

Direct Testimony and Schedules
George E. Tyson, II

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____(GET-1)

Pension Investments

November 2, 2015

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND OCCUPATION.

A. My name is George E. Tyson, II. I am currently the Senior Vice President of Corporate Development for Xcel Energy Services Inc. (XES), which provides services to Northern States Power Company – Minnesota (NSPM or the Company) and to the other operating companies of Xcel Energy Inc. (Xcel Energy). Prior to accepting this position in July 2015, I had served as Vice President and Treasurer of NSPM and Xcel Energy since May 2004.

Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

A. I have more than 20 years of experience in corporate finance. In my current role, I am responsible for new business development, including asset acquisitions and divestitures. In my prior position as Vice President and Treasurer, I was responsible for: corporate cash management; bank and capital markets financing; interest rate risk management; insurance; pension and nuclear decommissioning trust investments; and capital investment analysis. Exhibit___(GET-1), Schedule 1 summarizes my qualifications.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I provide testimony in response to the following parts of Order Point 11 of the Commission's May 8, 2015 Order in Docket No. E002/GR-13-868:

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.

1 (b) Provide testimony on its investment strategies and target asset
2 allocations for the qualified pension fund and the justifications
3 for those decisions, for the period from 2007 to the date of its
4 next filing.
5

6 Q. HOW IS YOUR TESTIMONY ORGANIZED?

7 A. In Section II, *Current Target Asset Allocation and Demographic Data*, I address
8 part (a) of Order Point 11 by providing our current target investment
9 allocations for 2015, the rationale for why those targets are reasonable, and the
10 requested demographic information for the pension plan participants. To
11 provide context for the discussion of target asset allocations, this section also
12 includes information on pension fund concepts and our overall objectives in
13 managing the pension fund.
14

15 In Section III, *Target Asset Allocations 2007-2015*, I address part (b) of Order
16 Point 11 by explaining our investment and risk management strategy for the
17 Xcel Energy Pension Plan (XEPP) and describe changes to our target asset
18 allocations over the period 2007 – 2015. This section includes a discussion of
19 the financial crisis that began to emerge during late 2007, culminating with a
20 near collapse of the global financial system in March 2009, and the aftermath
21 affecting U.S. and global financial markets and interest rates over this period.
22

23 In Section IV, *Pension Investment Returns*, I discuss the investment returns for
24 the XEPP portfolio from 2007 through 2014.
25

26 I note that Schedule 1 from my Rebuttal Testimony, which is referenced in
27 part (a) of Order Point 11, included the following information: (1) our 2014
28 target asset allocations; (2) our pension asset returns for 2013; and (3) 10-year
29 U.S. Treasury rates for the period January 2000 through June 2014. The

1 required updated information is provided in Exhibit____(GET-1), Schedule 2.
2 The required demographic information is provided in Exhibit____(GET-1),
3 Schedule 3, and additional asset return information for the period 2007 – 2014
4 is provided in Exhibit____(GET-1), Schedule 4. I discuss the information
5 provided in these schedules further in my testimony.

6
7 **II. CURRENT TARGET ASSET ALLOCATION**
8 **AND DEMOGRAPHIC DATA**
9

10 Q. WHAT INFORMATION DO YOU PROVIDE IN THIS SECTION?

11 A. To provide a basis for the discussion of target asset allocations, I discuss key
12 pension fund concepts and our overall objectives in managing our pension
13 fund. I then provide our 2015 target asset allocations and current
14 demographic data for the XEPP.

15
16 Q. WHAT IS THE CURRENT ASSET BALANCE IN THE XEPP?

17 A. As of December 31, 2014, the XEPP had an asset balance of approximately
18 \$1.6 billion.

19
20 Q. WHAT FACTORS AFFECT THE ASSET BALANCE OF A PENSION PLAN?

21 A. The asset balance of a pension plan changes over time due to three factors:
22 (1) asset returns, *i.e.*, market gains or losses on the investments in the pension
23 trust; (2) contributions to the pension plan by the Company; and (3) benefits
24 paid to retirees and their beneficiaries.

25
26 Q. WHAT FACTORS AFFECT THE LIABILITY OF A PENSION PLAN?

1 A. A pension plan's liability is affected by: (1) service cost, which is the present
2 value of pension benefits that employees will earn in the current year; (2)
3 interest costs, which are increases in value of benefits that plan participants
4 have earned in previous years; (3) actuarial gains or losses, factoring in, for
5 example, changes in the discount rate, wage assumptions, mortality rates, and
6 retirements; and (4) benefit payments to retirees and their beneficiaries.

7
8 Q. DOES THE COMPANY'S INVESTMENT STRATEGY CONSIDER BOTH THE ASSETS
9 AND LIABILITIES OF THE PENSION PLAN?

10 A. Yes. The Company's pension investment strategy is largely liability-driven. In
11 other words, the Company is not focused solely on asset returns, but instead
12 must maintain a portfolio that ensures the pension plan can satisfy its liabilities
13 and maintain its funded status without the necessity for large, unforeseen
14 contributions in any particular year.

15
16 Q. PLEASE EXPLAIN WHAT YOU MEAN BY "FUNDED STATUS."

17 A. Funded status compares a pension fund's asset balance to its liability. If a
18 plan's asset balance is larger than the liability, a plan is considered overfunded.
19 A pension plan is considered underfunded when its liability exceeds the value
20 of its assets.

21
22 Q. WHY DOES THE COMPANY FOCUS ON A LIABILITY-DRIVEN PENSION
23 INVESTMENT STRATEGY, AS OPPOSED TO FOCUSING SOLELY ON ASSET
24 RETURNS?

25 A. Unlike pure investment vehicles, whose sole purpose is to maximize returns,
26 pension plans are legally obligated to make benefit payments to former
27 employees and their beneficiaries. The Company must therefore consider not

1 only the asset returns, but also the change in the value of the liabilities and the
2 timing of benefits payments. Thus, the Company uses the assets in the trust
3 to seek returns, to control funded status volatility due to interest-rate
4 movements, which affect the liabilities, and to fund current benefit payments.

5
6 Q. ARE THERE LEGAL STANDARDS FOR PENSION PLAN INVESTMENT
7 MANAGEMENT?

8 A. Yes. The Employee Retirement Income Security Act of 1974 (ERISA), as
9 amended by the Pension Protection Act of 2006, governs management of
10 pension funds. ERISA, among other things, imposes a fiduciary duty on the
11 pension plan sponsor to take actions that are in the best interests of the
12 pension plan and its participants. ERISA states that in setting an investment
13 policy, a plan fiduciary is responsible for diversifying plan investments to
14 minimize the risk of large losses unless it is clearly not prudent to do so. The
15 plan fiduciary should consider whether the rate of return on the investment
16 mix is fair and commensurate with the prevailing rate, and whether it permits
17 sufficient liquidity based on the plan's obligations.

18
19 Q. IN ADDITION TO THESE LEGAL REQUIREMENTS, ARE THERE OTHER
20 CONSIDERATIONS IN MANAGING THE COMPANY'S PENSION FUND?

21 A. Yes. The Company is mindful that it is managing these funds for employees
22 and former employees who have provided service to the Company, some of
23 them over many years or their entire careers. We have a responsibility to
24 manage these funds prudently because plan participants depend on these
25 benefits that they worked to earn. We are also mindful that the costs of our
26 pension, and its funding requirements, are borne by our customers, and we
27 take this into consideration in managing the pension investments.

1
2 Q. WHAT TYPES OF RISK IS A PENSION PLAN GENERALLY EXPOSED TO?

3 A. The predominant sources of risk to a pension plan are:

- 4 (i) changes in interest rates, which cause the present value of the future
5 benefits owed to pension plan participants to change substantially,
6 and which can threaten the solvency, or funded status, of the pension
7 plan if the value of the investment portfolio declines too far relative to
8 the value of the pension liability;
9 (ii) weak economic growth and broad financial market volatility, which
10 can make it challenging for the principal value of the investment
11 portfolio to increase over time to provide ongoing funding for future
12 retirees; and
13 (iii) a lack of financial market liquidity and inadequate sources of current
14 cash flow, which can jeopardize monthly benefit payments to retirees.

15
16 Q. HOW ARE PENSION INVESTMENT PORTFOLIOS GENERALLY STRUCTURED TO
17 ADDRESS THESE RISKS?

18 A. There are four key objectives that a pension investment portfolio needs to
19 achieve throughout various financial market conditions in order to manage the
20 risks identified above. Specifically, a pension fund needs to:

- 21 (i) include sufficient liquid assets to fund monthly benefit payments to
22 retirees;
23 (ii) be well-diversified to withstand overall financial market volatility;
24 (iii) include assets whose value changes in the same direction that the
25 projected pension liability changes when interest rates change in order
26 to protect the pension plan against solvency (funded status) risk; and

(iv) include assets whose principal value increases with overall economic growth to achieve long-term sustainability of the pension plan.

