)	5,983	66,895	103,418	36,855	79,141	576,265	124,650

[1] Includes NRG, BMG, Viking, Natro Gas, Utility Engineering, Seren, Quixx, Crockett and QPS
[2] Includes Eloigne

Assumptions

Discount Rate - U.S. GAAP	5.00%
Discount Rate - Aggregate Cost	7.50%
Salary Scale	4.00%
Expected Return on Assets	
XEPP	7.50%

Recognized Cost: Total U.S. GAAP cost, excluding Minnesota and Xcel Energy Nuclear, plus aggregate normal cost allocated to Minnesota and Xcel Energy Nuclear.

See June 22, 2012 letter for additional information on data, assumptions, methods and plan provisions.
Contributions are allocated based on PBO for each legal entity.

Annual Qualified Pension Compliance Filing for NSPM Electric State of Minnesota
Qualified Pension Actuarial Reports

Schedule D

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

EXHIBIT I
Page 1 of 6

2014	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	Aggregate Cost Compensation Method	Aggregate Cost 20-year Amortization Method	January 1 Prepaid (Accrued)	Contribution
Xcel Energy Pension Plan (XEPP)										
Discontinued Operations[1]	-	3,485	(4,660)	-	3,668	2,493	N/A	N/A	34,644	3,689
Xcel Energy Nuclear	6,876	4,227	(5,633)	44	1,078	6,592	3,426	2,428	(1,632)	4,575
NSP - MN	22,823	43,082	(57,287)	892	43,707	53,217	35,485	25,147	407,285	47,523
NSP - WI	4,527	7,257	(9,642)	111	6,617	8,870	N/A	N/A	58,556	8,030
Xcel Services[2]	20,993	24,087	(32,085)	245	13,749	26,989	N/A	N/A	88,822	26,161
XEPC (former EMI)	-	21	(28)	-	(14)	(21)	N/A	N/A	(263)	22
Total XEPP	55,219	82,159	(109,335)	1,292	68,805	98,140	38,911	27,575	587,412	90,000
NCE Non-Bargaining Pension Plan										
Discontinued Operations - Cheyenne	-	159	(222)	-	190	127	N/A	N/A	1,447	179
PSCo	6,264	9,110	(12,726)	136	5,079	7,863	N/A	N/A	16,520	10,390
SPS	3,122	3,905	(5,460)	54	5,351	6,972	N/A	N/A	43,365	4,431
Total NCE	9,386	13,174	(18,408)	190	10,620	14,962	N/A	N/A	61,332	15,000
SPS Bargaining Plan										
SPS	6,062	16,539	(20,719)	-	7,975	9,857	N/A	N/A	124,408	-
Total SPS	6,062	16,539	(20,719)	-	7,975	9,857	N/A	N/A	124,408	-
PSCo Bargaining Plan										
Discontinued Operations - Cheyenne	-	580	(760)	-	549	369	N/A	N/A	7,031	328
PSCo	17,675	44,167	(57,983)	(3,228)	28,813	29,444	N/A	N/A	326,103	24,672
Total PSCo	17,675	44,747	(58,743)	(3,228)	29,362	29,813	N/A	N/A	333,134	25,000
Total Xcel Energy	88,342	156,619	(207,205)	(1,746)	116,762	152,772	38,911	27,575	1,106,286	130,000

[1] Includes NRG, BMG, Viking, Natro Gas, Utility Engineering, Seren, Quixx, Crockett and QPS

[2] Includes Eloigne

Assumptions

Discount Rate - U.S. GAAP	
XEPP	4.74%
NCE	4.32%
SPS	5.00%
PSCo	4.89%
Discount Rate - Aggregate Normal Cos	7.25%
Salary Scale	3.75%
Expected Return on Assets	
XEPP	7.25%
NCE	7.10%
SPS	6.85%
PSCo	6.75%
Assumed Mortality Table	
Bargaining Participants	RP-2000 Blue Collar projected with scale AA to 2021 for retirees and 2029 for other participants
Non-bargaining Participants	RP-2000 White Collar projected with scale AA to 2021 for retirees and 2029 for other participants

See May 7, 2014 letter for additional information on data, assumptions, methods and plan provisions.
Contributions already made are allocated in accordance with the January 14, 2014 contribution directives provided by Xcel Energy.

5/7/2014
J:\Clients\66120\RET\2014\Projections\01 February Forecasts\03b Analysis\Pension - Qualified\Qualified Plans 2014 - February Projections.xls: 2014

TOWERS WATSON

Annual Qualified Pension Compliance Filing for NSPM Electric State of Minnesota
Qualified Pension Actuarial Reports

Schedule D

XCEL ENERGY INC. - Qualified Pension Plans
Cost Estimates by Legal Entity for MN Electric Rate Case
($ in Thousands)

2015	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	Aggregate Cost Compensation Method	Aggregate Cost 20-year Amortization Method	January 1 Prepaid (Accrued)[1]	Contribution
Xcel Energy Pension Plan (XEPP)										
Xcel Energy Nuclear	7,270	4,004	(5,829)	44	1,239	6,728	3,149	2,401	(3,648)	3,010
NSP - MN	24,286	39,210	(57,001)	892	44,953	52,340	31,064	23,689	401,607	29,693
Xcel Services[2]	22,205	25,398	(34,271)	245	13,307	26,884	N/A	N/A	92,732	17,811

2016	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	Aggregate Cost Compensation Method	Aggregate Cost 20-year Amortization Method	January 1 Prepaid (Accrued)	Contribution
Xcel Energy Pension Plan (XEPP)										
Xcel Energy Nuclear	6,838	4,162	(6,179)	44	896	5,761	3,015	2,364	(7,366)	3,271
NSP - MN	23,174	38,448	(57,018)	892	41,066	46,562	27,998	21,957	378,960	30,373
Xcel Services[2]	21,090	25,467	(35,017)	245	11,803	23,588	N/A	N/A	83,659	18,612

2017	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	Aggregate Cost Compensation Method	Aggregate Cost 20-year Amortization Method	January 1 Prepaid (Accrued)	Contribution
Xcel Energy Pension Plan (XEPP)										
Xcel Energy Nuclear	6,589	4,284	(6,517)	44	573	4,973	2,773	2,282	(9,856)	3,183
NSP - MN	21,347	37,481	(56,947)	892	37,351	40,124	24,461	20,132	362,771	28,078
Xcel Services[2]	20,669	25,462	(35,899)	245	10,270	20,747	N/A	N/A	78,683	17,503

2018	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	Aggregate Cost Compensation Method	Aggregate Cost 20-year Amortization Method	January 1 Prepaid (Accrued)	Contribution
Xcel Energy Pension Plan (XEPP)										
Xcel Energy Nuclear	6,367	4,412	(6,865)	44	331	4,289	2,655	2,261	(11,646)	3,309
NSP - MN	21,165	36,426	(56,578)	892	34,378	36,283	22,185	18,889	350,725	27,648
Xcel Services[2]	20,073	25,549	(36,800)	245	9,149	18,216	N/A	N/A	75,439	17,831

[1] Includes $4,730 transfer from NCE to XEPP for non-de minimis asset transfer on December 31, 2014
[2] Includes Eloigne

Assumptions

Discount Rate - ASC 715 - for all years	
Xcel Energy Nuclear & NSP - MN	4.09%
Xcel Services	4.67% (Five-year average of discount rates: 4.09% at 12/31/2014; 4.74% at 12/31/2013; 4.03% at 12/31/2012; 5.00% at 12/31/2011; and 5.50% at 12/31/2010)
Discount Rate - Aggregate Normal Cost - for all years	7.25%
Salary Scale	3.75%
Expected Return on Assets	7.25%
Assumed Mortality Table	
Bargaining Participants	RP-2014 Blue Collar projected with generational mortality improvements using an adjusted SOA MP-2014 methodology
Non-bargaining Participants	RP-2014 White Collar, as adjusted for 2014 Xcel Energy mortality study, projected with generational mortality improvements using an adjusted SOA MP-2104 methodology

See May 7, 2015 letter for additional information on data, assumptions, methods and plan provisions.
2015 Contributions already made are allocated in accordance with the January 15, 2015 contribution directives provided by Xcel Energy on January 12, 2015.
Results for NSP-MN and Xcel Energy Nuclear are the same as provided on May 7, 2015. Xcel Services results assume the Xcel Energy Pension Plan cost is determined using the five-year average discount rate, including allocation of assets and contributions between legal entities.

Results shown above were developed using a five-year average discount rate for all years at the request of Xcel Energy Inc. for purposes of determining the revenue requirements/deferrals for the Minnesota electric jurisdiction. The five-year average discount rate is not intended to be a market discount rate at any of the measurement dates shown above. The results shown above are not intended for and may not be used for any purposes other than those described above, and Towers Watson accepts no responsibility or liability in this regard.

414 Nicollet Mall
Minneapolis, Minnesota 55401-1993

April 6, 2015

—Via Electronic Filing—

Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 Seventh Place East, Suite 350
St. Paul, MN 55101

Re: PENSION AND RETIREE MEDICAL COMPLIANCE FILING
ELECTRIC RATE CASE
DOCKET NO. E002/GR-13-868

Dear Mr. Wolf:

Northern States Power Company, doing business as Xcel Energy, submits this letter in compliance with the Company's understanding of the Commission's verbal decision at the March 26, 2015 deliberations in the above-referenced proceeding.

Prepaid Pension Asset

Section II. A.7 (e) (1) of the March 25, 2015 Deliberation Outline Additional Decision Alternatives (page 10) filed in the above docket notes the following:

> *Determine that the qualified pension asset and associated deferred tax amounts, should be included in rate base; For rate base purposes, the pension asset is to reflect:*
>
> > *The cumulative difference between actual cash deposits made by the Company reduced by the recognized qualified pension cost determined under ACM/FAS 87 method since plan inception, not to exceed the Company's filed request. The Company shall provide a detailed compliance filing which explains the calculated amount within 10 days of the Commission's decision.*

We confirm that the qualified prepaid pension asset included in rate base represents the cumulative difference between actual cash deposits made by the Company reduced by the recognized qualified pension cost determined under ACM since the plan's inception. Additionally, we confirm that the prepaid pension asset included in the test year has been limited to the amount filed in the Company's request. Please see Attachment A for the calculation details.

Retiree Medical Expenses (FAS 106)

Section II (B) (3) (A) of the March 25, 2015 Revised Deliberation Outline Additional Decision Alternatives (page 13) filed in the above docket notes the following:

> *Approve the retiree medical benefit cost level in rates that is the calculated average of the annual projected benefit cost over the expected rate life (Xcel expects a two-year rate case life). Each year's projected cost amount subject to averaging is to be calculated using the Commission-approved assumptions and the most proximate measurement date applicable to each year. Direct the Company to provide schedules for each year's retiree medical benefit cost calculation within 10 days of the Commission's decision to assist in preparation of the Order*

In compliance, we provide Attachment B to this letter which provides the cost calculation for each year's retiree medical benefit. The Company commissioned its external actuary to provide retiree medical benefit cost calculations using the Commission-approved assumptions and the most proximate measurement date applicable to each year, (December 31, 2013 and December 31, 2014). We then calculated the average of the annual projected benefit cost over the expected two-year rate life and compared the results to what was originally included in the test year. As a result of the retiree medical benefit cost method prescribed by the Commission, a reduction of $1.3 million has been made to the test year retiree medical benefit costs.

We appreciate the opportunity to provide the Commission with this information. We have electronically filed this document with the Minnesota Public Utilities Commission, and notice of the filing has been served on the parties on the attached service list.

Please contact me at Darcy.A.Diederich@xcelenergy.com or (612) 330-5671 if there are any questions regarding this filing.

Sincerely,

/s/

DARCY DIEDERICH FLINN
DIRECTOR
REGULATORY ADMINISTRATION

Enclosures
cc: Service List

Line No

		2009	2010	2011	2012	2013	2014
2	**Beginning Asset (Liability) Balance**	(20,181,500)	(20,181,500)	(6,480,500)	22,166,500	71,689,833	102,395,562
3	Recognized Expense	-	(6,481,000)	(12,728,000)	(29,958,000)	(41,706,000)	(38,911,000)
4	Cash Contributions	-	20,182,000	41,375,000	79,481,333	72,411,729	52,115,150
5	**Ending Asset (Liability) Balance**	(20,181,500)	(6,480,500)	22,166,500	71,689,833	102,395,562	115,599,712

		2014 Actuals												
10		**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**TOTAL**
11	**Beginning Asset (Liability) Balance**	102,395,562	151,250,979	148,008,395	144,765,812	141,523,229	138,280,645	135,038,368	131,796,091	128,553,507	125,310,924	122,068,341	118,825,757	102,395,562
12	Recognized Expense	(3,242,583)	(3,242,583)	(3,242,583)	(3,242,583)	(3,242,583)	(3,242,583)	(3,242,583)	(3,242,583)	(3,242,583)	(3,242,583)	(3,242,583)	(3,242,583)	(38,911,000)
13	Cash Contributions	52,098,000	-	-	-	-	306	306	-	-	-	-	16,538	52,115,150
14	**Ending Asset (Liability) Balance**	151,250,979	148,008,395	144,765,812	141,523,229	138,280,645	135,038,368	131,796,091	128,553,507	125,310,924	122,068,341	118,825,757	115,599,712	115,599,712
15														
16	**Beginning Asset (Liability) Balance**	102,395,562												115,599,712
17	ADIT Percent	-40.85%												-40.85%
18	ADIT Amount	(41,833,606)												(47,228,148)
19	Net Prepaid Pension Asset	60,561,956												68,371,564
20	% to MN Electric	87.63%												87.63%
21	**Actual Total**	53,073,007												59,916,897
22														
23												**2014 Actual BOY & EOY Average**		**56,494,952**