The overall structure of a pension investment portfolio is designed to achieve these four objectives.

Q. HAS THE XEPP INVESTMENT PORTFOLIO ADDRESSED THESE RISKS OVER TIME?

A. Yes. The XEPP investment portfolio has consistently needed to address the risks and four key objectives that I have outlined above, and our overall strategy to address these risks has remained consistent over time. While we have worked with our pension investment advisors to refine our approach to addressing these risks and objectives, the fundamental issues have always been the same since the pension plan has been in existence. I discuss changes in our asset allocations over the period 2007 – 2015 in Section III below.

Q. WHAT DOES “TARGET ASSET ALLOCATION” MEAN?

A. A portfolio’s target asset allocation represents the asset classes included in the portfolio and the target weight assigned to each of those asset classes. Asset classes are groups of securities that exhibit similar characteristics, behave similarly in the marketplace, and are subject to the same laws and regulations. Three common asset classes are equities (stocks), fixed-income (bonds), and cash equivalents (money market instruments). These broad categories can be further delineated into more specialized categories such as U.S. stocks, non-U.S. stocks, high yield bonds, non-U.S. bonds, and many more.

1 Q. DO THE ACTUAL ASSET ALLOCATIONS ALWAYS MATCH THE TARGET ASSET
2 ALLOCATIONS?

3 A. No. Target asset allocations for a given year are typically determined at the
4 beginning of that year. However, changes to the targets may also occur during
5 the course of a year if market conditions change significantly and the
6 Company's Pension Trust Advisory Committee (PTAC) considers an
7 allocation change to be necessary. The goal is to maintain the actual
8 investments in a manner that is consistent with the target asset allocation
9 weights, but each asset class generally has a reasonable range around the target
10 weight within which the asset class weight can fluctuate. If the asset class
11 weight moves outside that range, the allocation weight is evaluated for
12 possible action.

13
14 Q. CAN YOU DESCRIBE HOW THE XEPP INVESTMENT PORTFOLIO IS GENERALLY
15 STRUCTURED?

16 A. Yes. The overall XEPP investment portfolio is organized into three primary
17 sub-portfolios:

18 (i) a Growth Portfolio, whose specific asset classes are intended to
19 achieve growth in principal value, primarily from broad-based U.S.
20 and international economic growth;

21 (ii) an Immunization Portfolio, whose specific asset classes are intended
22 to change in value in a manner similar to the projected pension
23 liability as interest rates change in order to protect the solvency, or
24 funded status, of the plan; and

25 (iii) a Liquidity Portfolio, whose specific assets are designed to provide
26 very stable cash reserve to fund monthly cash benefit payments.

27

1 Q. WHAT TYPE OF SECURITIES ARE INCLUDED IN THE GROWTH PORTFOLIO?

2 A. The Growth Portfolio includes publicly-traded U.S. and international equities;
3 so called "alternative investments," such as private equity, real estate,
4 commodities, and hedge fund investments; and intermediate-term fixed-
5 income securities such as investment grade, high-yield, and emerging market
6 bonds. These intermediate-term fixed-income securities are included in the
7 Growth Portfolio because they contribute favorable incremental return per
8 unit of risk to this portion of the portfolio and are generally not capable of
9 providing the protection against changes in long-term interest rates that is
10 required from the securities included in the Immunization Portfolio.

11
12 Q. WHAT TYPES OF SECURITIES ARE INCLUDED IN THE IMMUNIZATION
13 PORTFOLIO?

14 A. The Immunization Portfolio includes long-duration corporate bonds, U.S.
15 Treasury securities, and interest-rate swaps whose cash flows resemble the
16 projected benefit payments that will be paid out in the future to plan
17 participants. The values of these fixed-income securities in the investment
18 portfolio move in the same direction as the value of the pension liability when
19 interest rates change, thereby helping to stabilize the ratio of the total
20 portfolio asset value to the total pension liability value. This ratio is referred
21 to as the funded status of the pension plan and is a key metric for the overall
22 financial health of a pension plan.

23
24 Q. WHEN INTEREST-RATE SWAPS ARE INCLUDED IN THE IMMUNIZATION
25 PORTFOLIO, ARE THE VALUES OF THESE FINANCIAL INSTRUMENTS TYPICALLY
26 REPORTED IN THE SAME MANNER AS THE VALUE FOR PHYSICAL BONDS?

1 A. No. The values for physical bonds are reported in our trustee's reporting
2 system just like investments in publicly traded stocks, at the full notional value
3 of the investment. For interest-rate swaps, however, the mark-to-market value
4 of the gain or loss on the swap contract is reported. This value is significantly
5 different than the full "bond-equivalent notional value" of the financial
6 instrument. This distinction is important because our Immunization Portfolio
7 has included different compositions of physical bonds and interest-rate swaps
8 over time. In order to represent the total XEPP investment portfolio and the
9 correct target asset class percentages over time, it is necessary to convert the
10 target percentage of the Immunization Portfolio attributable to interest-rate
11 swaps to "bond-equivalent values" so that the portfolio changes can be seen
12 over time in a consistent manner. All target asset allocation percentages
13 presented in my testimony include this conversion.

14
15 Q. HOW ARE THE INVESTMENT ALLOCATIONS WITHIN THE GROWTH PORTFOLIO
16 DETERMINED?

17 A. After the allocation between the Growth Portfolio and the Immunization
18 Portfolio has been determined, the Company uses a portfolio optimization
19 model to determine the asset allocation for the Growth Portfolio having the
20 best risk-adjusted return based on forward-looking investment return
21 expectations, estimated standard deviations of asset class returns, and
22 correlations between different classes of assets. By constructing a diversified
23 portfolio with a good risk-adjusted expected return, the Company helps
24 mitigate volatility in asset returns that could result in large unexpected
25 contributions. The use of forward-looking return, risk, and correlation
26 expectations is consistent with industry best practices.

1 Q. WITH THAT BACKGROUND, PLEASE PROVIDE THE COMPANY'S CURRENT
2 TARGET ASSET ALLOCATION.

3 A. The Company's target asset allocations for year-end 2015 are shown in Figure
4 2 below. As shown, 66 percent of the target allocation is to the Growth
5 Portfolio, 32 percent of the target allocation is to the Immunization Portfolio,
6 and 2 percent of the target allocation is to the Liquidity Portfolio.

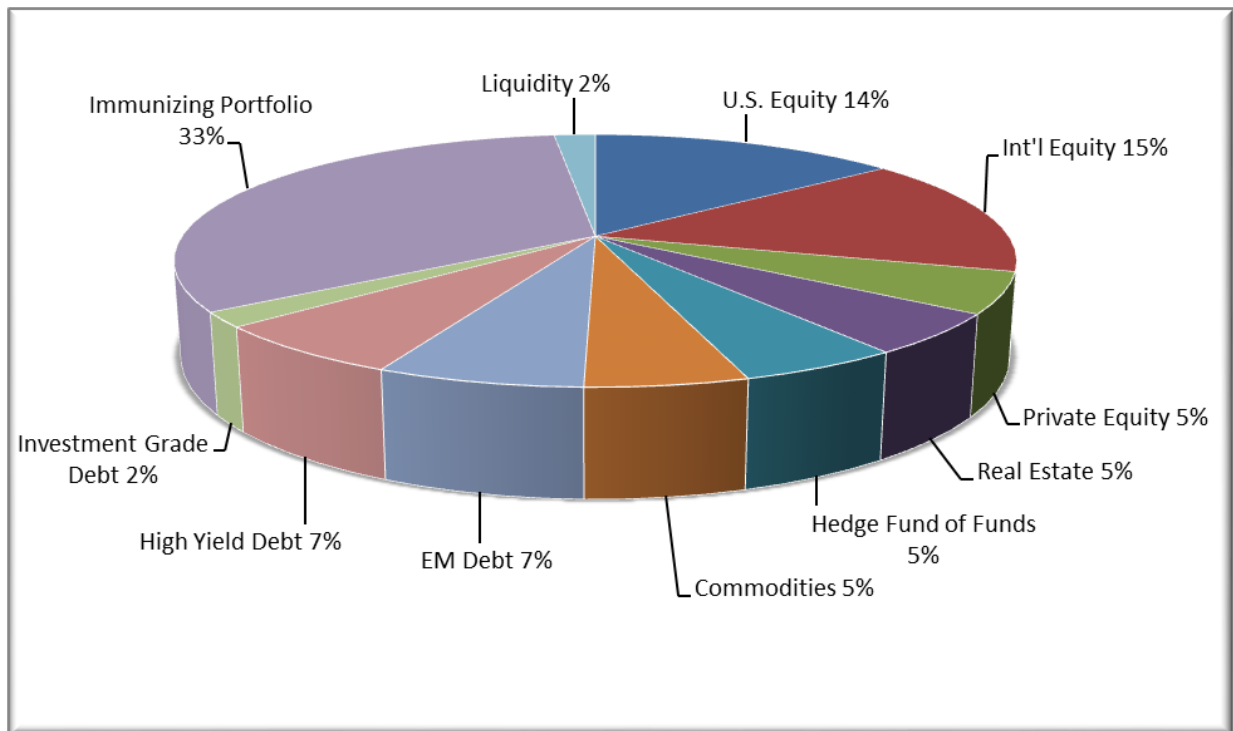
7
8 Q. HOW ARE THE INVESTMENT TARGETS FURTHER ALLOCATED AMONG THE
9 DIFFERENT ASSET CLASSES?

10 A. The target allocation includes 34 percent in equity securities, 19 percent in
11 alternative investments, 12 percent in non-hedging fixed income, 32 percent in
12 liability-hedging fixed income, and 2 percent in liquidity. The target allocation
13 for equity includes a diversified mix of large and small capitalization, U.S. and
14 international, and emerging market equities. The fixed-income allocation that
15 is not dedicated to hedging the liability includes an allocation to a "core"
16 strategy (a diversified mix of the entire market of U.S. fixed income), high
17 yield and emerging market debt. The liability-hedging fixed income includes 8
18 percent of the total portfolio in long-duration corporate bonds and 24 percent
19 in long government bonds and interest-rate swaps. The alternative investment
20 targets are split fairly evenly between private equity, real estate, hedge funds,
21 and commodities.

22
23 Q. PART (A) OF ORDER POINT 11 IN DOCKET NO. E002/GR-13-868 REQUIRES
24 THE COMPANY TO UPDATE EXHIBIT 31 (TYSON REBUTTAL), SCHEDULE 1,
25 FROM THE COMPANY'S LAST RATE CASE. WHAT IS CONTAINED WITHIN THAT
26 SCHEDULE 1?

1 A. Page 1 of Schedule 1 from my Rebuttal Testimony in Docket No. E002/GR-
2 13-868 is a pie chart showing the target asset allocations for the XEPP for
3 year-end 2014. Figure 1 below recreates that pie chart for 2014. As explained
4 above, for comparison purposes, Figure 1 shows percentages after conversion
5 of the target percentage of the Immunization Portfolio attributable to interest-
6 rate swaps to “bond-equivalent values.” This chart is also included as page 1
7 of Schedule 2 to my testimony.

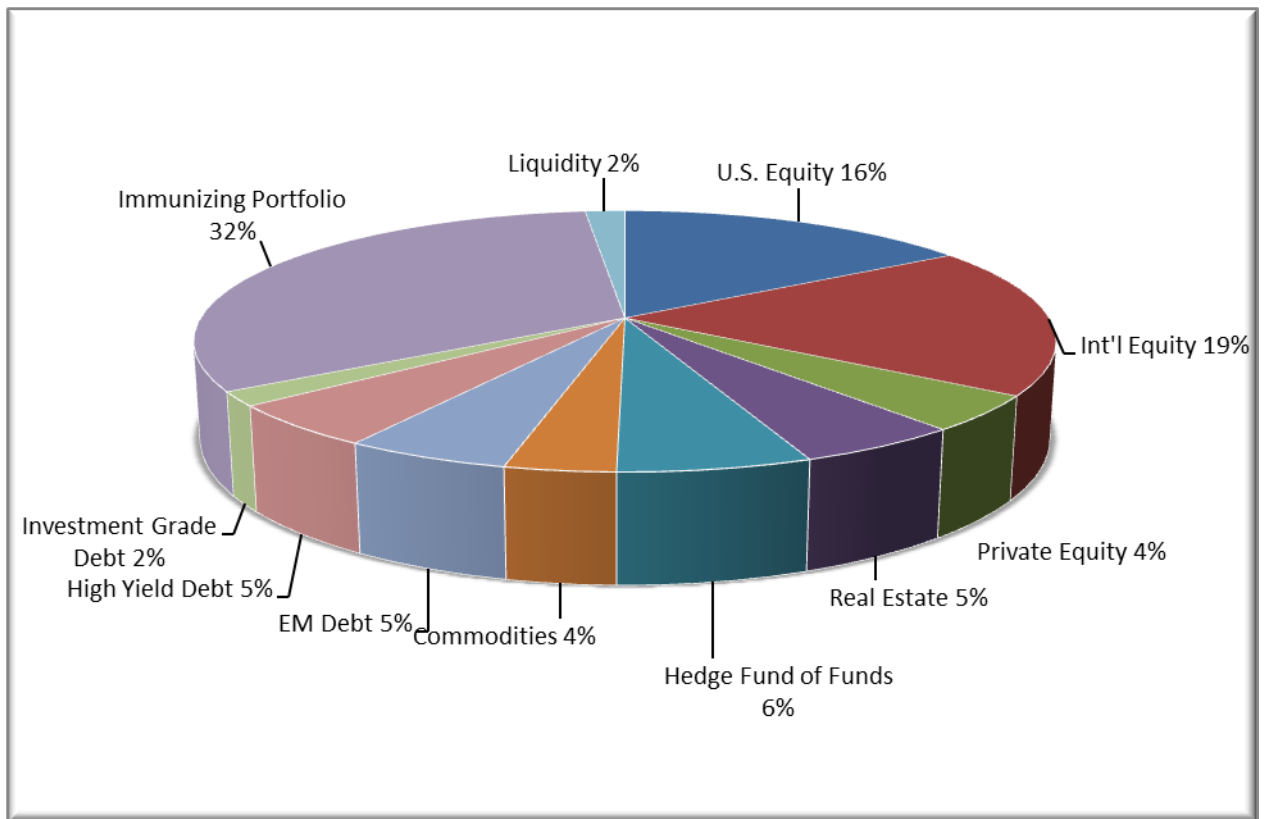
8
9 **Figure 1**
10 **2014 XEPP Targets**



24 Q. HAS THE COMPANY PREPARED A SIMILAR CHART FOR 2015, AS REQUIRED BY
25 ORDER POINT 11?

26 A. Yes. Figure 2 below shows the current 2015 target asset allocation for the
27 XEPP. This chart is also included as page 2 of Schedule 2 to my testimony.

Figure 2
2015 XEPP Targets



Q. PLEASE SUMMARIZE THE SIMILARITIES AND DIFFERENCES BETWEEN THE TARGET ASSET ALLOCATIONS FOR 2014 AND 2015.

A. The percentages of assets allocated to the Growth Portfolio and the Immunization Portfolio are almost identical for the two years. In addition, the allocation of assets within the Immunization Portfolio between the long-duration corporate bonds and the interest-rate swaps is very similar. Thus, the changes between the two years are confined primarily to the Growth Portfolio.

Within the Growth Portfolio, the percentage of assets allocated to equities increased by 5 percent, and the percentage of assets allocated to alternatives

1 and fixed income investments fell by an equivalent amount. The Company
2 made that change because, after a temporary rise in the latter half of 2013,
3 interest rates began falling again in 2014, which increased the value of the
4 fixed-income assets and made this relative reallocation a reasonable
5 adjustment from a risk/return perspective.

6
7 Q. ORDER POINT 11(A) FROM DOCKET NO. E002/GR-13-868 ALSO REQUIRES
8 THE COMPANY TO “[A]DDRESS WHY THE TARGET ASSET ALLOCATIONS FOR ITS
9 PENSION FUND ARE REASONABLE, INCLUDING AGES OF RETIREES AND
10 EMPLOYEES,” AND TO “PROVIDE AN UPDATE TO ITS EXISTING EXHIBIT 31
11 (TYSON REBUTTAL), SCHEDULE 1 AND EXPAND IT TO INCLUDE THIS
12 DEMOGRAPHIC INFORMATION.” ARE YOU PROVIDING THAT INFORMATION AS
13 WELL?

14 A. Yes. The required demographic information is provided as Exhibit____(GET-
15 1), Schedule 3.

16
17 Q. HOW MANY PARTICIPANTS ARE IN THE XEPP?

18 A. As of January 1, 2015, there were 12,331 total participants in the XEPP. That
19 total includes 6,916 active employees, 904 former employees with deferred
20 benefits, and 4,085 retirees currently receiving benefits.

21
22 Q. IS THE XEPP OPEN TO NEW EMPLOYEES?

23 A. Yes. As discussed in the testimony of Company witness Mr. Richard R.
24 Schrubbe, there are four benefit formulas within the XEPP, with each formula
25 providing a different level of benefit. These formulas are generally referred to
26 as “plans” and include the Traditional Plan, the Account Balance Plan, the
27 Pension Equity Plan (PEP), and the 5 Percent Cash Balance Plan. Since

1 January 1, 2012, the only plan open to new employees has been the 5 Percent
2 Cash Balance Plan.

3
4 Q. DOES A PLAN'S DEMOGRAPHIC CHARACTERISTICS INFLUENCE THE
5 ALLOCATION BETWEEN THE GROWTH PORTFOLIO AND THE IMMUNIZATION
6 PORTFOLIO?