		2014 Test Year
26		
27	**Beginning Asset (Liability) Balance**	95,256,853	111,923,746
28	ADIT Percent	-40.85%	-40.85%
29	ADIT Amount	(38,917,093)	(45,726,336)
30	Net Prepaid Pension Asset	56,339,760	66,197,410
31	% to MN Electric	87.63%	87.63%
32	**Actual Total**	49,372,918	58,011,594
33			
34			**2014 Test Year BOY & EOY Average**	**53,692,256**

Northern States Power Company
Electric Utility - State of Minnesota

Docket No. E002/GR-13-868
Compliance - April 6, 2015
Pension and Retiree Medical Compliance Filing
Attachment B, Page 1 of 1

Total Retiree Medical Analysis Summary

MPUC Decision	
2014 Test Year Adjustments	**Revenue Requirement Impact**
Retiree Medical O&M	(1,243,500)
Retiree Medical Capital	(25,014)
Total	**(1,268,514)**

O&M Retiree Medical Calculation Analysis

	NSPM Request	MPUC Decision			Adjustment
	2014 Retiree Medical 12-31-13 Measurement	2014 * Retiree Medical 5.08% Discount Rate	2015 ** Retiree Medical 5.08% Discount Rate	Two Year Average	2014 Retiree Medical O&M
NSPM					
Total Cost from Actuarial Report	5,138,000	4,882,280	1,512,000		
Percent to NSPM Electric O&M FERC 926	61.44%	61.44%	61.44%		
Amount to NSPM Electric O&M FERC 926	3,156,927	2,999,806	929,014		
Percent to State of Minnesota	87.544%	87.544%	87.544%		
Amount to State of Minnesota	2,763,700	2,626,150	813,296		
Nuclear					
Total Cost from Actuarial Report	121,000	120,037	95,000		
Percent to NSPM Electric O&M FERC 926	94.98%	94.98%	94.98%		
Amount to NSPM Electric O&M FERC 926	114,928	114,013	90,233		
Percent to State of Minnesota	87.544%	87.544%	87.544%		
Amount to State of Minnesota	100,613	99,812	78,993		
Xcel Energy Services					
Total Cost from Actuarial Report	2,279,000	2,166,119	917,000		
Percent to NSPM Electric O&M FERC 926	29.17%	29.17%	29.17%		
Amount to NSPM Electric O&M FERC 926	664,769	631,842	267,483		
Percent to State of Minnesota	87.544%	87.544%	87.544%		
Amount to State of Minnesota	581,965	553,140	234,165		
	(a)			(b)	(b-a)
Revenue impact (O&M)	**3,446,278**	**3,279,102**	**1,126,455**	**2,202,778**	**(1,243,500)**

Capital Retiree Medical Calculation Analysis

	NSPM Request	MPUC Decision			Adjustment
	2014 Retiree Medical 12-31-13 Measurement	2014 * Retiree Medical 5.08% Discount Rate	2015 ** Retiree Medical 5.08% Discount Rate	Two Year Average	2014 Retiree Medical Capital
NSPM					
Total Cost from Actuarial Report	5,138,000	4,882,280	1,512,000		
Percent to NSPM Electric Capital	20.07%	20.07%	20.07%		
Amount to NSPM Electric Capital	1,031,227	979,903	303,467		
Percent to State of Minnesota	87.544%	87.544%	87.544%		
Amount to State of Minnesota	902,777	857,846	265,667		
Nuclear					
Total Cost from Actuarial Report	121,000	120,037	95,000		
Percent to NSPM Electric Capital	5.02%	5.02%	5.02%		
Amount to NSPM Electric Capital	6,072	6,024	4,768		
Percent to State of Minnesota	87.544%	87.544%	87.544%		
Amount to State of Minnesota	5,316	5,274	4,174		
Xcel Energy Services					
Total Cost from Actuarial Report	2,279,000	2,166,119	917,000		
Percent to NSPM Electric Capital	2.97%	2.97%	2.97%		
Amount to NSPM Electric Capital	67,595	64,247	27,198		
Percent to State of Minnesota	87.544%	87.544%	87.544%		
Amount to State of Minnesota	59,175	56,244	23,810		
	(a)			(b)	(b-a)
TOTAL	**967,268**	**919,364**	**293,651**	**606,508**	**(360,761)**
Divide by 2 (Beginning of year is $0 to capital & need to get average)					2
Average capital amount					(180,380)
% for capital conversion factor (ROR grossed up for taxes)					13.86741%
Revenue impact (Capital)					**(25,014)**
Total Reduction in Revenue Requirements					**(1,268,514)**

Footnotes

*The 2014 amount is using a 12/31/2013 measurement date and Towers Watson sensitivity from response DOC-1189.
**The 2015 amount is using a 12/31/2014 measurement date and using a Towers Watson report dated 4/1/2015.

CERTIFICATE OF SERVICE

I, Tiffany R. Hughes, hereby certify that I have this day served copies or summaries of the foregoing document on the attached list(s) of persons.

xx electronic filing

Docket No. E002/GR-13-868

Dated this 6th day of April 2015

/s/

Tiffany R. Hughes

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Prepaid Pension Asset

Line No		2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
2	**Beginning Asset (Liability) Balance**	(20,181,500)	(20,181,500)	(6,480,500)	22,166,500	71,689,833	102,395,562	115,599,406	114,089,406	116,720,406	120,747,406
3	Recognized Expense	-	(6,481,000)	(12,728,000)	(29,958,000)	(41,706,000)	(38,911,000)	(34,213,000)	(31,013,000)	(27,234,000)	(24,840,000)
4	Cash Contributions	-	20,182,000	41,375,000	79,481,333	72,411,729	52,114,844	32,703,000	33,644,000	31,261,000	30,957,000
5	**Ending Asset (Liability) Balance**	(20,181,500)	(6,480,500)	22,166,500	71,689,833	102,395,562	115,599,406	114,089,406	116,720,406	120,747,406	126,864,406

2016 Test Year

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL
9	**Beginning Asset (Liability) Balance**	114,089,406	145,148,989	142,564,573	139,980,156	137,395,739	134,811,323	132,226,906	129,642,489	127,058,073	124,473,656	121,889,239	119,304,823	114,089,406
10	Recognized Expense	(2,584,417)	(2,584,417)	(2,584,417)	(2,584,417)	(2,584,417)	(2,584,417)	(2,584,417)	(2,584,417)	(2,584,417)	(2,584,417)	(2,584,417)	(2,584,417)	(31,013,000)
11	Cash Contributions	33,644,000												33,644,000
12	**Ending Asset (Liability) Balance**	145,148,989	142,564,573	139,980,156	137,395,739	134,811,323	132,226,906	129,642,489	127,058,073	124,473,656	121,889,239	119,304,823	116,720,406	116,720,406
13														
14	**Beginning Asset (Liability) Balance**	114,089,406												116,720,406
15	ADIT Percent	-40.81%												-40.81%
16	ADIT Amount	(46,559,544)												(47,633,248)
17	Net Prepaid Pension Asset	67,529,862												69,087,158
18	% to MN Electric	81.27%												81.27%
19	**Actual Total**	54,881,013												56,146,443
20												**2016 Actual BOY & EOY Average**		**55,513,620**

2017 Test Year

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL
24	**Beginning Asset (Liability) Balance**	116,720,406	145,711,906	143,442,406	141,172,906	138,903,406	136,633,906	134,364,406	132,094,906	129,825,406	127,555,906	125,286,406	123,016,906	116,720,406
25	Recognized Expense	(2,269,500)	(2,269,500)	(2,269,500)	(2,269,500)	(2,269,500)	(2,269,500)	(2,269,500)	(2,269,500)	(2,269,500)	(2,269,500)	(2,269,500)	(2,269,500)	(27,234,000)
26	Cash Contributions	31,261,000												31,261,000
27	**Ending Asset (Liability) Balance**	145,711,906	143,442,406	141,172,906	138,903,406	136,633,906	134,364,406	132,094,906	129,825,406	127,555,906	125,286,406	123,016,906	120,747,406	120,747,406
28														
29	**Beginning Asset (Liability) Balance**	116,720,406												120,747,406
30	ADIT Percent	-40.81%												-40.81%
31	ADIT Amount	(47,633,248)												(49,276,654)
32	Net Prepaid Pension Asset	69,087,158												71,470,752
33	% to MN Electric	81.27%												81.27%
34	**Actual Total**	56,146,616												58,083,745
35												**2017 Actual BOY & EOY Average**		**57,115,181**

2018 Test Year

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TOTAL
39	**Beginning Asset (Liability) Balance**	120,747,406	149,634,406	147,564,406	145,494,406	143,424,406	141,354,406	139,284,406	137,214,406	135,144,406	133,074,406	131,004,406	128,934,406	120,747,406
40	Recognized Expense	(2,070,000)	(2,070,000)	(2,070,000)	(2,070,000)	(2,070,000)	(2,070,000)	(2,070,000)	(2,070,000)	(2,070,000)	(2,070,000)	(2,070,000)	(2,070,000)	(24,840,000)
41	Cash Contributions	30,957,000												30,957,000
42	**Ending Asset (Liability) Balance**	149,634,406	147,564,406	145,494,406	143,424,406	141,354,406	139,284,406	137,214,406	135,144,406	133,074,406	131,004,406	128,934,406	126,864,406	126,864,406
43														
44	**Beginning Asset (Liability) Balance**	120,747,406												126,864,406
45	ADIT Percent	-40.81%												-40.81%
46	ADIT Amount	(49,276,654)												(51,772,983)
47	Net Prepaid Pension Asset	71,470,752												75,091,422
48	% to MN Electric	81.27%												81.27%
49	**Actual Total**	58,083,745												61,026,237
50												**2018 Actual BOY & EOY Average**		**59,554,991**

2016 Test Year Active Health Care O&M Costs by Category

Allocation Percentages		
Company	MN Electric O&M	MN Electric O&M State of MN
NSPM	60.88%	87.07%
Nuclear	92.27%	87.07%
XES	27.55%	87.07%

	NSPM			Nuclear			XES			Totals	
	Total Cost	MN Electric O&M	MN Electric O&M State of MN	Total Cost	MN Electric O&M	MN Electric O&M State of MN	Total Cost	MN Electric O&M	MN Electric O&M State of MN	MN Electric O&M	MN Electric O&M State of MN
Misc Benefit Programs & Costs											
Adoption Assistance	3,354	2,042	1,778	1,317	1,215	1,058	4,328	1,193	1,038	4,450	3,875
HR Service Center	74,040	45,079	39,252	29,076	26,827	23,359	544,159	149,936	130,553	221,842	193,164
Communications, Printing & Postage	63,264	38,518	33,539	24,844	22,923	19,959	81,645	22,496	19,588	83,937	73,086
Ergonomists for field workers	12,000	7,306	6,362	0	0	0	0	0	0	7,306	6,362
Return to Work (STD/LTD)	0	0	0	0	0	0	130,000	35,820	31,189	35,820	31,189
Financial Planning	0	0	0	0	0	0	21,765	5,997	5,222	5,997	5,222
Cobra Admin Fees	14,307	8,711	7,585	5,619	5,184	4,514	18,464	5,088	4,430	18,983	16,529
H&W Audit Fees	16,310	9,930	8,647	6,405	5,910	5,146	21,048	5,799	5,050	21,639	18,842
Flex Spending - Admin Fees (HCRA, DCRA, TRA)	7,838	4,772	4,155	3,078	2,840	2,473	10,115	2,787	2,427	10,399	9,055
Bus Pass Subsidy	91,000	55,405	48,243	0	0	0	550,000	151,545	131,954	206,951	180,197
Health Assessment Incentives paid to employees	5,111	3,112	2,710	1,704	1,572	1,369	6,464	1,781	1,551	6,465	5,629
Health Assessment Admin Fees	11,400	6,941	6,044	0	0	0	12,552	3,459	3,011	10,399	9,055
Employee Assistance Program	82,339	50,132	43,651	27,446	25,323	22,050	94,835	26,131	22,753	101,586	88,453
Tuition Reimbursement Program	293,102	178,455	155,385	115,103	106,201	92,472	378,260	104,225	90,751	388,880	338,608
STD and LTD admin fees	167,610	102,049	88,857	13,240	12,216	10,637	167,322	46,103	40,143	160,369	139,637
Wellness Clinics / Programs	189,629	115,456	100,530	74,469	68,710	59,827	244,724	67,430	58,713	251,596	219,071
WW H&W admin fees payable from VEBA trust	135,914	82,751	72,054	53,374	49,246	42,880	175,403	48,330	42,082	180,327	157,015
WW H&W admin fees not payable from VEBA trust	278,780	169,735	147,793	109,479	101,012	87,954	359,778	99,132	86,317	369,879	322,063
Total Misc Benefit Programs & Costs	**1,445,998**	**880,395**	**766,582**	**465,154**	**429,179**	**373,697**	**2,820,862**	**777,251**	**676,773**	**2,086,826**	**1,817,052**
Active Health Care											
VEBA Paid Claims MEDICAL	28,471,104	17,334,617	15,093,690	10,500,537	9,688,424	8,435,956	29,914,222	8,242,471	7,176,928	35,265,512	30,706,573
VEBA Paid Claims PHARMACY	4,530,319	2,758,282	2,401,706	1,670,845	1,541,622	1,342,329	6,945,148	1,913,644	1,666,258	6,213,548	5,410,294
VEBA Paid Claims DENTAL	2,042,391	1,243,509	1,082,755	879,301	811,296	706,416	2,625,668	723,468	629,942	2,778,273	2,419,112
VEBA Paid Claims VISION	288,795	175,833	153,102	123,108	113,587	98,903	395,118	108,870	94,795	398,289	346,800
HSA Funding	539,684	328,586	286,108	278,420	256,887	223,678	828,490	228,280	198,769	813,753	708,555
Employee Withholdings	(2,744,804)	(1,671,173)	(1,455,132)	(1,426,755)	(1,316,410)	(1,146,231)	(4,518,857)	(1,245,112)	(1,084,150)	(4,232,694)	(3,685,514)
Pharmacy Rebates	(499,090)	(303,871)	(264,588)	(187,790)	(173,266)	(150,867)	(628,877)	(173,279)	(150,878)	(650,416)	(566,333)
HSA Account Admin Fees	25,055	15,255	13,283	8,979	8,285	7,214	29,032	7,999	6,965	31,539	27,462
Administration Fees	2,078,958	1,265,773	1,102,140	663,206	611,914	532,809	2,502,683	689,581	600,436	2,567,267	2,235,385
Transitional Reinsurance	130,383	79,384	69,121	49,058	45,264	39,412	164,288	45,267	39,415	169,915	147,949
Opt-out Funding, Affordable Care Act	10,000	6,088	5,301	0	0	0	65,645	18,088	15,749	24,176	21,051
Total Active Health Care	**34,872,795**	**21,232,283**	**18,487,486**	**12,558,909**	**11,587,601**	**10,089,617**	**38,322,560**	**10,559,278**	**9,194,230**	**43,379,162**	**37,771,334**
Life, LTD & Business Travel Ins											
Life Insurance	2,270,966	1,382,676	1,203,931	951,674	878,071	764,559	2,253,633	620,959	540,685	2,881,707	2,509,175
Life insurance withholdings	(1,653,871)	(1,006,959)	(876,784)	(745,962)	(688,269)	(599,293)	(1,715,840)	(472,777)	(411,659)	(2,168,005)	(1,887,737)
Business Travel Insurance	20,297	12,358	10,760	7,971	7,355	6,404	26,195	7,218	6,285	26,930	23,449
LTD insurance premiums	2,166,863	1,319,293	1,148,742	177,282	163,571	142,425	1,908,324	525,814	457,839	2,008,678	1,749,007
Total Life, LTD & Business Travel Ins	**2,804,255**	**1,707,369**	**1,486,650**	**390,965**	**360,728**	**314,095**	**2,472,312**	**681,213**	**593,149**	**2,749,310**	**2,393,894**
Total	**39,123,048**	**23,820,048**	**20,740,718**	**13,415,028**	**12,377,508**	**10,777,409**	**43,615,734**	**12,017,742**	**10,464,152**	**48,215,298**	**41,982,280**
Affiliate Charges										-	-
Grand Total	**39,123,048**	**23,820,048**	**20,740,718**	**13,415,028**	**12,377,508**	**10,777,409**	**43,615,734**	**12,017,742**	**10,464,152**	**48,215,298**	**41,982,280**

Medical Cost Trend: Behind the Numbers 2016

June 2015

Health Research Institute

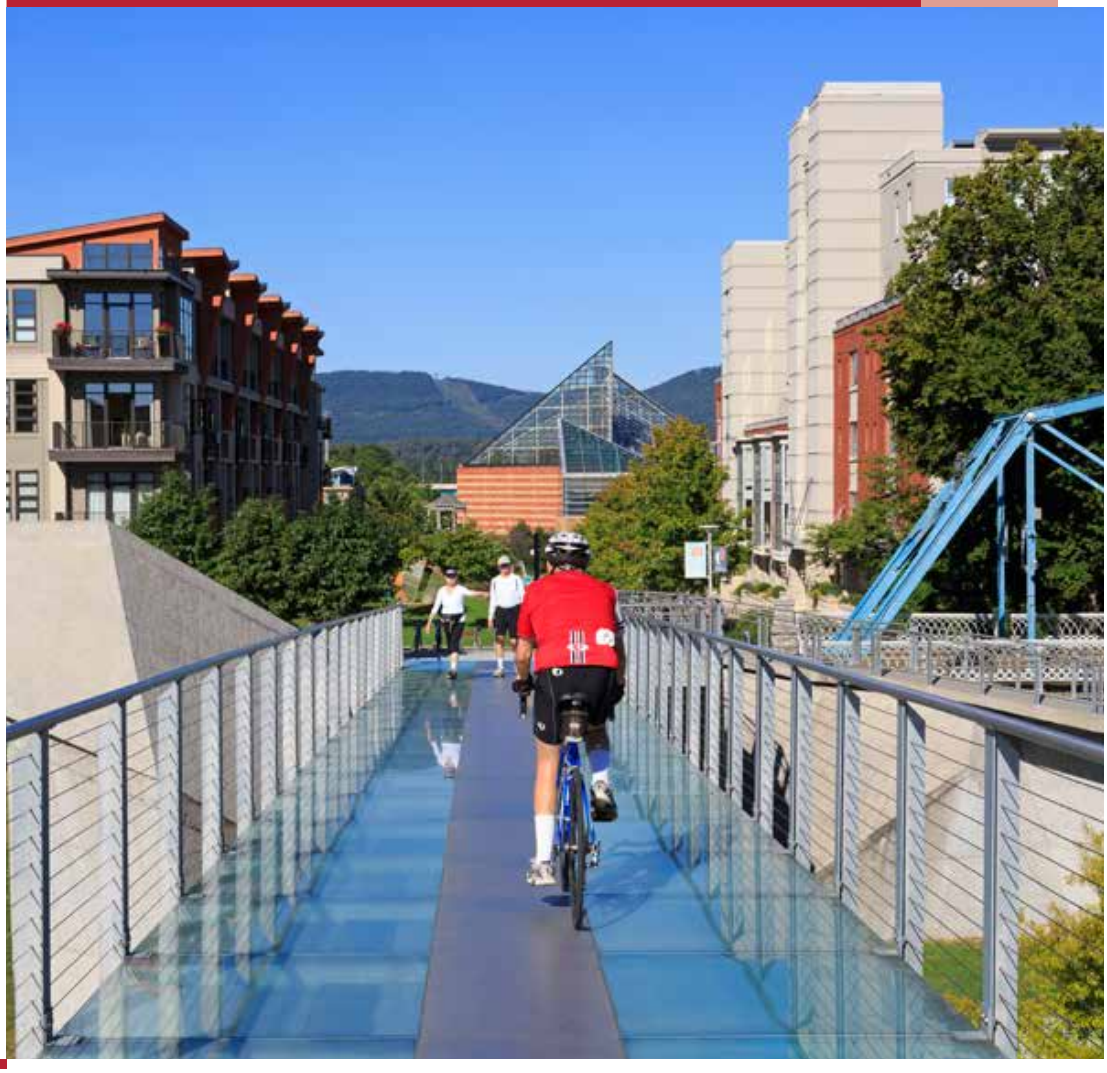

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Table of contents

The heart of the matter

A historic recession, sluggish recovery, landmark reform law, innovative disruptors and cost-conscious purchasers have provided the crosswinds in a tumultuous decade for the US health sector. Today, 10 years after HRI began issuing its projection for the coming year's medical cost trend, the growth rate has slowed.

Not long ago, experts bemoaned the "unsustainable" healthcare spending growth rate, consuming ever larger portions of family, business and government bank accounts.

Today, 10 years after PwC's Health Research Institute (HRI) began issuing its projection for the coming year's medical cost trend, the growth rate has slowed. HRI anticipates a 6.5% rate for 2016. After likely changes in benefit plan design, such as higher deductibles and co-pays, the net growth rate is expected to be two percentage points lower at 4.5%.

Yet medical inflation still outpaces general economic inflation, underscoring the challenges ahead for an industry still chasing the elusive concept of value. And while the health sector has adopted structural changes that improve efficiency and quality, much of the slowing growth is attributable to cost-shifting onto consumers who face difficult decisions around what health services to buy—when, where and at what price.

HRI's analysis measures spending growth in the employer-based market—the foundation of the US health system, covering about 150 million Americans. Changes to government health insurance, including new plans sold on public exchanges, are not within the purview of this analysis—but spending growth for government plans such as Medicare has slowed as well.

Several factors will intensify spending in the year ahead. New specialty drugs entering the market in 2015 and 2016 bring with them the hope for new cures and treatments, but at a high cost. As with Hepatitis C, the health system will once again be faced with how to pay for products whose benefits may not be realized for many, many years. Major cyber security breaches are prompting health companies to take extra steps to protect sensitive personal information from external threats. Investments to guard personal health data will add to the overall cost of delivering care in 2016 and beyond.

But moderating forces are expected to hold growth in check. Insurance plan designs influence how often and to what extent employees use health services. HRI research confirms that employers intend to continue shifting costs onto employees, which prompts many workers to scale back on services or search for alternatives.

Although virtual care is not new, its use will ramp up significantly in 2016. Both government and private purchasers are adding a wide range of telehealth services to its covered benefits. Costs are falling as hospitals move away from capital intensive "brick and mortar" care and instead monitor patients remotely, while consumers trade office visits for virtual ones.

With the ten-year anniversary of HRI's *Medical Cost Trend: Behind the Numbers*, we identify the major trends of the last decade—more consumer cost-sharing, greater use of technology and shifting care from inpatient settings to physician offices, retail clinics and even the home. But with ongoing pressure from purchasers, and competition from non-traditional new entrants, the question for healthcare providers, insurers and life sciences companies is: Will that be enough over the next 10 years?

An in-depth discussion

HRI projects medical cost trend to be 6.5%—slightly lower than the 6.8% projected for 2015. The net growth rate in 2016, after accounting for benefit design changes such as higher deductibles and narrow provider networks, is expected to be 4.5%.

Executive summary

Spending growth in the $2.9 trillion US health economy is expected to slow in 2016 as compared to 2015, but it will still outpace overall economic inflation. Stock prices, earnings reports and the customer base have increased and that means the industry is financially healthy. Affordable healthcare, however, remains out-of-reach for many consumers.[1]

For this research, HRI interviewed industry executives, health policy experts and health plan actuaries whose companies cover more than 100 million employer-based members. HRI also analyzed results from PwC's 2015 Health and Well-being Touchstone survey of more than 1,100 employers from 36 industries, and a national consumer survey of more than 1,000 US adults. In this year's report, we identified:

Three factors expected to "deflate," or reduce, the healthcare growth rate in 2016:

- **Looming "Cadillac tax" accelerates cost-shift**— the ACA's insurance excise tax set to begin in 2018 is already influencing employer's benefit design. To avoid paying the 40% tax on health plan premiums over $10,200 for individual coverage and $27,500 for self and spouse or family coverage, employers are upping the amount that employees must pay thereby reducing their costs.[2]
- **Virtual care**—new technology increasingly renders virtual visits more efficient and convenient than traditional medical care. Hospitals are already using remote monitoring to improve outcomes and bring down treatment costs. Large companies now see telehealth as a valuable tool for primary care.
- **New health advisers**—are helping to steer consumers to more efficient healthcare. With more experience in consumer retail services, these advisers provide information, incentives, and disincentives—all tools to assist employees with making good choices when seeking health treatment.

Going the other way, there are two factors expected to "inflate," or boost, the spending trajectory in 2016:

- **Specialty drugs**—as the price of high-cost Hepatitis C therapies is being challenged, the next wave of specialty drugs begins. The majority of FDA drug approvals is for specialty drugs and, because of their high costs, will require new ways to identify, manage and pay for these treatments as well as quantify their value in reducing other types of healthcare services.
- **Cyber security**—large-scale security breaches add a new layer of expense to the health business, as companies move quickly to secure and protect the vast amount of personal health data they possess. The sophistication of attacks means health providers need to spend money on both prevention and, if a breach occurs, remediation.

What this means for your business

More Americans with health insurance and an improving economy have not increased the medical spending trajectory. Structural changes have helped keep costs in check. But there is still much to be done as long as health spending continues to outpace gross domestic product and individual consumers and companies struggle to afford services. Health companies must restrain costs when bringing new cures and technology to consumers.

Affordability moves front and center in the New Health Economy. Employers must pursue strategies that not only strengthen their bottom line but better equip workers to make informed health decisions—or they will likely pay a high cost in the long run. User-friendly technology offers opportunities for greater transparency, remote care delivery and true comparison shopping.

A 10-year perspective

When HRI made its first projection of healthcare spending, the growth rate for 2007 was nearly 12%. The trend ticked down in 2008 but remained high for the next four years—even in the midst of the Great Recession and slow economic recovery.

Much has changed since then. Technology investments, which for many years hit the expense account on the ledger are now translating into the savings of virtual health. In the old world of first dollar coverage, employees were largely insulated from out-of-pocket costs. Now consumers shop around, often finding savings and convenience in retail-style new entrants. Understanding the factors that have slowed spending growth will enable health organizations of the future to thrive in the New Health Economy.

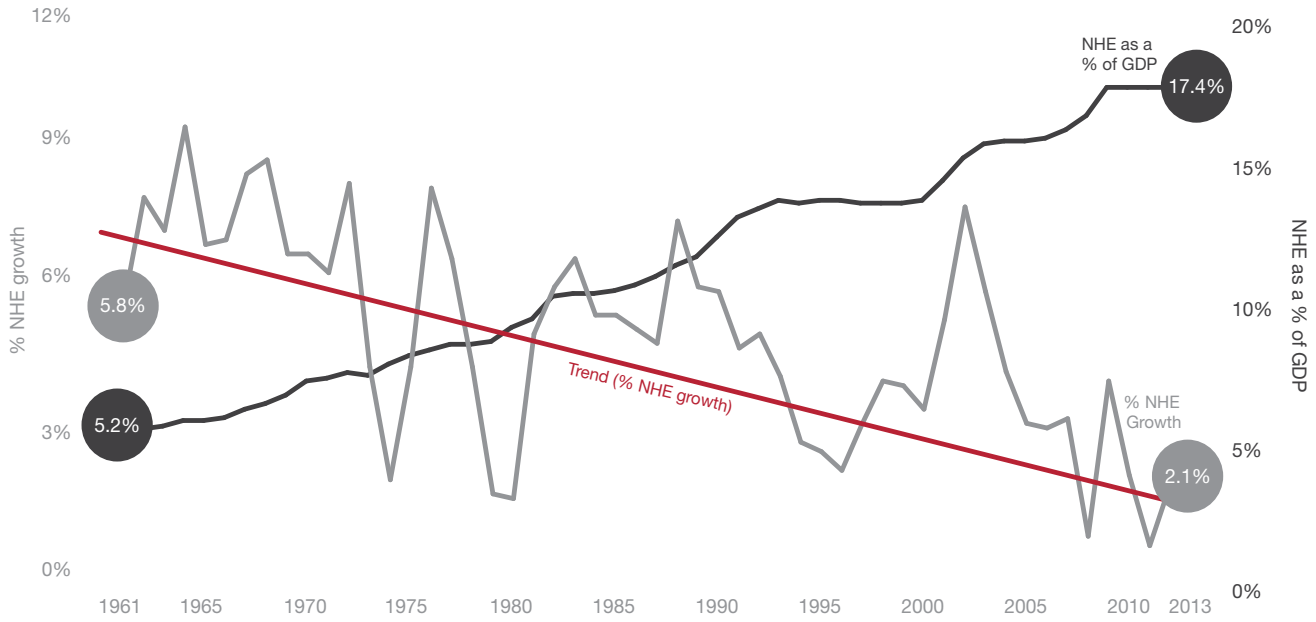
Here are four key trends we have observed over the past decade.