7 A. Yes. Demographic data influences pension investment portfolios in two
8 primary ways. First, the data (in addition to plan provisions) is used to
9 construct estimates of the plan's expected cash flows across different
10 economic scenarios. Second, these cash flows are then used to calculate the
11 pension liabilities and measure the resulting interest-rate risk that results from
12 changes in the value of the liabilities as interest rates change. The
13 Immunization Portfolio is then constructed to offset a portion of this risk.
14 Currently, approximately 29 percent of the total variability in the pension
15 liability is offset by the Immunization Portfolio allocation to the total XEPP
16 investment portfolio. All else equal, plans that are less active would receive a
17 higher weighting to the Immunization Portfolio and a lower weighting to the
18 Growth Portfolio. If a plan is relatively more active, (that is, liabilities are
19 growing at a faster pace) then a larger weighting to the Growth Portfolio may
20 be prudent.

21
22 While the above describes how demographic data affects the target asset
23 allocations, I note that we do not make allocation decisions directly based on
24 specific demographic data; rather, the demographic data is already reflected in
25 the pension plan liability and the sensitivity of the liability to interest rates.
26

1 Q. DO YOU HAVE ANY GENERAL OBSERVATIONS ABOUT THE DEMOGRAPHIC
2 CHARACTERISTICS OF THE XEPP?

3 A. Yes. As shown on Schedule 3, as of January 1, 2015, the average age of the
4 6,916 active participants in the XEPP was 47, and the median age was 49. As
5 a comparison, according to the Bureau of Labor Statistics, the median age of
6 the entire U.S. workforce in 2014 was 42.¹ Because the Company's employees
7 are, on average, older than the general population, it is reasonable for the
8 Company to use a diversified asset allocation that reduces the risk of
9 significant losses of principal, thereby increasing the chance for a large
10 unexpected required contribution.

11 12 **III. TARGET ASSET ALLOCATIONS 2007 – 2015**

13
14 Q. WHAT INFORMATION DO YOU PROVIDE IN THIS SECTION?

15 A. In this section I present the XEPP target asset allocations from 2007 through
16 2015 and discuss the reasons for those allocation decisions. Prudence of an
17 investor's actions should be evaluated in light of what was known at the time,
18 rather than with the benefit of hindsight. Thus, I discuss our target asset
19 allocations in the context of what was occurring in the financial markets over
20 this period. Specifically, this includes the financial crisis that began to emerge
21 during late 2007, culminating with a near collapse of the global financial
22 system in March 2009. The U.S. economy then progressed through successive
23 periods of unprecedented Congressional and Federal Reserve actions to
24 stabilize the global financial markets, and finally to a period of re-emerging
25 economic growth that has still not been resilient enough to cause the Federal
26 Reserve to increase short-term interest rates from effectively a zero level. I

¹ <http://www.bls.gov/cps/cpsaat11b.pdf>

1 provide 10-year U.S. Treasury rates for the period January 2000 through the
2 present in Exhibit____(GET-1), Schedule 2, page 5.

3
4 Q. DO YOU HAVE ANY OTHER PREFATORY REMARKS BEFORE TURNING TO
5 SPECIFIC TARGET ASSET ALLOCATION DECISIONS?

6 A. Yes. It is also important to recognize that none of these investment allocation
7 decisions is made in isolation from the projected impact to the funded status
8 of the plan and future funding requirements. We make pension investment
9 decisions on a holistic basis after considering how the constituent parts of a
10 proposed portfolio work together to achieve our objectives. Stated simply, the
11 entire process is more complicated than a simple comparison of asset
12 allocations from one year to the next.

13
14 Q. PLEASE PROVIDE THE XEPP TARGET ASSET ALLOCATIONS FOR 2007 – 2015.

15 A. Table 1 below provides the XEPP target asset allocations for 2007 – 2015.
16 These asset class targets incorporate the “bond-equivalent adjustment” for the
17 interest-rate swaps that I described above. We believe it is appropriate to
18 show the asset allocations in this adjusted manner in order to be able to
19 compare the portfolio composition over a long period of time during which
20 different financial instruments have been used to manage the interest-rate risk
21 in the plan.

Table 1
XEPP Target Asset Allocations from 2007-2015
(in percentages)²

Asset Class	2007	2008	2009	2010	2011	2012	2013	2014	2015
Equities	48	34	26	23	27	23	27	29	34
U.S.	44	27	15	12	12	10	13	14	16
Int'l	4	7	11	12	14	13	14	15	19
Alternatives	16	15	20	22	21	22	19	21	19
Private Equity	2	4	7	6	6	5	5	5	4
Real Estate	6	5	7	6	6	5	5	5	5
Hedge Funds	0	0	7	5	6	5	5	5	6
Commodities	8	7	0	3	3	5	5	5	4
Fixed Income	16	16	20	20	12	10	14	15	12
EM Debt	0	0	3	3	3	3	6	7	5
High Yield Debt	0	0	3	3	3	3	6	7	5
Inv. Grade Debt	16	16	13	13	6	4	2	2	2
Growth Portfolio	79	65	65	65	59	55	60	66	66
Immunization Portfolio	21	35	30	28	38	44	38	33	32
LDFI	0	0	30	28	19	18	21	12	8
Instruments for Interest Rate Hedging	21	35	0	0	20	26	17	20	24
Liquidity	0	0	5	7	3	2	2	2	2
Total	100	100	100	100	100	100	100	100	100
EROA	8.75	8.75	8.50	8.0	8.0	7.5	7.25	7.25	7.25

Q. PLEASE DESCRIBE THE OVERALL XEPP INVESTMENT ALLOCATION AT THE END OF 2007.

A. At the end of 2007, the overall XEPP investment allocation included a Growth Portfolio allocation of 79 percent and an Immunization Portfolio allocation of 21 percent. In 2007, we did not have a specific Liquidity Portfolio reserve to fund benefit payments. Rather, we relied on interest income from the various fixed income instruments, dividend income from

² Due to rounding, the totals may not match the sum of the constituent parts.

1 equity investments, and periodic sales of fixed-income and equity securities to
2 generate the monthly cash flow required to fund monthly benefit payments.
3 The Growth Portfolio included a 44 percent weight in U.S. equities, with a 4
4 percent investment in international equities. Alternative investments in
5 private equity, real estate and commodities comprised 16 percent of the total
6 XEPP portfolio, and investment-grade fixed-income assets represented 16
7 percent of the total portfolio. At the end of 2007, the Immunization Portfolio
8 was allocated entirely to interest-rate swaps, which provided the requisite
9 portfolio protection against interest-rate volatility.

10
11 Q. AT THE END OF 2007, DID THE COMPANY HAVE A PENSION INVESTMENT
12 CONSULTANT WHO PROVIDED ADVICE ON THE PORTFOLIO ALLOCATION?

13 A. Yes. Starting in 2004, Watson Wyatt Investment Consulting (Watson Wyatt)
14 became the investment consultant to Xcel Energy's PTAC, which is an
15 internal Xcel Energy committee that is responsible for the oversight and
16 governance of Xcel Energy's pension fund. The PTAC, which has been in
17 existence since 1976, is composed of senior executives of Xcel Energy.
18 Watson Wyatt served as a co-fiduciary of the XEPP along with the PTAC.

19
20 Q. WHAT ARE THE RESPONSIBILITIES OF THE PTAC?

21 A. The PTAC is responsible for approving the investment decisions and other
22 actuarial assumptions related to our pension fund. The PTAC reviews the
23 asset allocations at least annually in the context of current and projected
24 financial market conditions, and it approves changes as required.

25
26 Q. WHAT CHANGES DID YOU MAKE TO THE XEPP INVESTMENT ALLOCATION
27 DURING 2008 AS THE FINANCIAL MARKET STRESS INCREASED?

1 A. In 2008 the PTAC agreed with the recommendation of Watson Wyatt to
2 reduce the target exposure to public equities given the increased volatility in
3 the equity market and to increase the amount of stabilizing protection coming
4 from the Immunization Portfolio. By that time, Bear Stearns had experienced
5 financial difficulties that would eventually result in its acquisition by
6 JPMorgan. The adjustment in the risk profile that occurred during 2008 can
7 be seen in the 14 percent reduction to the Growth Portfolio target, which
8 came primarily from a reduction in the U.S. equity allocation, and a
9 corresponding 14 percent increase in the Immunization Portfolio, which came
10 through the addition of interest-rate swaps during the year. At the end of
11 2008, substantially all of the interest-rate swaps were settled with our financial
12 counterparties to generate a significant gain for the total portfolio.