The healthcare-spending trajectory has leveled off but is not decreasing

The growth rate of all US health expenditures has decreased by about 1% every decade since 1961 (see Figure 1). But the slowing growth still represents a rise in total healthcare costs, especially as compared against inflation. In one sense, the nation has reckoned with the unsustainability of healthcare costs and taken steps to bend the cost curve. Still, private healthcare spending continues to increase faster than the economy and is now at 17.4% of GDP.

"Medical costs cannot continue to grow faster than per capita incomes indefinitely. As we get closer to 25% of GDP, spending will have to be constrained," said Tom Getzen, executive director of the International Health Economics Association and professor of insurance and healthcare management at Temple University. "As health spending grows faster than the rest of the economy, resistance to further increases can begin to slow down the growth—or bend the cost curve."

Figure 1: Although the health spending growth rate is slowing, it still continues to be a disproportionately large part of the US economy
Year-over-year growth in national health expenditures adjusted for inflation and % of total GDP



Source: National Health Expenditures data, Consumer Price Index data from Bureau of Labor Statistics, and PwC Health Research Institute analysis[3]

Cost-sharing slows consumer use of health services

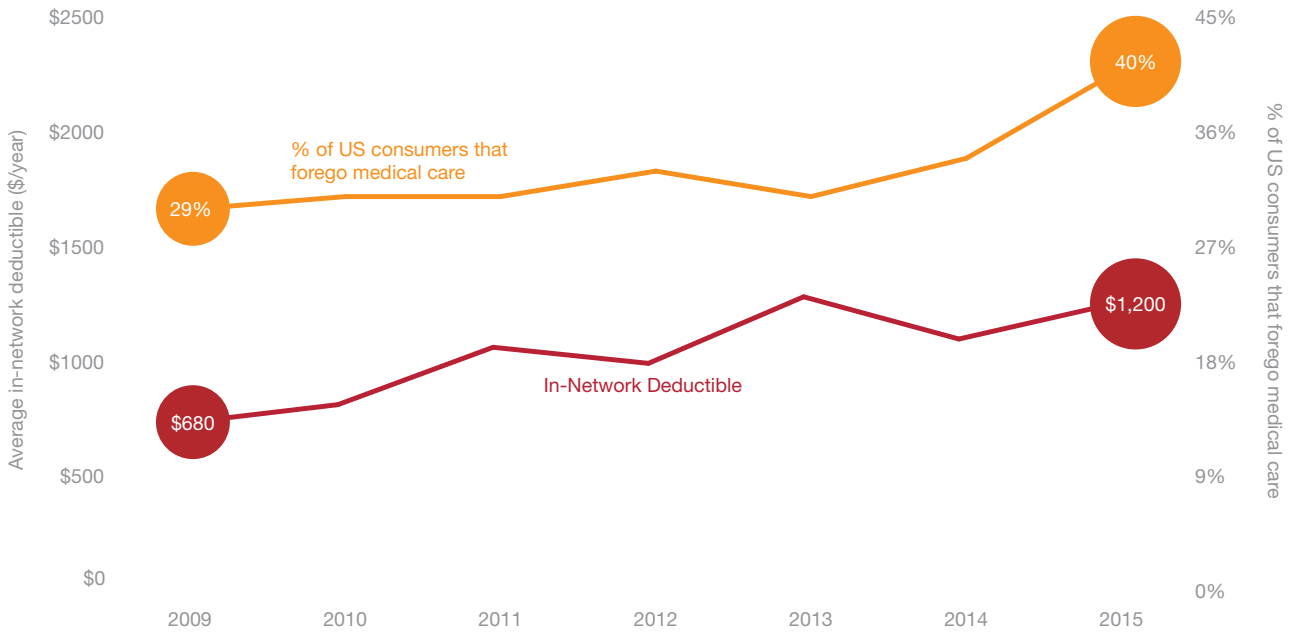
Over the last decade, employers have relied increasingly on cost-sharing to manage use of medical services and the resulting costs. Employers offering high-deductible health plans grew almost 300% since 2009 when HRI began tracking employer health plan design through the PwC Health and Well-being Touchstone surveys of major US companies.[4] Over the same time period, average in-network deductibles and out-of-network deductibles increased by roughly $500 and $1000, respectively.[5]

When consumers pay more for their care, they think twice about which provider to choose or whether another set of tests is really necessary (see Figure 2). Although this may screen out unnecessary use, the consumer cost factor may also inhibit valuable medical attention including early diagnoses and chronic care management. A worsening health condition is ultimately far more costly for everyone.

Rather than foregoing needed care, employers and health plans are now creating tools to help consumers make informed choices (see deflator #3: New health advisers guide the way to better value care).

Employers offering high-deductible health plans grew almost 300% since 2009.

Figure 2: As cost-sharing increases, consumers forego care
Average employer insurance deductible vs. percentage of consumers foregoing care



Source: PwC 2015 Health and Well-being Touchstone survey, Gallup Poll, and PwC HRI consumer surveys[6]

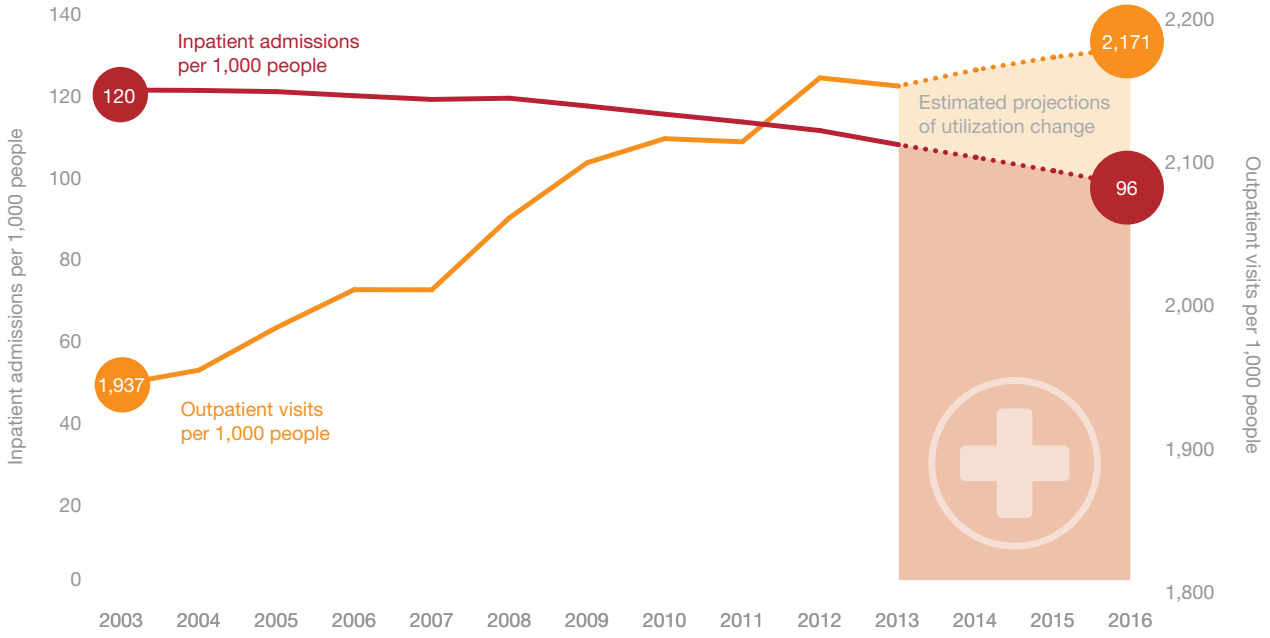
Curtailing inpatient care lowers costs

Hospital costs contribute over one-third of total health spending for the privately insured.[7] In response, more care has shifted to less expensive ambulatory centers, retail health clinics and physician offices. Since 2003, the number of outpatient visits has increased 12% while inpatient care has decreased by nearly 20% (see Figure 3).

"For the first time in 16 years, we've seen a decrease in hospital prices," explained Charles Roehrig, director of Altarum's Center for Sustainable Health Spending. "While Medicare and commercial insurance payment policies are clearly important here, this could also be a sign that changes in patient delivery models are indeed impacting costs."

Since 2003, the number of outpatient visits has increased 12% while inpatient care has decreased by nearly 20%.

Figure 3: Inpatient care volume on a rapid decline
Changes in hospital inpatient and outpatient utilization



Source: American Hospital Association 2013 data and HRI analysis[8]

The Affordable Care Act has had minimal direct effect on employer health costs

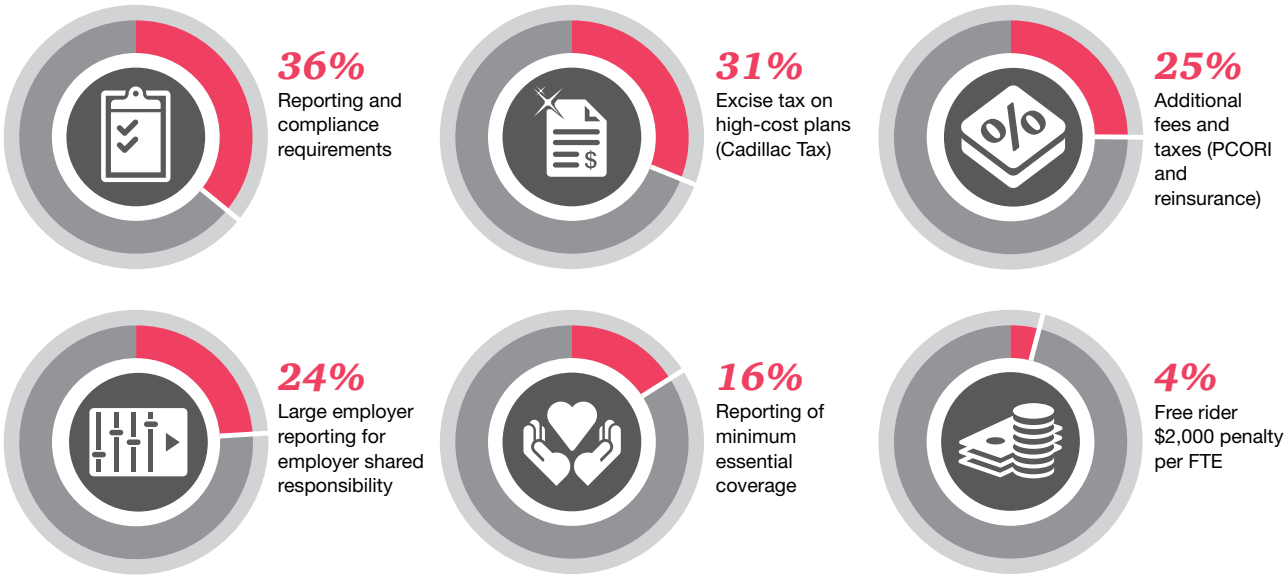
Since its passage in 2010, the ACA has not had major direct impacts on spending in the employer-based insurance market. Only 4% of employers saw a significant impact from the $2,000 penalty imposed under the law's employer mandate. Most of the issues, where employers saw some impact, were reporting requirements. But even reporting requirements did not have a significant impact on the majority of employers according to the PwC 2015 Health and Well-being Touchstone survey of large employers (see Figure 4).

However, the pending Cadillac tax on high-cost plans has firms worried and taking anticipatory steps (see deflator # 1: As the Cadillac tax looms, employers accelerate cost shifts), with 64% of employers expecting it to have an impact on their company.[9]

Employers are taking steps to mitigate any potential cost, including scaling-back benefits by raising deductibles, co-payments and co-insurance, moving to high-performance networks, and changing to high-deductible health plans.

After witnessing a decade shaped by large forces—the economy, technological advances, a new law—health spending in 2016 is noteworthy for an exception to that trend. Now almost all of the inflators and deflators hinge on individual consumers and how they respond to the emerging incentives and penalties employed by employers, purchasers and government.

Figure 4: Most employers indicate ACA is not a major cost driver
Percentage of US employers that responded that the following ACA components have had a significant financial effect on their business



Source: PwC 2015 Health and Well-being Touchstone survey[10]

Medical cost trend in 2016

PwC's Health Research Institute (HRI) projects 2016's medical cost trend to be 6.5%—slightly lower than the 6.8% projected for 2015 (see Figure 5). The net growth rate in 2016, after accounting for benefit design changes such as higher deductibles and narrow provider networks, is expected to be 4.5%. Benefit design changes typically hold down spending growth by shifting costs to consumers, who often choose less expensive healthcare options.