13
14 Q. WERE THESE CHANGES REASONABLE IN LIGHT OF THE FINANCIAL MARKET
15 CONDITIONS THAT EMERGED LATER IN 2008?

16 A. Yes. Several other major financial institutions began experiencing significant
17 financial stress, eventually resulting in default or acquisition for many of them,
18 including Lehman Brothers, Merrill Lynch, American International Group,
19 Fannie Mae, Freddie Mac, Countrywide Financial, Washington Mutual,
20 Wachovia, Bank of Ireland, Anglo Irish Bank, and many more. Equity
21 markets plummeted globally at the same time that liquidity shrank for almost
22 every bond market sector except U.S. Treasuries. Even some companies with
23 strong credit ratings were unable to issue commercial paper, even as the
24 Federal Reserve initiated programs to increase overall financial system
25 liquidity. Moreover, countries like Iceland, Ireland, and Greece teetered on
26 the edge of default or had major banking crises, while questions about the
27 financial solvency of several larger European nations (*e.g.*, Italy, Portugal, and

1 Spain) filled the financial headlines. Those events – and their aftermath –
2 fundamentally changed the financial landscape in ways that are still being felt
3 today.

4
5 Q. WHAT FACTORS DROVE THE DECISION TO CHANGE PENSION INVESTMENT
6 CONSULTANTS IN MARCH 2009?

7 A. As we entered 2009, the full impact of the financial crisis hit the financial
8 markets. Liquidity across all financial markets continued to dry up. From a
9 Treasury perspective, I implemented an emergency daily cash flow planning
10 and funding meeting during which our Treasury team carefully assessed the
11 next day's funding requirements, analyzed our ability to access the required
12 funding from the commercial paper market, and then provided updates on
13 potential bank funding requirements to our bank group. NSPM did eventually
14 lose all access to the commercial paper market and was entirely reliant on
15 back-stop bank funding for a period of time. We maintained this emergency
16 planning through the first quarter of 2009. In parallel, we re-evaluated our
17 needs with respect to a pension advisor given the global magnitude of the
18 financial crisis. We discussed our requirements with several firms and
19 determined that JPMorgan's Pension Advisory Group (JPMorgan) could
20 provide the most comprehensive set of resources, the best perspective on
21 global financial markets, the likely direction of global central banks and fiscal
22 policy, and the best structure to preserve the capital for our pension plans in
23 the midst of the global financial market instability. We engaged JPMorgan in
24 March 2009. This group included a team of very experienced financial
25 markets professionals and senior analytical personnel.

26
27 Q. WHAT OCCURRED AFTER YOU ENGAGED JPMORGAN IN MARCH 2009?

1 A. Like other pension plans, our portfolio included assets that had been affected
2 by the general lack of liquidity in the financial markets. We undertook a plan
3 to address this situation by accelerating our 2009 total cash contribution to the
4 pension plans, reallocating certain portfolio assets to improve liquidity, and
5 modifying our portfolio risk profile going forward to better manage the
6 continuing volatility in the capital markets.

7
8 Q. WHAT DID THE LONG-TERM STRATEGY INVOLVE?

9 A. In June 2009, JPMorgan recommended a target investment allocation for the
10 XEPP that was primarily focused on sustaining the plan's funded status
11 through a balanced approach to diversification within the investment
12 portfolio. We sought to achieve dual objectives of growth and protection
13 from sustained low interest rates, and a long-term, stabilized contribution
14 forecast. The combination of portfolio allocation and projected contributions
15 was considered the best overall approach to restoring the funded status of the
16 plan through a period of continued expected volatility in financial markets.

17
18 Q. WHAT DID THE TARGET ALLOCATIONS LOOK LIKE ON A GOING-FORWARD
19 BASIS?

20 A. We targeted an overall portfolio with 65 percent allocated to the Growth
21 Portfolio, 30 percent to the Immunization Portfolio, and 5 percent to the
22 Liquidity Portfolio. Allocation changes included the following:

- 23 (i) Because substantially all of the interest-rate swaps had been settled in
24 the Immunization Portfolio, and because the counterparty credit risk
25 in the banking sector was too high to enter into significant amounts
26 of new interest-rate swaps with those institutions, we decided to

1 invest the Immunization Portfolio primarily in long-duration
2 corporate bonds.

3 (ii) We agreed that because financial markets were broadly disrupted, it
4 was advantageous to diversify the remaining assets in the Growth
5 Portfolio across a broader range of investment classes than we had at
6 the end of 2008. This approach optimized the expected portfolio
7 return while diversifying the portfolio risk to create a favorable
8 forward-looking risk-adjusted return opportunity.

9 (iii) Given the extreme liquidity conditions that had been prevailing, we
10 agreed to create a dedicated Liquidity Portfolio to be invested in high-
11 quality money-market funds to reserve approximately two months of
12 benefit payments as a liquidity reserve.

13
14 Q. WHY DID THE COMPANY BELIEVE THIS STRATEGY AND TARGET ASSET
15 ALLOCATION WAS APPROPRIATE?

16 A. The recommended allocation supported our overall strategy objective to
17 stabilize the risk to the funded status of the plan by maintaining appropriate
18 exposure to a diversified growth portfolio of investments and an
19 Immunization Portfolio. This approach would present opportunities for the
20 investment value to increase, while simultaneously providing a reasonable level
21 of protection to the plan from continued downward pressure on long-term
22 interest rates through the allocation to the Immunization Portfolio. The
23 plan's funded status was effectively positioned to benefit from expected future
24 increases in long-term interest rates, which would cause improvements in the
25 funded status by reducing the value of the pension liability at a rate faster than
26 the expected decline in the value of the Immunization Portfolio. At the same
27 time, the portfolio maintained a diversified growth allocation.

1
2 Q. DID YOU ALSO DEVELOP A LONG-TERM CONTRIBUTION STRATEGY AS PART OF
3 THE PLAN?

4 A. Yes. The first objective was to avoid allowing the XEPP funded status to
5 decline below 80 percent because that is considered an at-risk funded status
6 under the Pension Protection Act, and benefit restrictions can be imposed at
7 levels below 80 percent. The second funding objective was to develop a long-
8 term, relatively level annual cash contribution schedule to avoid having to
9 make larger upfront contributions to the plan. For example, if the Company's
10 projections showed that \$100 million would be needed two years in the future,
11 we would attempt to fund this requirement at \$50 million per year for each of
12 the next two years, even if the full \$50 million was not required in the first
13 year.

14
15 Q. DID THE COMPANY RESTRICT ITS CONTRIBUTIONS TO THE MINIMUM FUNDING
16 LEVELS?

17 A. No. The Company made more than the minimum cash contributions that
18 would be required under the Pension Protection Act, as further revised by
19 recent pension relief actions, for the time period from 2010 – 2014. Those
20 contributions were made to preserve the plan's funded status relative to
21 Pension Protection Act thresholds, to avoid incurring incremental Pension
22 Benefit Guaranty Corporation (PBGC) premiums, to avoid at-risk status, and
23 to smooth the projected funding requirements over multiple years. By
24 normalizing our contributions to the plans, we have been able to develop a
25 stable, predictable financing strategy for the business as a whole. In addition,
26 Mr. Schrubbe discusses the benefits resulting from the avoidance of additional
27 PBGC premiums.

1
2 Q. IS IT REASONABLE FOR THE COMPANY TO CONTRIBUTE MORE THAN THE
3 MINIMUM AMOUNTS REQUIRED EACH YEAR BY THE PENSION PROTECTION
4 ACT?

5 A. Yes. We based our contribution strategy on the considerations described
6 above. In making contributions, we attempted to smooth the aggregate
7 contributions into annual contribution forecasts that are more equalized,
8 which is beneficial for both the Company and our customers.

9
10 Q. WHY ARE EQUALIZED CONTRIBUTIONS BENEFICIAL FOR BOTH THE COMPANY
11 AND ITS CUSTOMERS?

12 A. Equalized contributions are beneficial to both the Company and its customers
13 because the Company is able to plan for a more predictable level of cash
14 contributions that need to be considered along with the capital investments
15 that the Company is making in its electric and natural gas systems. To the
16 extent that contributions become very large and more volatile, the financial
17 risk for the Company's overall capital investment and financing plan increases,
18 which can result in increased costs to customers over the long term.

19
20 Q. HOW LONG DID IT TAKE TO IMPLEMENT THE CHANGES PLANNED DURING THE
21 SECOND QUARTER OF 2009?

22 A. These structural changes required a significant time commitment to
23 implement because we needed to engage new investment managers for certain
24 of these asset classes. Full execution of these changes was not complete until
25 mid-2010. In Table 1, the effect of the changes can be seen when comparing
26 the year-end 2008 targets to the year-end 2010 targets. At the end of 2010, the
27 Growth Portfolio represented 65 percent of the total XEPP investment

1 portfolio (no change from 2008), the Immunization Portfolio was at 28
2 percent (a decrease of 7 percent from 2008), and the Liquidity Portfolio was at
3 7 percent (an increase of 7 percent from 2008). Within the Growth Portfolio,
4 investments were reallocated from public equities toward alternative
5 investments and new categories of fixed income (high yield and emerging
6 market debt). The Immunization Portfolio was allocated to long-duration
7 corporate bonds.

8
9 Q. DID ANY OTHER COMPANIES ADOPT A STRATEGY SIMILAR TO NSPM'S
10 STRATEGY DURING THAT TIME?

11 A. Yes. Other companies across different business sectors also followed similar
12 risk management and liability-driven investment strategies as a result of
13 ongoing financial market volatility and accelerated funding provisions required
14 under the Pension Protection Act in the event that a plan becomes
15 underfunded. Aon Hewitt, a global consulting firm, cited the following key
16 trends in its 2011 Global Pension Risk Survey:³

- 17 • "We see strong momentum in de-risking strategies, mostly at the
18 expense of exposure to domestic equities.... Asset allocation changes
19 during 2010 saw the continuation of 2009's strongest trend: sponsors
20 sold domestic equities and bought long-duration bonds, primarily credit
21 bonds."
- 22 • "There was renewed interest in expanding allocations to alternatives,
23 and to a lesser extent global equities. De-risking wasn't just about
24 extending bond duration in 2010 – diversification of the return-seeking
25 portfolio was just as important."

³ http://www.aon.com/attachments/thought-leadership/2011prmsurvey_sponsor_final.pdf

- “Funding policies have changed little over the year. Roughly 37% contribute the minimum required plus amounts necessary to avoid benefit restrictions, while half that number contribute just the minimum.”

Our approach following the 2008 – 2009 financial crisis was consistent with that of many other pension plan sponsors.

Q. WERE THERE ALTERNATIVE STRATEGIES THAT NSPM COULD HAVE CHOSEN TO FOLLOW?

A. Yes. NSPM could have pursued a significantly higher risk strategy of contributing greater amounts of upfront funding than it actually did and maintaining a higher allocation to the growth portfolio and to equities specifically. But as we looked at the historic level of uncertainty in the global financial markets, particularly during the period of time from 2009 – 2012, we did not believe that it was prudent for the Company to take this higher-risk approach. Our strategic focus was to contain the volatility of the plan’s funded status.

Q. HAVE YOU PERFORMED ANY ANALYSIS TO DETERMINE HOW THE COMPANY WOULD HAVE FARED IF IT HAD ADOPTED ONE OF THE ALTERNATIVE STRATEGIES?

A. No, I have not attempted to recast the cumulative results on all aspects of the pension plan, including retrospective assumptions regarding portfolio returns, contribution levels and expense. We took these considerations into account through forward-looking scenario modeling as part of the annual portfolio reviews that we have performed during the last several years and made

1 decisions going forward. I can say, however, that at the end of 2014, the
2 funded status of the XEPP plan was in line with the Towers Watson large
3 plan sponsor universe at approximately 80 percent funded, and we have
4 contributed significantly less to our pension plan between 2010 and 2014 than
5 the majority of our utility peer group.

6
7 Q. PLEASE DESCRIBE YOUR OBJECTIVES AND THE CHANGES TO THE XEPP
8 INVESTMENT ALLOCATIONS FROM 2011 THROUGH 2013.

9 A. From 2011 through 2013, our objective was to keep the portfolio positioned
10 for growth, while at the same time maintaining the Immunization Portfolio at
11 a reasonable allocation until expectations of increasing interest rates began to
12 take hold in the financial markets. As interest rates increase, the funded status
13 of the plan improves primarily through the reduction in the present value of
14 the pension liability. Our objective was to add additional long-duration fixed
15 income and interest-rate swaps to the portfolio as the funded status improved
16 from increasing long-term interest rates. We generally maintained the public
17 equity and alternative targets over this period to maintain the growth
18 opportunity, and we further optimized the Liquidity Portfolio target down to
19 a target of 2 percent, where it has remained ever since.

20
21 Q. PLEASE DESCRIBE YOUR OBJECTIVES AND THE CHANGES TO THE XEPP
22 INVESTMENT ALLOCATIONS FOR 2014 AND 2015.

23 A. As interest rates declined again significantly from the levels reached at the end
24 of 2013 and the Federal Reserve has continued to defer an increase in short-
25 term interest rates, we reassessed the Growth Portfolio and Immunization
26 Portfolio targets for 2014 and 2015. For year-end 2015, we have reduced the
27 Immunization Portfolio by 6 percent to bring it back down to 32 percent of

1 the total XEPP portfolio, and we have increased the Growth Portfolio target
2 by 6 percent to 66 percent of the total XEPP portfolio. Within the Growth
3 Portfolio, we have increased the public equity target up to 34 percent from 27
4 percent at the end of 2013. We have maintained the alternatives allocation at
5 19 percent and reduced the fixed income allocation by 2 percent.

6
7 Q. HOW HAVE NSPM'S CUMULATIVE CONTRIBUTIONS TO THE XEPP COMPARED
8 TO THE CUMULATIVE CONTRIBUTIONS OF PEER COMPANIES FOR 2010 – 2014?

9 A. For the period from 2010 – 2014, we have contributed \$463 million to the
10 XEPP plan. That cumulative contribution compares to a median level of \$815
11 million for our utility peer group. The range for this group is from a high of
12 approximately \$4 billion to a low of approximately \$17 million.

13
14 Q. HAS THE FUNDED STATUS OF THE XEPP CHANGED SIGNIFICANTLY SINCE
15 2009?

16 A. No, the funded status of the XEPP has not changed significantly. From 2009
17 through 2014, the funded status for XEPP decreased from 83 percent to 80
18 percent. After making our contribution in early 2015, the funded status
19 returned to 83 percent.

20
21 Q. HAVE YOU CONTINUED TO WORK WITH AN INVESTMENT CONSULTANT TO
22 EVALUATE THE ANNUAL INVESTMENT ALLOCATION TARGETS?

23 A. Yes. The JPMorgan Pension Advisory Group was sold to Pacific Global
24 Advisors (PGA) in July 2011, and we continued our advisory agreement with
25 PGA. On September 19, 2015, Goldman Sachs acquired the PGA investment
26 advisory business from Pacific Life. Goldman Sachs retained most of the key

1 investment and actuarial professionals that were working for PGA and will
2 integrate them into the Goldman Sachs platform.

3
4 Q. WHAT ARE GOLDMAN SACHS'S CURRENT ROLES AND RESPONSIBILITIES IN
5 MANAGING THE COMPANY'S PENSION INVESTMENTS?

6 A. The Goldman Sachs advisors work with the Company on the day-to-day
7 oversight of the pension plans. They assist with activities including cash flow
8 and liquidity management, portfolio rebalancing, and investment manager
9 performance monitoring. In addition, Goldman Sachs leads several key
10 evaluations and analysis, including:

- 11 • annual evaluations of the plans' asset allocations;
- 12 • liability modeling;
- 13 • implementation of interest rate protection strategy;
- 14 • ongoing investment manager monitoring and due diligence; and
- 15 • recommendation of new asset managers for the particular investments
16 comprising the various segments of our pension asset allocation.

17
18 Generally, the Company is in contact with Goldman Sachs on a daily basis.
19 We also have a formal weekly meeting to review, among other things, key
20 changes in global stock markets, global interest rates and economic data, the
21 current project list, asset class and investment manager asset weights,
22 forecasted portfolio transactions, investment manager meetings, and interest
23 rate hedging portfolio information.

24
25 Q. IS IT REASONABLE FOR XCEL ENERGY TO USE OUTSIDE CONSULTANTS AS
26 INVESTMENT ADVISORS FOR THE PENSION FUND?

1 A. Yes, it is prudent to do so given the size of the fund and the complexity of the
2 legal and regulatory requirements involved. Further, the use of outside
3 investment advisors is common for utilities and other companies managing
4 pension funds similar to Xcel Energy's. For example, the 2014 year-end
5 annual report from the Utility Pension Fund Study Group indicated that 33 of
6 36 utility companies surveyed used an investment consultant in managing their
7 pension funds.

8
9 Q. DOES THE COMPANY ALSO USE INVESTMENT MANAGERS TO OVERSEE THE
10 PENSION FUND INVESTMENTS?

11 A. Yes, in some instances. In conjunction with Goldman Sachs, the Company
12 decides whether to use passive index fund managers or active investment
13 managers for various asset classes in the pension portfolio.

14
15 Q. PLEASE DESCRIBE THE DIFFERENCE BETWEEN PASSIVE INDEX FUND
16 MANAGEMENT AND ACTIVE INVESTMENT MANAGEMENT.