This projection is based on HRI's analysis of medical costs in the large employer insurance market, which covers about 150 million Americans. By comparison, Medicare serves 55 million beneficiaries and about 11 million Americans enrolled in the ACA's public exchanges.[11]

The slight downward shift in 2016 projections can be attributed to various underlying factors. With the Cadillac tax on the horizon, insurers and employers are under pressure to find cost-effective ways to lower health spending. Insurers will offer more risk-based contracts to providers, and companies will find more ways to share costs with their employees to mitigate this pressure.

Although costly specialty drugs have gone mainstream and a few additional blockbusters are slated to be released this year and next, insurers will be more prepared to price the cost into premiums. Unlike the unanticipated impact of the Hepatitis C drugs on costs, insurers are more closely tracking the drug development pipeline and the patient populations who will take them.

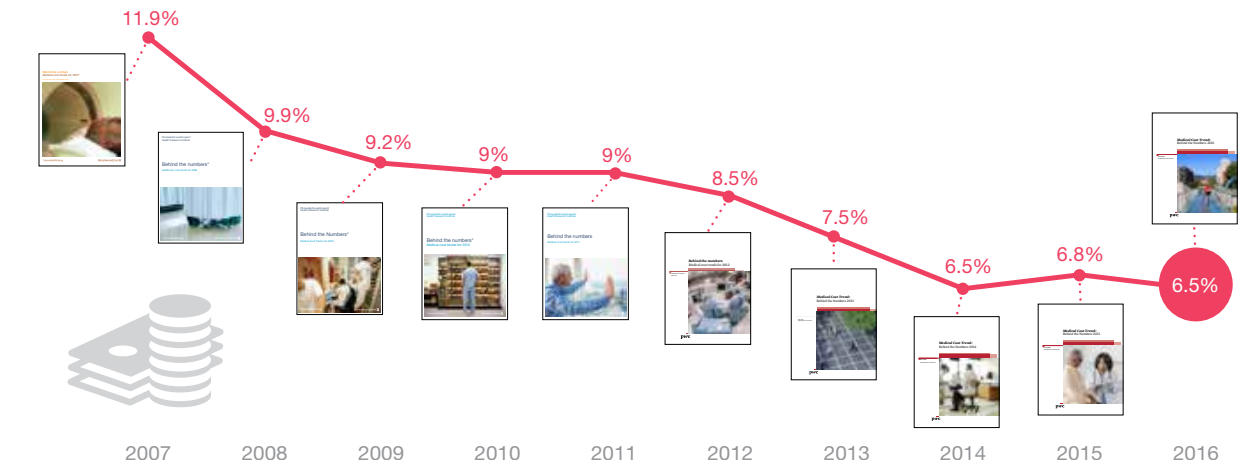
Additionally, as members continue to demand convenience and personalization in their healthcare—and price transparency—we will see the expansion of virtual care and new tools and technologies that cater to consumer needs. Consequently, these tools, such as primary care visits delivered by telehealth, will help healthcare organizations find cost-effective ways to provide care.

What is medical cost trend?

Medical cost trend, or the healthcare growth rate, is the percentage increase in the cost to treat patients from one year to the next. While it can be defined in several ways, this report estimates the projected increase in per capita costs of medical services that affect commercial insurers and large, self-insured businesses. The projection is used by insurance companies to calculate health plan premiums for the coming year. For example, a 10% cost trend means that a plan that costs $10,000 per employee this year will cost $11,000 next year. The growth rate is influenced primarily by:

- Changes in the price of medical products and services, known as unit cost inflation
- Changes in the number of services used, or per capita utilization increases

Figure 5: Healthcare spending growth rate for 2016 is 6.5%
HRI's projected medical cost trend over the years



Source: PwC Health Research Institute medical cost trends 2007–2016

Factors affecting 2016 spending growth rate

Employer cost-shifting, greater use of virtual care and new health adviser companies that guide consumers toward more cost-effective care will put downward pressure on the growth rate.

Deflator #1: As the Cadillac tax looms, employers accelerate cost-shifts

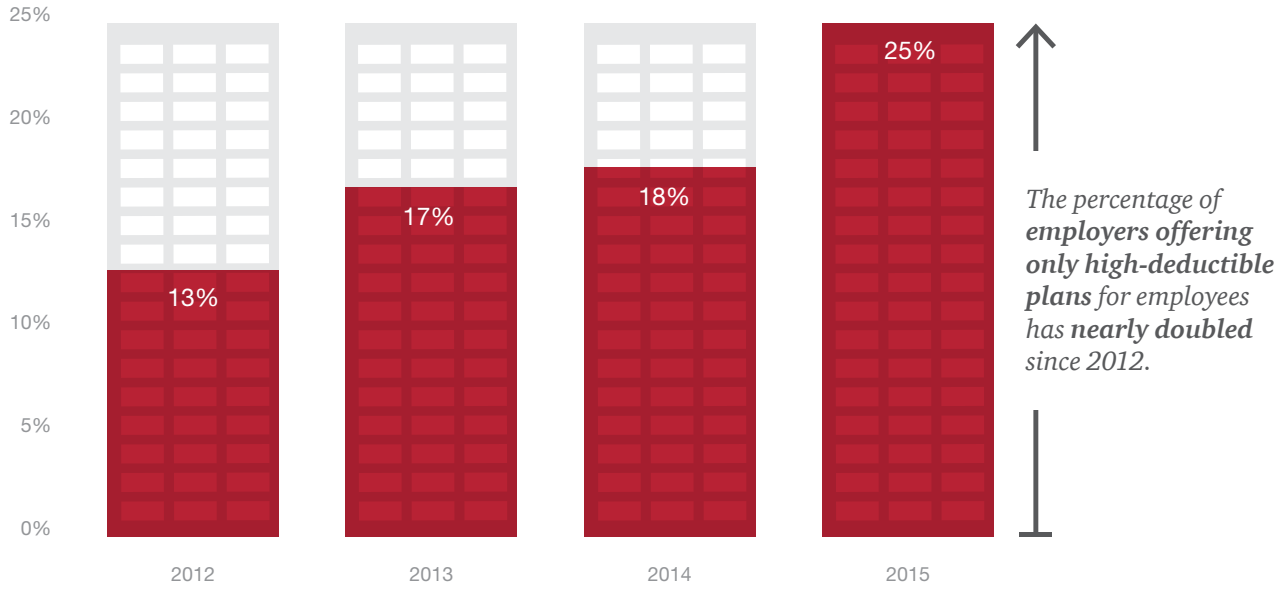
Beginning in 2018, the ACA's "Cadillac tax" imposes stiff penalties on employers that offer high-cost insurance plans.[12] The intent of the law is to encourage companies to choose lower-cost health plans and put pressure on insurers to sell lower-priced plans.

The Cadillac tax is the third largest single source of funding in the ACA with roughly $87 billion in anticipated revenue from 2016 through 2025.[13] Many businesses would rather scale back their health plans than pay the tax. More than 60% of large US companies in PwC's 2015 Health and Well-being Touchstone survey expect the tax to have an impact on their company.[14] However, slowing healthcare growth also reduces the number of employers subject to the tax, so current employer efforts to adjust for the tax may be premature.

"The Cadillac tax is pushing more employers to enact higher cost-sharing," said Mark Pauly, professor of Health Care Management at Wharton School of the University of Pennsylvania.

More than 85% of employers in PwC's 2015 Health and Well-being Touchstone survey have implemented, or are considering, greater employee cost-sharing. And, 25% of employers have already implemented high deductible health plans as the only

Figure 6: Employers offering only high-deductible plans
Percentage of US employers that have already implemented high-deductible plans as the only option offered to their members



Source: PwC 2015 Health and Well-being Touchstone survey[16]

benefit option to their employees, a 40% increase over 2014 (see Figure 6).[15]

Even before the ACA, companies steadily increased cost-sharing as a way to save money and engage consumers in their own care (see Figure 7). Thirty-eight percent of consumers surveyed in early 2015 sought alternative options or appealed insurance decisions based on prices for care (see Figure 8).

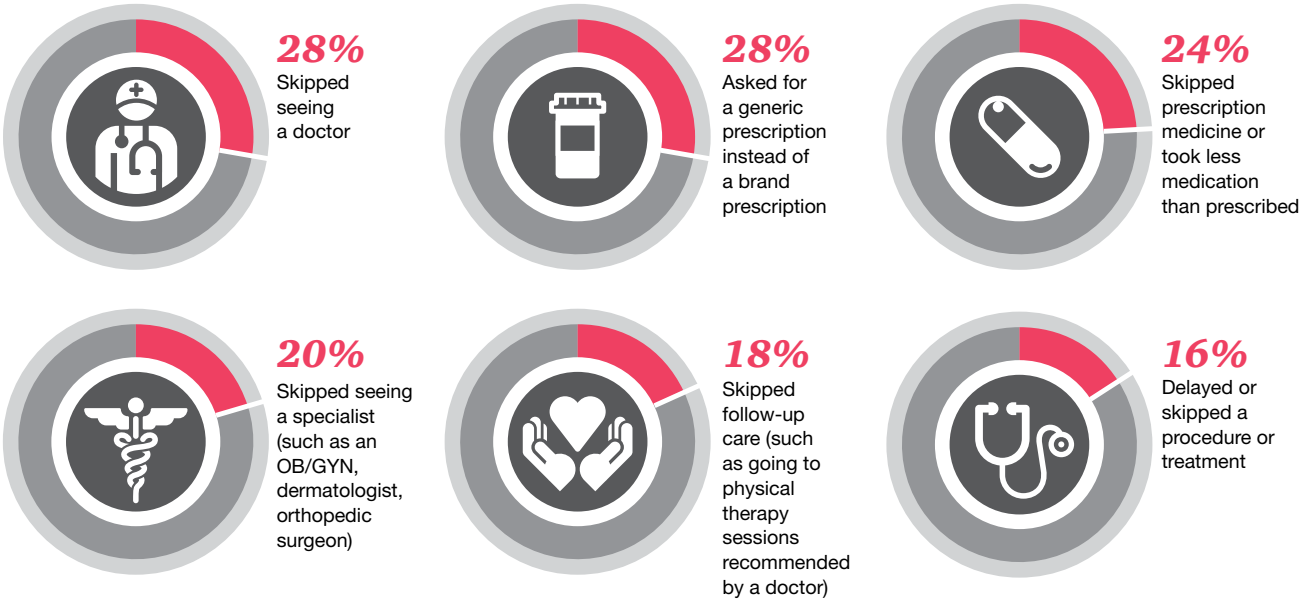
A recent Cigna study found medical costs in high deductible plans were 12% lower than in other types of health plans as consumers are using health improvement programs, complying with recommended treatments and lowering their overall health risks.[17]

As cost-shifting pushes consumers to become more conscientious about their healthcare choices, even foregoing unnecessary care or seeking alternatives to costly inpatient facilities, providers too are thinking of creative ways to maintain business.

"My ideal vision is to have clinics geared towards cost-conscious Millennials," said Dr. Joanne Conroy, CEO of Lahey Hospital & Medical Center. "These clinics would serve as a one-stop shop to get all their service needs met in a cost-effective setting."

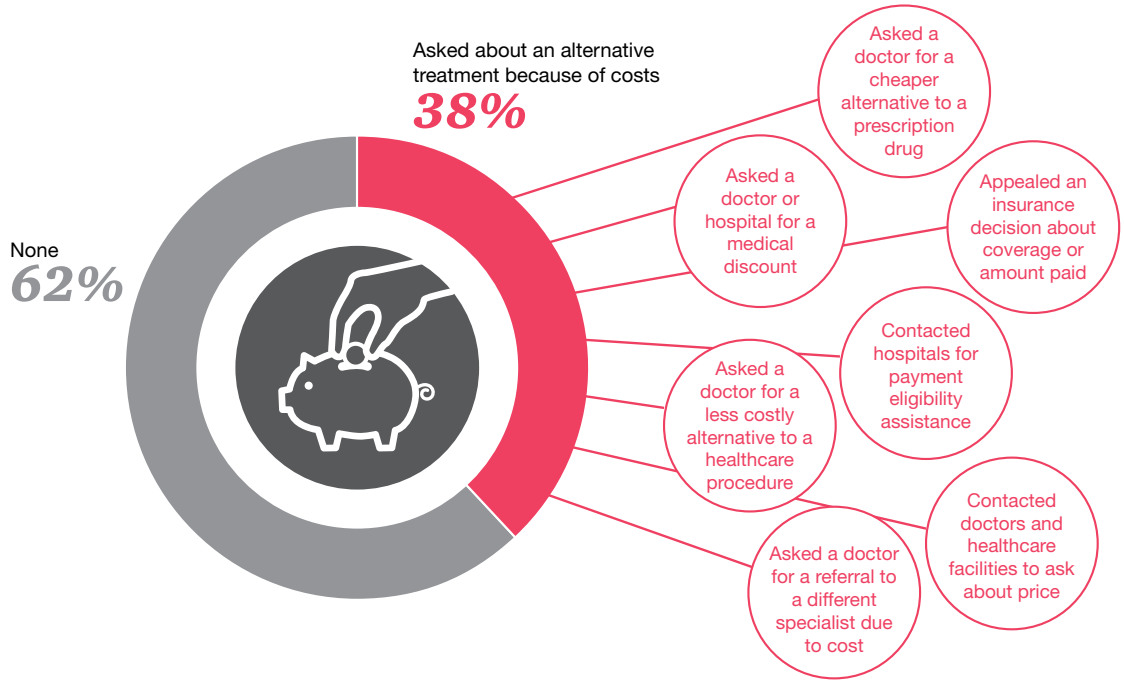
There is some concern that high cost-sharing may be a barrier to care. A recent analysis by the nonpartisan Kaiser Family Foundation found that many consumers with high cost-sharing plans cannot afford to pay for care. Of those families with private health insurance, only 49% of households have enough money on hand to meet the higher out-of-pocket limit.[20]

Figure 7: Cost-shifting pushes consumers to become more conscientious about their healthcare choices
Percentage of consumers with employer-based insurance who took the following actions in the last 12 months due to cost of care



Source: PwC Health Research Institute 2015 consumer survey[18]

Figure 8: Consumers with employer-based insurance are seeking more affordable options



Source: PwC Health Research Institute 2015 consumer survey[19]

Things to consider:

- *Encourage cost-sharing prudently.* Because foregoing care at the expense of becoming chronically ill is costlier in the long run, help educate consumers about wise medical choices. Insurers and employers should promote health benefits that avoid wasteful spending but allow consumers who truly need care to seek timely treatment—such as minimal barriers for preventive and wellness services.
- *Utilize data and analytics in two-way conversations.* As health insurers and providers move away from fee-for-service payments toward risk-based contracts based on quality and performance metrics, insurers should share patient-level reporting and dashboards with providers to identify cost-cutting strategies and specific areas for quality improvement.