17 A. While we generally believe markets are efficient, some markets are more
18 efficient than others. A market considered efficient would be one where
19 information is considered to be so readily available as to make it difficult for
20 an investment manager to consistently earn a return above the market return
21 over a market cycle. Passive management would be appropriate for such a
22 market because it is not expected that a manager could achieve a long-term
23 competitive advantage and consistently add value. An investor in a passive
24 index fund could expect to earn the market return less any investment
25 management fees.

1 Active management is used in cases where markets are deemed to be less
2 efficient or where the benchmark may not be passively investable (*e.g.*, high
3 yield bonds, private markets). While active managers generally have higher
4 fees, their performance is judged on a net-of-fee basis, and therefore the
5 investment manager must earn a return that is greater than the passive index
6 plus the fee being charged to manage the funds.

7
8 Q. DOES XCEL ENERGY USE BOTH ACTIVE AND PASSIVE MANAGEMENT FOR ITS
9 PENSION FUND INVESTMENTS?

10 A. Yes. We use both active investment managers and passive index fund
11 managers as we deem appropriate for specific asset class investments.

12
13 Q. HOW DOES THE COMPANY ASSESS THE VALUE OF USING ACTIVE INVESTMENT
14 MANAGERS AND DETERMINE WHETHER INVESTMENTS UNDER PASSIVE
15 MANAGEMENT WITH LOWER FEES MIGHT HAVE PROVIDED BETTER RETURNS?

16 A. Since 2011 we have reviewed our pension fund investment returns net of fees.
17 This provides an accurate assessment of actual economic impact to the plan. I
18 provide the XEPP pension investment returns below.

19
20 Q. HOW DOES THE COMPANY REVIEW AND ASSESS THE PERFORMANCE OF
21 INDIVIDUAL INVESTMENT MANAGERS?

22 A. Individual manager investment performance is assessed relative to an
23 appropriate asset class benchmark. The benchmark represents the return
24 available in the market. In many cases, the benchmark is not easily or
25 efficiently replicable in an individual portfolio. Unlike U.S. equities, for
26 example, high-yield bond indices are not replicable due to the high number of

1 issues in the index, relative illiquidity, and the small issue size for some
2 constituents.

3
4 We expect the manager to earn a return above the benchmark that
5 compensates us for the fee and also adds value relative to the passive
6 alternative. We evaluate managers over a three-to-five-year rolling time
7 period, taking into consideration the manager's investment style, the
8 manager's role in the portfolio, and any organizational or process changes.

9
10 Q. WHAT STEPS DOES THE COMPANY TAKE IF A FUND MANAGER'S PERFORMANCE
11 DOES NOT MEET EXPECTATIONS?

12 A. When a manager's performance is not meeting our expectations, we conduct
13 additional evaluations, meetings, and reviews of the manager's processes and
14 organization. If we believe the original reasons supporting the hiring of the
15 manager no longer exist, we will terminate the engagement and transition the
16 assets to a new manager. However, because these transitions likely result in
17 some additional costs and can disrupt the portfolio, we ensure we have a good
18 understanding of what is driving poor performance before we make a change,
19 unless there is some factor that demands immediate action.

20
21 **IV. PENSION INVESTMENT RETURNS**
22

23 Q. WHAT INFORMATION DO YOU PROVIDE IN THIS SECTION?

24 A. I provide the investment returns for the XEPP portfolio from 2007 through
25 2014. Exhibit___(GET-1), Schedule 4, shows the XEPP asset returns for
26 2007 – 2014 compared to a composite benchmark composed of the weighted
27 asset class benchmarks used in the portfolio. This comparison provides

1 consistency in measurement between the underlying asset classes and the total
2 fund.

3
4 Q. HOW DID THE XEPP TOTAL PORTFOLIO RETURN COMPARE TO AN ASSET-
5 WEIGHTED COMPOSITE BENCHMARK DURING THE YEARS FROM 2007
6 THROUGH 2014?

7 A. The XEPP investment portfolio has exceeded its asset-weighted composite
8 benchmark, which represents the weighted asset class index alternatives, in
9 five of the last eight years. On a compound annualized basis from 2009 –
10 2014, the portfolio has earned a compounded annual return, net of investment
11 management fees, of 9.72 percent relative to the portfolio benchmark return
12 of 9.59 percent. Over this time period, while our portfolio returns may not
13 have been as high as certain companies, the overall risk in our portfolio has
14 been significantly lower as measured by the correlation between our returns
15 and the liability changes that have occurred. On a risk-adjusted basis, our
16 portfolio has performed well.

17
18 **V. CONCLUSION**

19
20 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

21 A. My testimony provides information responsive to Order Point 11 of the May
22 8, 2015 Order in Docket No. E002/GR-13-868. When examining the
23 reasonableness of a pension sponsor's actions, it is necessary to consider more
24 than just investment returns. A holistic look at the reasonableness of the
25 pension sponsor's actions must also examine how the sponsor addresses the
26 overall risk in the pension arising from market liquidity and interest-rate
27 variability.

1
2 Considering all relevant factors, the Company has managed its pension plan in
3 a reasonable and prudent way. The compounded annual return has exceeded
4 the relevant asset-weighted benchmark at the same time the Company has
5 effectively managed the ongoing liquidity requirements to fund monthly
6 benefit payments and protected the plan against liability losses from very low
7 sustained interest rates, which helps to preserve the funded status of the plan.
8 Moreover, the Company has made contributions in a measured way that helps
9 avoid the necessity for large contributions in any given year.

10
11 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

12 A. Yes, it does.

**Statement of Qualifications
George E. Tyson II**

Education:

Bachelor of Arts – Economics 1988

University of Virginia

Master of Business Administration – Accounting and Finance 1992

University of Chicago

Employment:

Bankers Trust Company – Energy Mergers and Acquisitions

Jun. 1988 – Jun. 1990 Financial Analyst

Amoco Corporation

Jun. 1992 – Jan. 1994 Economic Analyst, Petroleum Products Marketing

Feb. 1994 – Jan. 1996 Senior Economic Analyst, Natural Gas Group

Feb. 1996 – Dec. 1996 Director, Acquisitions & Divestitures

Bankers Trust Company/Deutsche Bank Securities

Dec. 1996 – Dec. 1998 Senior Associate, Energy Corporate Finance

Jan. 1999 – Apr. 2002 Vice President, Global Energy and Utilities Group

Xcel Energy Inc.

May 2002 – Jun. 2003 Director of Origination, Energy Markets

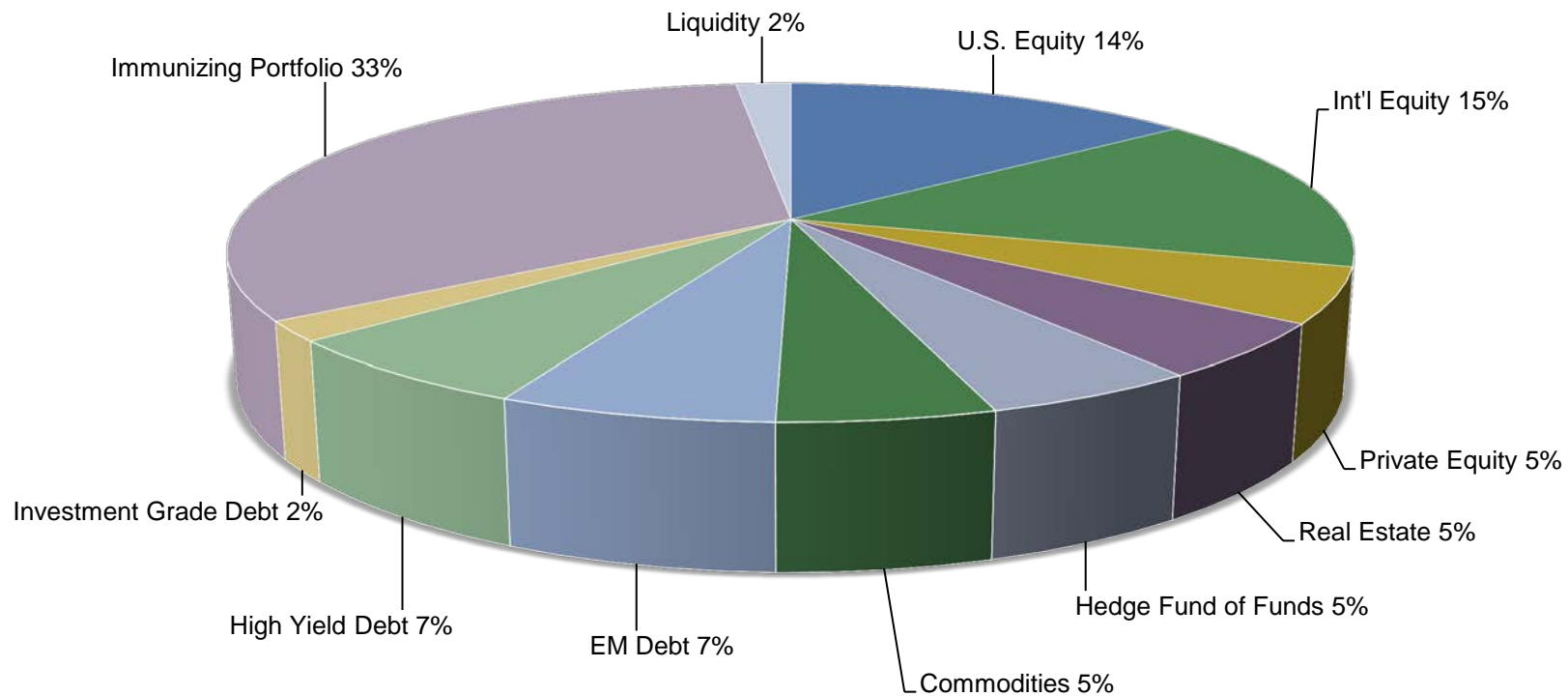
Jul. 2003 – May 2004 Managing Director, Assistant Treasurer