Deflator #2: Virtual care expands, with great promise for cost savings

Close to a million people now receive care through remote monitoring, which is projected to save billions of dollars across the healthcare system over the next two decades.[21] Although the industry is no stranger to remote monitoring, the trend will expand significantly in 2016.

Part of the reason is the government's embrace of more virtual care through a series of regulatory and financial actions. For example, Congress designated $26 million in funding for telemedicine programs across rural communities, while the administration has added several Medicare payment codes for telemedicine.[22] Additional barriers to providing virtual care and telehealth across state lines are expected to fall, as seven states joined an interstate compact on licensure which was recently approved by the Federation of State Medical Boards.[23]

"There are 24 states that now mandate that private payers pay for telemedicine," explained Jonathan Linkous, CEO of the American Telemedicine Association, "and this year alone there are 100 bills introduced into the state legislature mandating private payer support or expanding Medicaid coverage of telehealth." While some states such as

Texas are trying to limit the practice of telehealth, the majority of states are looking to expand virtual care.[24]

The private sector is also stepping in. According to a National Business Group on Health employer survey, 48% of employers will make telehealth services available to employees in 2015. Large integrated healthcare systems, such as Kaiser Permanente, use videoconferencing to treat behavioral health issues.[26]

"Virtual consults allow for much more efficient use of our resources while delivering quality care in a more convenient and comfortable environment for patients," Dr. Joseph Kvedar, vice president at Partners Healthcare, told HRI. "We have started a pilot telehealth program, in which we are able to conduct six or more virtual patient visits in an hour, while in the office we can do five patients per hour if we are really efficient."

"The American Telemedicine Association estimates 800,000 primary care consults will be done remotely in 2015," said Linkous. "We expect consumers will drive its expansion broadly in 2016."

As doctors and hospitals become more mindful of avoiding government penalties related to quality metrics and readmissions, they are turning to virtual care as a cost-effective and efficient way to improve follow-up care. One area with great promise for cost savings is diabetes management (see Figure 9).

Consumers value convenience and cost savings, and virtual care saves them time and money. For example, according to a 2014 HRI study, 64% of the respondents were open to trying new, non-traditional ways of seeking medical attention or treatment if the price was right.[28] As more insurers, providers and employers offer virtual options, the expected savings will help slow the overall spending growth rate in 2016 and beyond.

Things to consider:

- *Offer virtual care as an ER alternative.* Focus on monitoring patients with chronic and complex conditions and keeping them out of the emergency room—examples include follow-up visits after procedures, monitoring asthma and encouraging diabetics to embrace healthier behaviors. Retail health and outpatient clinics can also use virtual care to improve primary care access.
- *Promote the use of virtual care through member outreach and incentives.* Members are often unaware of the telehealth treatment options available and this can be solved through more frequent communications, open-house

Figure 9: Diabetes management shows greater savings with the use of virtual care
Illustrative comparison of annual diabetes costs for in-person treatment vs. virtual care in US

	Base Case (No Virtual)		Virtual Care		Change
	Utilization per 100,000 individuals	Costs per 100,000 individuals ($ Millions)	Utilization per 100,000 individuals	Costs per 100,000 individuals ($ Millions)	Percentage
Hospital inpatient days	193,011	$622 M	173,710	$560 M	-10%
Physician office visits	792,697	$158 M	673,792	$134 M	-15%
Virtual visits	–	–	294,035	$15 M	–
ER visits	69,256	$71 M	62,330	$64 M	-10%
Hospital outpatient visits	79,160	$57 M	75,584	$54 M	-5%
Total		**$908 M**		**$827 M**	**-9%**

Source: PwC Health Research Institute analysis[27]

information sessions and provision of patient satisfaction data and statistics to demonstrate the benefits of telehealth. Employers should consider tying financial incentives—such as waived copays and deductibles—for employees to make use of virtual care in place of in-person or emergency room visits for routine procedures.

- *Consider alternative business models and partners.* Health systems and insurers should consider partnering with tech-smart companies. Delivering telemedicine visits requires a different type of network, clinical skillset and equipment.

Deflator #3: New health advisers guide the way to better value care

As the focus on quality and consumer costs has grown, so have the array of people to guide complicated choices. Since 2010, over 90 firms with little to no prior medical experience have become healthcare advisers.[29] These new health advisers are sometimes competing, but more often partnering with, health insurers, providers and employers, to help individuals navigate the complex terrain of the health ecosystem.

"Consumers are demanding more and more around price transparency" said Daniel Polsky, executive director of the Leonard Davis Institute of Health Economics at the University of Pennsylvania, "and many are surprised by how much money they are responsible for." According to a recent JAMA study, patients who knew the price of services before receiving them chose lower-priced options.[30]

Through these tools, members can find out where they stand in terms of how much they need to pay for a specific service, at a particular setting, how much of their deductible they have used and what remains, and if there are any cash rewards for a particular setting.

"Consumers are often only presented with one treatment option, but when you can actually empower them with good information and financial incentives, the outcomes are positive," Brian Marcotte, president of the National Business Group on Health, told HRI. "I see this as a significant opportunity to reduce employer health costs."

Fallon Health launched its SmartShopper tool in October 2014 to guide members to lower-cost facilities through financial incentives. Members can log in online, review various procedures and choose the level of reward based on the cost of provider. For example, an employee searching for a knee replacement may see five results with cash rewards ranging from $500 if they choose the cheapest option to no reward for a more expensive procedure.[31]

One specific procedure in which Fallon is trying to move members from office-based settings to home-based services is Remicade infusions, which are used to treat Crohn's disease, ulcerative colitis and rheumatoid arthritis. Members are awarded up to $500 per infusion conducted at home. Even though the plan pays the member $500, it still saves money by moving away from high-cost hospitals and physician offices (see Figure 10).

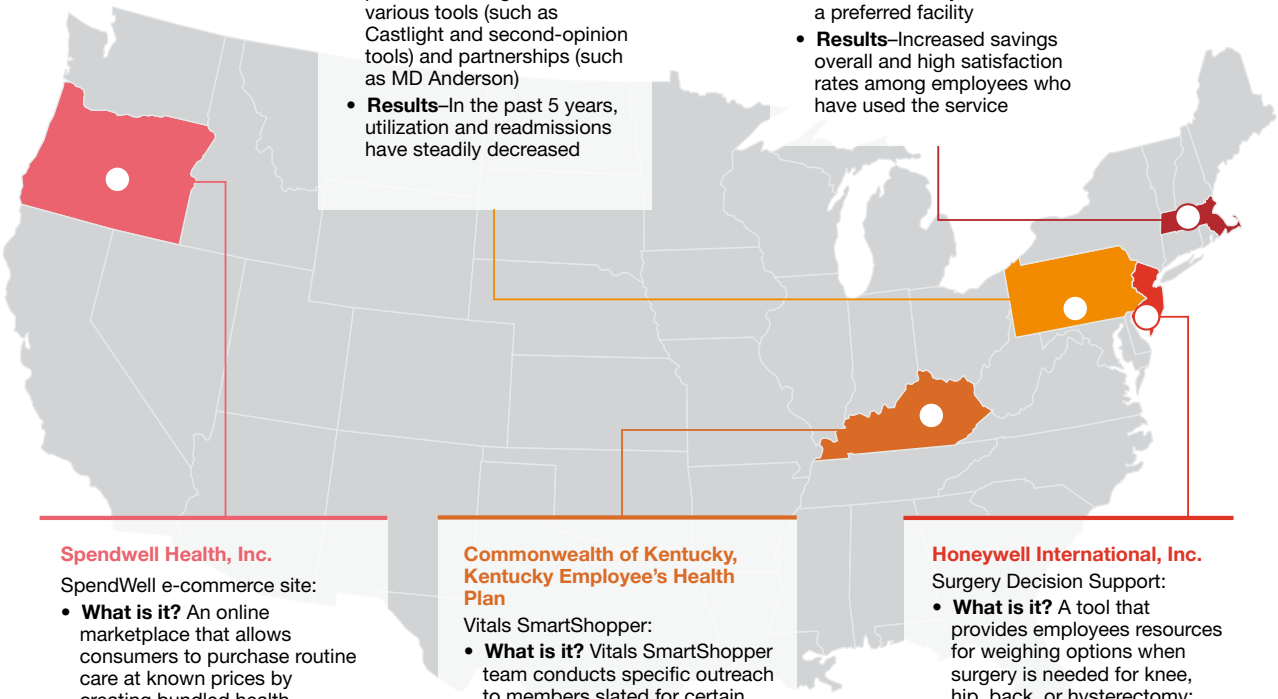
Even large employers such as the Commonwealth of Kentucky are using these new companies to guide employees through healthcare decisions.

"If you're going to demand that your employees be more accountable, literate and educated in their healthcare choices, then you have to provide them the tools to make informed and wise decisions. When consumers choose high-value, lower cost providers, they earn rewards for saving money for both themselves and their employer," said Joseph Cowles, Commissioner, Department of Employee Insurance, Commonwealth of Kentucky.

Things to consider:

- *Provide employees with meaningful results*. Members are hungry for data that means something to them. Unless they can be provided with personalized information, and some sort of tangible incentive, the effectiveness of programs such as wellness may fall flat.
- *Consider partnering with a health adviser company.* With so many new services and decision support tools already available and coming to market, insurers, employers, and providers should evaluate which ones best fit their needs and provide effective, cost-cutting solutions with high returns.

Figure 10: New health advisers are guiding consumers to affordable care



Comcast Corporation

Accolade:

- **What is it?** A high-touch concierge service that provides consultative support to 95% of employees who have claims
- **How does it work?** Very popular and highly utilized service that helps employees find the most cost-effective providers through the use of various tools (such as Castlight and second-opinion tools) and partnerships (such as MD Anderson)
- **Results**–In the past 5 years, utilization and readmissions have steadily decreased

Fallon Health

Fallon SmartShopper tool:

- **What is it?** A tool that ranks providers based on procedure codes and geography, and lists increasing financial incentives (for example, $50, $100, $125) for employees
- **How does it work?** Employees receive financial incentives towards a treatment if they choose a preferred facility
- **Results**–Increased savings overall and high satisfaction rates among employees who have used the service

Spendwell Health, Inc.

SpendWell e-commerce site:

- **What is it?** An online marketplace that allows consumers to purchase routine care at known prices by creating bundled health treatments and services that are easily priced by providers and consumed by shoppers
- **How does it work?** Providers select their services and prices and are no longer required to verify eligibility, benefits, or reconcile claims and remittances, and are paid in real-time, making the process a true e-commerce transaction
- **Results**–The marketplace simplifies health care purchasing which results in savings of 9-20% below health insurance negotiated fees

Commonwealth of Kentucky, Kentucky Employee's Health Plan

Vitals SmartShopper:

- **What is it?** Vitals SmartShopper team conducts specific outreach to members slated for certain procedures (such as MRIs, colonoscopies, ultrasounds) and offers alternative facilities
- **How does it work?** Both consumers and employers are offered savings for using alternative locations
- **Results**–Radiology outreach program had 85% success rate in ensuring employee chose preferred facility when outreach was conducted and they were offered alternative locations to conduct MRI

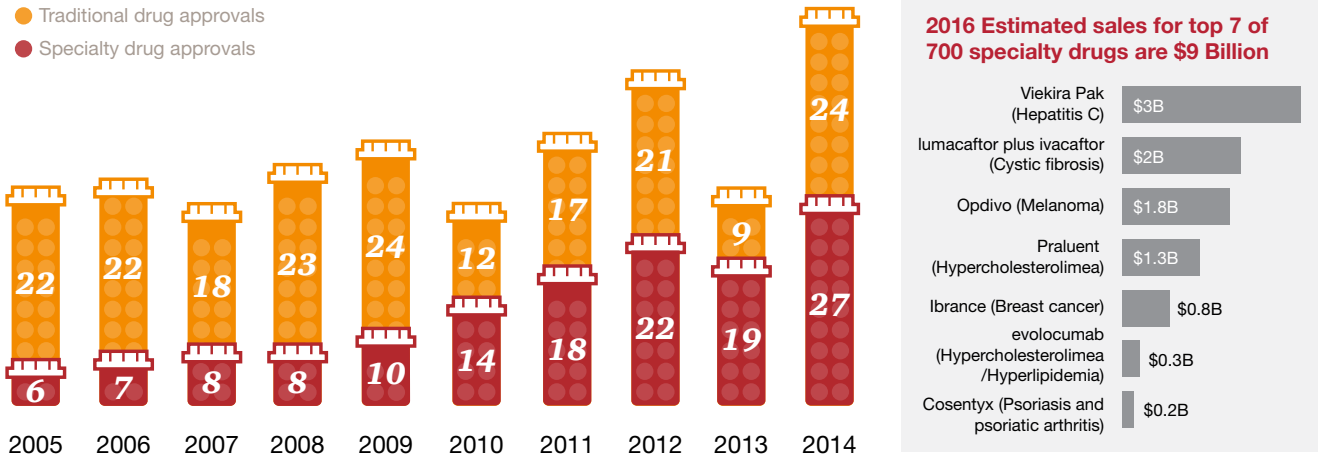
Honeywell International, Inc.

Surgery Decision Support:

- **What is it?** A tool that provides employees resources for weighing options when surgery is needed for knee, hip, back, or hysterectomy; bariatric surgery will also be added in 2015
- **How does it work?** $1000 penalty implemented for those who pursue surgery but do not go through the program
- **Results**–In 2013, employee participation jumped to 92% from an extremely low number the previous year

Source: PwC Health Research Institute research[32]

Figure 11: Specialty drug approvals continue to race ahead
Specialty drug approvals have surpassed traditional drugs in the past five years, and based on the FDA pipeline this trend will continue



Source: PwC Health Research Institute research based on data from the FDA, Express Scripts, Catamaran, and Thomson Reuters[33]

Other emerging trends tug in the opposite direction: Specialty drugs becoming a larger part of the drug pipeline and investments to strengthen cyber security will put upwards pressure on the healthcare spending growth rate in 2016.

Inflator #1: Specialty drugs go mainstream

2014 and 2015 were big years for Hepatitis C drug spending—contributing a half percentage point and one-fifth percentage point respectively to total employer medical cost increases, a remarkable impact by a single therapeutic class. Many expect Hepatitis C costs to fold into the base costs for health plans this year, but assume the drug pipeline contains other drugs with similar costs.

"Therefore," explained Dr. Arnold Milstein, professor of medicine and director of the Clinical Excellence Research Center at Stanford University, "the cost of specialty drugs is a continued source of concern." In fact, a new class of cholesterol drugs, called PCSK9 inhibitors, slated to be approved later this year, could cost the healthcare system upwards of $1.5 billion annually (see Figure 11). Because PCSK9s are maintenance drugs and will be used over the course of a patient's lifetime, they could eventually become one of the highest-selling classes of drugs in history, even dwarfing the initial costs of Hepatitis C treatments.[34]

After these cholesterol therapies hit the market, other specialty drugs will follow with treatments for cancer, rheumatic diseases and hematology. Even some generic drugs are fetching higher prices. The price of these therapies can have a major effect on year-over-year costs and impact overall medical inflation.

According to a recent Express Scripts report, total national prescription drug spending increased 13.1% last year to about $980 per person—the highest increase in a decade. The report attributes much of the increase to specialty medications that were estimated to contribute $310 of that per member cost.[35]

As we continue to see a rise in personalized medicine and targeted therapeutics, investments in specialty medications will continue to grow and surpass traditional drug investments: currently, 700 specialty products are in development.[36]

Things to consider:

- *Identify your target population.* Not all patients with high cholesterol should become candidates for PCSK9 inhibitor treatments. Employers should work with pharmacy benefit managers to apply clinical guidelines and incentives—such as tiered benefits—to direct expensive specialty treatments to the right patients at the right time.[37]
- *Leverage generic therapies*. Few generic options for high-priced specialty drugs currently exist. But less-costly alternatives should follow as more specialty drugs come on the market in the next few years. Although the associated savings with biosimilars and generic

specialty treatments may not be as large as traditional drugs, they are worth exploring for employers and insurers.[38]

- *Partner with drug makers on new financing mechanisms.* Employers and insurers should engage pharmaceutical companies in creative financing for high-cost specialty drugs. Debt financing, gain sharing, value-based payment and special discounts should be explored.

Inflator #2: Supersizing cyber security investments

Eighty-five percent of health organizations responding to PwC's Global State of Information Security Survey 2015 had experienced a data breach in the prior 12 months; 29% had experienced more than 50 (see Figure 12).

Health-information breaches are not just an unprotected laptop forgotten in the back of a cab; transnational cyber crime is spreading fast as a new and more potent threat. The most valuable data to steal are personal medical records that often contain personal, financial and insurance data. Stolen health records fetch even higher prices than credit card numbers—up to $251 per medical record compared to 33 cents for a credit card number.[39]

In the last seven months more than 90 healthcare providers experienced a breach.[41] Since health data is attractive to criminals, it is no surprise that health organizations have experienced a series of highly publicized data breaches resulting in multimillion dollar settlements with government and consumers, increased oversight and public mistrust.[42]

Over the course of 2016, health organizations anticipate greater investment in security, which will nudge up total healthcare spending. Eighty-eight percent of the health organizations responding said their security spending was either increasing or staying the same in the next 12 months, and 63% intend to spend more than $1 million (see Figure 12).

Now health systems are scrambling to beef up security, liability insurance and infrastructure. "Providers are acutely aware that they need to demonstrate they care about protecting their patients' information, and that they need to ramp up cyber security investments to avoid regulatory interventions and remain out of the negative spotlight," said the Healthcare Leadership Council's president, Mary Grealy.

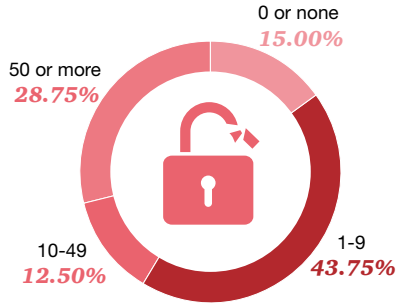
Protection becomes doubly important as consumers create new sources of health information data through their mobile devices and on-line activities. According to a recent HRI survey, consumers are becoming more comfortable with DIY medicine and sharing their data remotely—more than half said that they were willing to check vital signs at home with phone-enabled devices and 56% were willing to share health data with doctors via mobile or on-line applications.[43]

However, while consumers are eager to use technology to capture health data, privacy concerns trump online efficiency: 71% prioritized data security over convenience and access when it came to sharing medical tests and imaging results.[44]

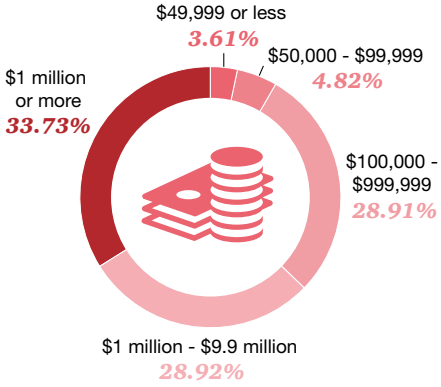
The costs associated with health system data breaches are varied, and providers are investing more now

Figure 12: Health organizations are concerned about data breaches

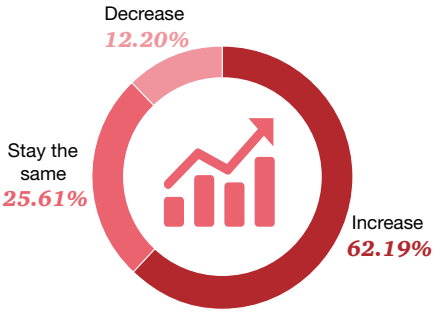
What is the number of security incidents detected in the past 12 months?



What is your organization's total information security budget for 2014?



When compared with last year, security spending over the next 12 months will?



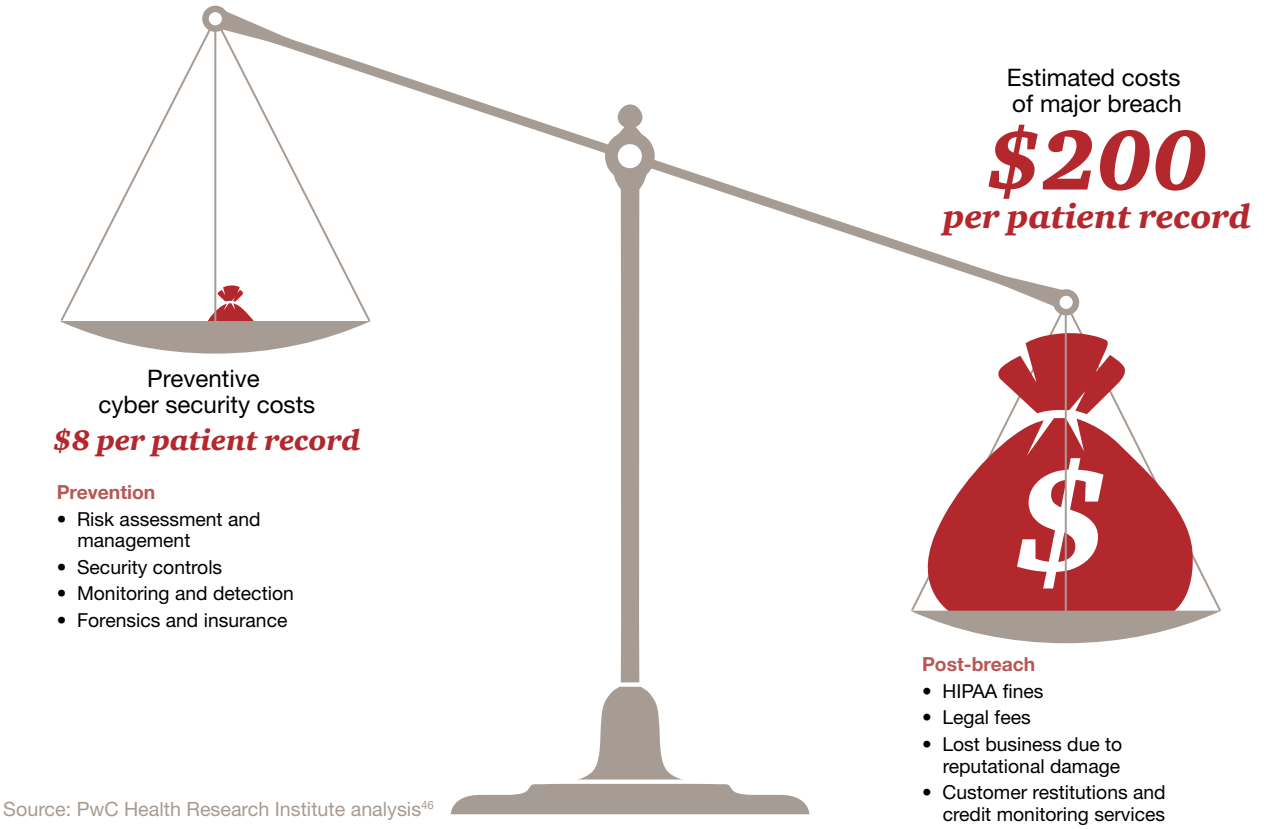
Source: PwC Global State of Information Security Survey 2015[40]

in prevention, such as training and awareness programs, to strengthen their cyber security infrastructures. Even heath systems purchasing cyber security insurance may be at risk. In some cases, courts have ruled that insurance issuers do not have to pay settlements to health companies without effective security controls in place.[45] Thus, providers are building identity and access management in a more controlled, centralized manner, and improving security settings through more standardized and automated processes. They realize that these investment costs still pale in comparison to much higher post-breach expenditures and brand damage (see Figure 13).

Things to consider:

- *Increase IT budgets for preventive cyber security measures.* As cyber attacks increase, both in number and sophistication, health organizations need to build stronger data-security and breach-prevention systems. If patients lose trust in providers' ability to keep their information safe, any efficiency gains from electronic or cloud-based records—such as patients sharing confidential data and personal metrics online or filling out forms in advance of appointments—may be lost.
- *Plan ahead for post-breach responses.* As post-breach reactions are equally important (if not more) as prevention of cyber attacks, providers should have crisis-management strategies in place in anticipation of data breaches. This includes having a plan to notify all affected parties and address regulatory impacts. Running simulations such as table-top exercises is a good way to test plans.
- *Involve vendors in cyber security.* Vendor risk management is an issue for health systems because many health information technology companies have full access rights to a hospital's IT system. Vendors need to share responsibility for security because they are opening up risk to the systems when they work on them and implement them.

Fig 13: Providers have strong incentives to spend now on cyber security to avoid high costs of future breaches



Source: PwC Health Research Institute analysis[46]

A look at: health spending over the next 10 years

With ongoing pressure from purchasers, and competition from non-traditional new entrants, the question for healthcare providers, insurers and life sciences companies is: Will that be enough over the next decade?

A look at health spending over the next 10 years

If we have learned anything from the past 10 years, it is about the role of the individual consumer in demanding value. As cost-sharing grows, consumers paying out-of-pocket will be on the front lines in the battle to control rising medical bills.

Predicting a continued slowdown is more guess work than economics. Gail Wilensky, PhD, economist and senior fellow at Project HOPE summed it up: "We have no idea at this point whether the slow medical cost growth is sustainable. In the 90s we had a flat period—history has shown that even a decade of slow spending doesn't necessarily give you a sustainable trend."

Although HRI projects a slight dip in healthcare cost growth for 2016, it may not continue without more structural change. HRI interviewed more than 10 nationally recognized economists about what the next 10 years may bring and several pointed to factors likely to put upward pressure on the spending trajectory.

"Not much is permanent when it comes to the downtick in medical cost trend. In fact, trend is quite vulnerable to having an uptick in the next few years due to drug trends, costly new technologies, and other unforeseen factors," said Paul Ginsburg, Norman Topping chair in medicine and public policy at the University of Southern California.

Similarly, Mark Pauly predicted the cost curve will rise again. "We are now seeing technological advancements—which have been flat in recent years—beginning to pick up. Also, the recession is over, and wages are increasing at a faster rate. Therefore, we can expect trend to rise as long as income growth returns to normal levels."

However, efforts by the industry, employers and most notably consumers, may serve as a powerful counterbalance. The quest for value and competition from new entrants continues to force innovation. Educated consumers, particularly Millennials and individuals facing high deductibles, will be far more cautious about unnecessary or overly expensive services.[47]

For the health industry, the mountain to climb becomes ever steeper as the simple reductions are made and the next wave requires cutting "closer to the bone." To continue bending the cost curve over the next decade the health system will need to consider:

1. Now is the time to make healthcare technology work

In most industries, new technology decreases cost. Consumer devices become smaller, more powerful and cheaper over time. Manufacturing equipment is faster, more accurate and lowers the unit cost of production. But even after 10 years of major investments in health technology, the results have largely failed to decrease the cost of health delivery.

The Health Information Technology for Economic and Clinical Health Act (HITECH Act) passed in 2009 has invested $29.1 billion to promote the widespread adoption of health information technology.[48] Health systems have spent millions—and even billions—in developing and building IT infrastructure. Yet savings have been largely elusive. The following three achievements need to be met to make technology work.

- ***Achieve an interoperable, agile health IT infrastructure***—Coordinate data collected across care settings so it can be integrated, analyzed and used to provide rapid feedback to consumers and doctors.
- ***Use data analytics to create strategic insights and actionable results***—Healthcare executives view data mining and analytics as having the highest strategic importance during the next five years.[49]
- ***Develop advanced decision support tools to inform patient care decisions***—These new tools will be adaptable to incorporate new information, such as scientific discoveries and clinical evidence to create actionable recommendations.

2. Patient engagement tools can make transparency initiatives successful

Over the past decade it has become the norm for private health plans to make price transparency tools available to consumers; however, a survey of health plans found that only 2% of employees used the tools.[50] The current challenge is to not just make a price tool available, but to create one with effective incentives.

- ***Develop frameworks that highlight and provide high value options***—Providing straightforward quality information and highlighted high-value options, helps consumers understand that higher cost does not equal higher quality.[51]
- ***Provide incentives to choose lower cost options***—Encourage consumers to use transparency tools to make informed decisions by offering real financial incentives.

3. Innovation may lead to more affordable care options

The delivery system is changing as consumers take on responsibility for healthcare decisions. Tools will be built to enable changes and revise roles in care delivery. Technology innovations will create more personalized treatment, and traditional exams will be replaced by more personalized care techniques, eliminating unnecessary care.

- ***Adoption of virtual care drives costs down***—Virtual care will become mainstream for consumers, insurers and employers—creating convenience for the consumer and savings for purchasers.
- ***Do-it-yourself healthcare will continue to grow***—The market for consumer health apps and do-it-yourself home diagnostics will continue to grow. Technology will provide convenient in-the-moment care that consumers demand.
- ***Use precision health medicine to reduce costs***—With a $215 million government commitment to fostering research for targeted therapies through the Personal Medicine Initiative, there will be continued public and private investment to target the right treatment at the right time to reduce inefficiency and waste.[52]

4. Health costs less when there is competition

Healthcare is now joining other industries in creating market competition that can ultimately lead to lower costs. With greater access to accurate information, consumers help create greater competition in the health sector.

- ***Rethink traditional mergers and acquisitions***—New types of collaborations such as joint ventures, affiliations and partnerships have quadrupled over the past 10 years with no signs of slowing.[53] Consolidation needs to create efficiencies instead of just market power so explore collaborations that align incentives and create new capabilities and options for consumers.
- ***Health services compete on consumer satisfaction and experience***—Medicare is already basing payments on patient satisfaction with The Hospital Consumer Assessment of Healthcare Providers and Systems scores. As the government sector deems this a critical factor, private plans and consumers will also demand higher consumer satisfaction.
- ***Competition in pharma and medical devices leads to lower costs***—When a competitor hits the market, even the price of blockbuster drugs drop. With the recent announcement of the first approved biosimilar, expect the FDA and other regulatory bodies to facilitate faster approvals creating greater competition.[54]

5. Chronic diseases can be managed with healthier lifestyles

The most common chronic diseases such as diabetes and heart disease are estimated to cost the US more than $1 trillion annually in direct costs and indirect impacts such as productivity losses.[55] Eighty-four percent of healthcare expenditures are attributed to people with chronic conditions.[56] Many of these are preventable or could be managed through behavior modification.

- ***Use predictive analytics to inform consumers and promote lifestyle changes***—By using advanced analytics to model how human behavior leads to disease and finding insights that predict upcoming health changes, we can develop ways to nudge individuals toward healthier lifestyles.
- ***Collaborate to promote healthy lifestyles in communities***—Organizations such as the Robert Wood Johnson Foundation are assisting communities to review vital health factors and provide tools on policy, programs and system changes to improve overall health. To move the population health needle, disparate organizations must approach prevention from a holistic manner.
- ***Tap into technology to promote behavior change***—With the rapid growth of wearable technology, there will be widespread adoption of trackers as providers and insurers embrace and incentivize consumers to use these "wearables" to identify risks before serious conditions emerge.[57]

The US economy continues to slowly recover from the worst economic crisis since the Great Depression. Real GDP has grown at an average rate of 2.2% since 2009.[58] More confident consumers are spending more, but not—apparently—on healthcare.

So far we have not seen a surge in medical services from people who delayed seeking care during the 2008 recession. Even adding millions of Americans to the insurance rolls has not flooded the system in a way that has shot up spending. Structural changes in the delivery of care may be counteracting increased demand.

Nevertheless, health spending continues to outpace the broader economy and the financial and health effects of greater cost-sharing are yet to be fully known. At some point, consumer income growth will need to surpass the pace of medical spending. Until then, there is considerable work to be done.

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About this research

Each year, PwC's Health Research Institute (HRI) projects the growth of private medical costs in the coming year and identifies the leading drivers of the trend. Insurance companies use medical cost trend to help set premiums by estimating what the same health plan this year will cost the following year. In turn, employers use the information to make adjustments in benefit plan design to help offset cost increases. The report identifies and explains what it refers to as "inflators" and "deflators" to describe why and how the healthcare spending growth rate is affected.

This forward-looking report is based on the best available information through May 2015. HRI conducted interviews in February, March and April 2015 with 17 health plan officials (whose companies cover more than 100 million people) about their estimates for 2016 and the factors driving those trends. Findings from PwC's 2015 Health and Well-Being Touchstone survey of more than 1,100 employers from 36 industries and, a national consumer survey of more than 1,000 US adults are also included. Additionally, HRI analyzed the findings of a survey of more than 20 health plans that are members of the Health Plan Alliance. HRI also interviewed industry executives, health policy experts, national economists, and examined government data sources, journal articles, and conference proceedings in determining the 2016 growth rate.

Behind the Numbers 2016 is our tenth report in this series.

About Health Research Institute

PwC's Health Research Institute (HRI) provides new intelligence, perspectives, and analysis on trends affecting all health related industries. The Health Research Institute helps executive decision makers navigate change through primary research and collaborative exchange. Our views are shaped by a network of professionals with executive and day-to-day experience in the health industry. HRI research is independent and not sponsored by businesses, government, or other institutions.

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Pension Investment Discovery - 2016 TY Electric Rate Case
Index

Docket No.	IR No.		Question	Addressed in 2016 TY Case
12-961	DOC	164	Subject: Employee Benefits **A.** Please provide a comprehensive list of all employee benefits (current and retirees) and compensation provided by the Company to its employees, including: • A brief description of each benefit, • Amount of each benefit included in the test year (including breakout between capital and expense) • Actual cost of each benefit for the years 2011-2014 (including breakout between capital and expense), • And amount included and approved in the last rate case for each employee benefit (including a breakout between capital and expense). B. Please provide both total company and MN jurisdictional, including support for allocations, for amounts for each employee benefit in a spreadsheet format.	Schedule 2
12-961	DOC	164	C. Please provide the full actuary studies for the FAS 106 – Retiree Benefits for the test year. Please indicate for each actuary study if it is the actual FAS 106 amount or an estimated amount and when actual will be available. Please including total company and Minnesota jurisdictional amounts, including an explanation for allocator used in determining Minnesota Jurisdictional amount. D. Please provide the assumptions included in the FAS 106 actuary studies (such as discount rates, smoothing period of gains and losses, etc.) including who provided the assumptions (such as Company via a board, the Company via selected index, the actuary, other sources).	Schedule 11
12-961	DOC	165	**A**. Please provide the total pension expense amount approved in Xcel's 2014 test year, show the individual amounts for NSP and XES, including breakout between capital and expense. Please provide the total company and Minnesota jurisdictional amounts, and explain allocators used in the calculation. **B.** Please provide the pension expense for the years 2011 to 2015 (actual through 2014 and estimated for 2015) for NSP and XES, including breakout between capital and expense. Please include total company and Minnesota jurisdictional amounts, and explain allocators used in the calculation.	Schedule 2
12-961	DOC	165	**C**. Please provide the actuarial support for the actuarially calculated costs for the 2016 Test Year.	Schedule 11
12-961	DOC	165	**D.** Please provide the assumptions included in the Pension Benefits actuary studies (such as discount rates and smoothing period of gains and losses, etc.) including who prepared the assumptions (such as Company via board, Company via select index, actuary, and other sources).	Testimony, pages 36-51 (section VI)
12-961	DOC	165	**E**. Please provide the discount rates the Company used in calculating pension expense for 2015 (preliminary). **F.** Please provide the discount rates the Company used in calculating pension expense for 2016.	Testimony, pages 38-39
12-961	DOC	1117	Subject: Pension Benefits The Company made changes to its defined benefit plan in 2011 and 2012 eliminating eligibility for the 10% Pension Equity Plan. For these two changes please provide information to support that the two changes were reflected in the 2016 test year (i.e., expected cost savings is reflected in the test year), including costs savings for the two changes to the defined benefit plan.	Testimony, Table 9, page 64
12-961	DOC	1122	**D.** What risk profile does the Company assume for the pension EROA? Please explain your response.	Testimony, page 38
12-961	DOC	1122	**E.** What is the appropriate benchmark based on this risk profile for the pension EROA?	Tyson Testimony , page 26
12-961	DOC	1122	**G**. What is the average age of employees participating in the pension fund? Please provide supporting calculations.	Tyson Testimony , page 10
12-961	DOC	1122	**H.** Please provide the EROA used for pension expense for 2016.	Page 43
12-961	DOC	1122	**L.** Please provide all studies and support for the wage assumption used in pension expense.	Page 46-51
12-961	DOC	1122	**N.** What attrition factor did the Company use in determining pension expense. Please provide calculations and explain why this factor is reasonable.	Testimony, pages 49-50
12-961	DOC	1124	Subject: 401K amounts **A**. Please provide actual 401K amounts for 2010 to 2015 for the Company (NSPM and XES) on a total Company and Minnesota Jurisdictional basis. **B.** Please provide the 401K amounts for 2011, 2013 and 2014 test years for the Company (NSPM and XES) on a total Company and Minnesota Jurisdictional basis. **C.** Please provide the employee and employer percentage of contributions for all 401K plans for NSPM & XES for the years 20010 through 2015.	Schedule 2
12-961	DOC	1125	Subject: Pension Expense – Pension Contributions & Pension Asset Losses **A.** Please provide all calculations, assumptions and support for assumptions used in calculating the forecasted pension contributions.	Schedule 11
12-961	DOC	1125	**D**. The Company lists "Amortization of Unrecognized Gains and Losses – recognition of costs (or income) from experience that differs from the assumptions" as a component of Pension Cost. Please explain what differences in assumptions the Company assumes in this component of Pension Cost and the impact on pension costs as % and $ amounts. Please indicate if the 2008 pension asset loss and resulting five-year amortization is included in this component.	Schedule 3
12-961	DOC	1129	Subject: Active Health Care Costs A. Please breakout the $46 million in O&M active health care costs by category. Please include information on a total Company and Minnesota jurisdictional basis, including support for any allocators used. B. Please identify the amount of capital cost active health care costs included in the 2014 test year and breakout the capital costs by same categories in (A) above. Please include information on a total Company and Minnesota jurisdictional basis, including support for any allocators used. C. Please provide the O&M active health care costs for 2008 to 2012 actual, 2009 test year, 2011 test year and 2013 test year. Please include information on a total Company and Minnesota jurisdictional basis, including support for any allocators used. D. Please provide the capital active health care costs for 2008 to 2012 actual, 2009 test year, 2011 test year and 2013 test year. Please include information on a total Company and Minnesota jurisdictional basis, including support for any allocators used. E. Please provide the calculations to support the Company baseline for active health care costs of 2008 to 2011.	Schedule 2 & Schedule 16
13-868	MPUC	11	Subject: Earnings on prepaid pension asset. Please identify the amount of prepaid pension asset earnings included in the test-year revenue. Please identify the workpapers and respective detail line items in which the prepaid asset revenues are included.	Testimony, pages 79-92
13-868	DOC	1187	Subject: FAS 106 Retiree Medical Expense Assumptions Please provide all assumptions for FAS 106, including but not limited to the discount rate, expected return on asset (EROA) and medical trend/inflation factor, used to calculate 2012 and 2013 FAS 106 expense.	Schedule 11
13-868	DOC	1193	Subject: FAS 112 Post-Employment Benefits "For 2016-2018, we have assumed no further gains and losses" Please explain why it is reasonable for Xcel to assume no gains or losses in the test year related to FAS 112 expenses.	Testimony, pages 76-77
13-868	DOC	2107	Please explain what specifically the Company is using and how the Company is calculating the "difference in timing between cash flow and expense recognition" for the items on Table 15: a)Pension expense (short term); b)Pension expense; c)Post-employment benefits FAS 106 (short term); d)Retiree Medical FAS 106; and e)Post-employment benefits FAS 112.	Testimony, pages 79-92
13-868	DOC	2108	Reference Table 23 and Table 24 Please explain and show that the Company included these prepaid assets and unfunded accrued benefit liabilities (less accumulated deferred income taxes) in rate base in the past two rate cases (2014 test year & 2013 test year).	Testimony, pages 79-92
13-868	DOC	2135	A. Please break out the approved pension mitigation amount into two parts: 1) 2008 market loss amortization, and 2) XES pension cap of $6.1 million. B. If the Department recommended exclusion of the 2008 market loss for pension expense of approximately $12 million, what would be the impact on the pension mitigation amounts for 2014 test year pension expense?	Schedule 13
13-868	DOC	2137	Please explain why it is reasonable to include the prepaid assets and unfunded accrued benefits liabilities in rate base. What are these rate base amounts for, FAS 158, or something else?	Testimony , pages 79-92