Jun. 2004 – Jul. 2015 Vice President and Treasurer

Aug. 2015 – Present Senior Vice President, Corporate Development

Northern States Power Company
2014 XEPP Targets

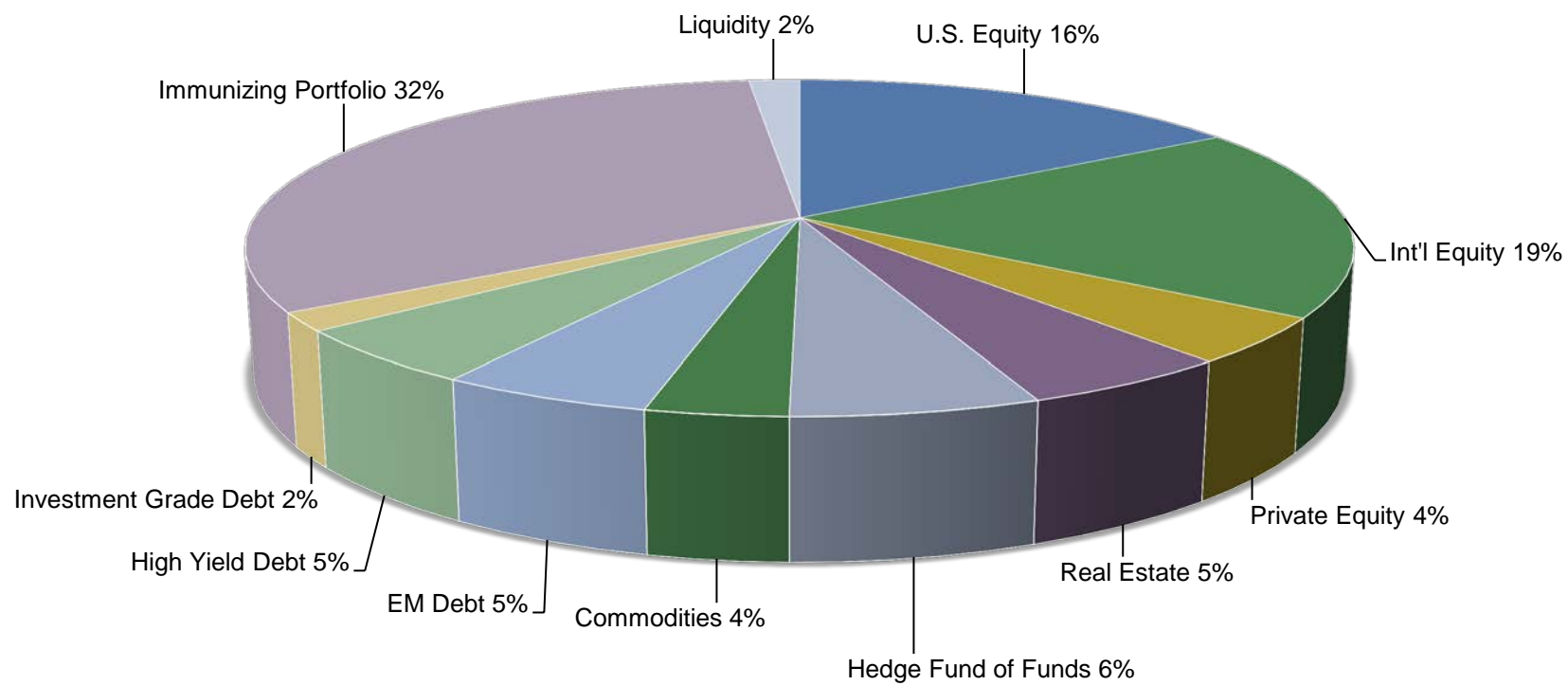
Docket No. E002/GR-15-826
Exhibit___(GET-1), Schedule 2
Page 1 of 5



*Asset class targets incorporate bond equivalent adjustments for interest rate swaps.

Northern States Power Company
2015 XEPP Targets

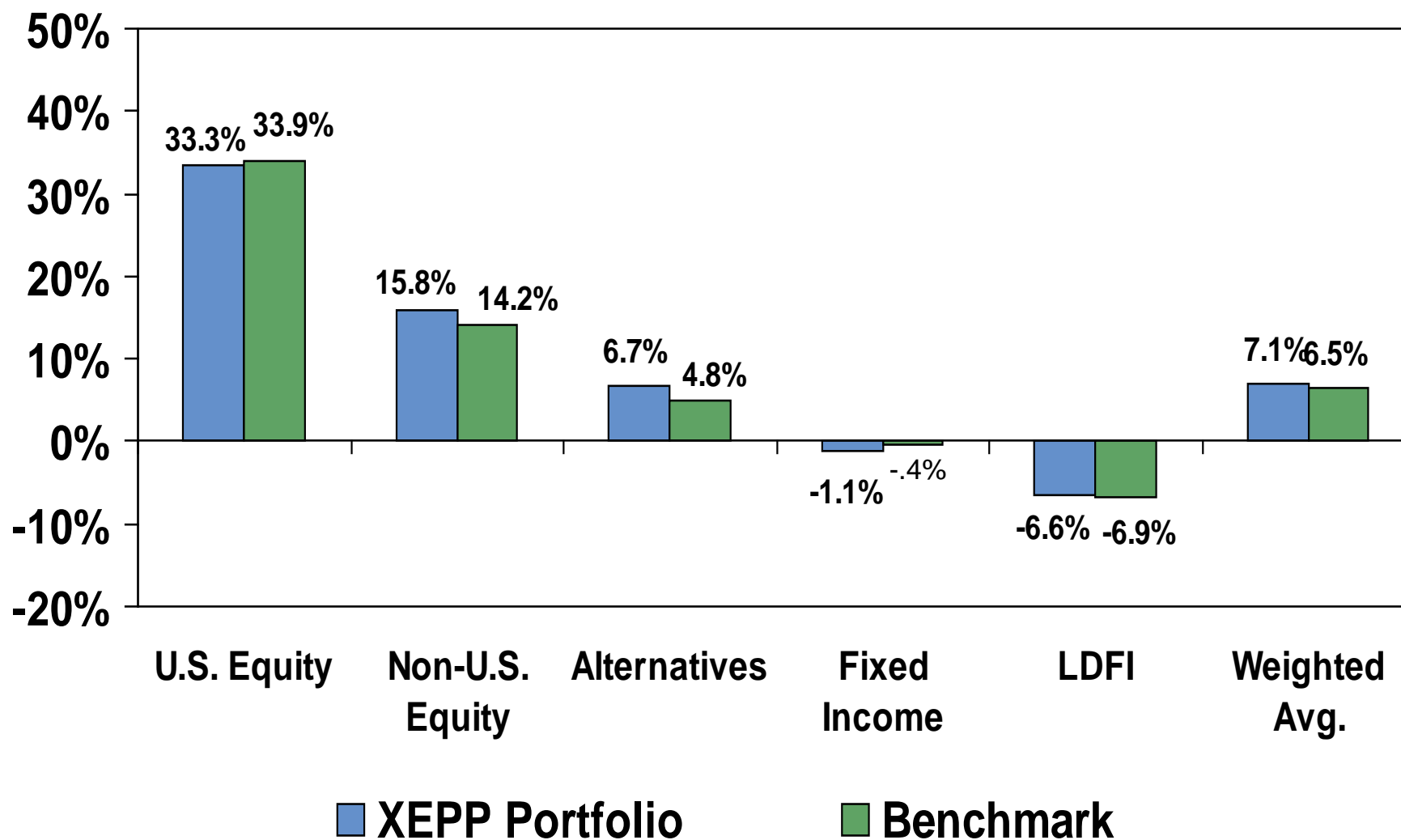
Docket No. E002/GR-15-826
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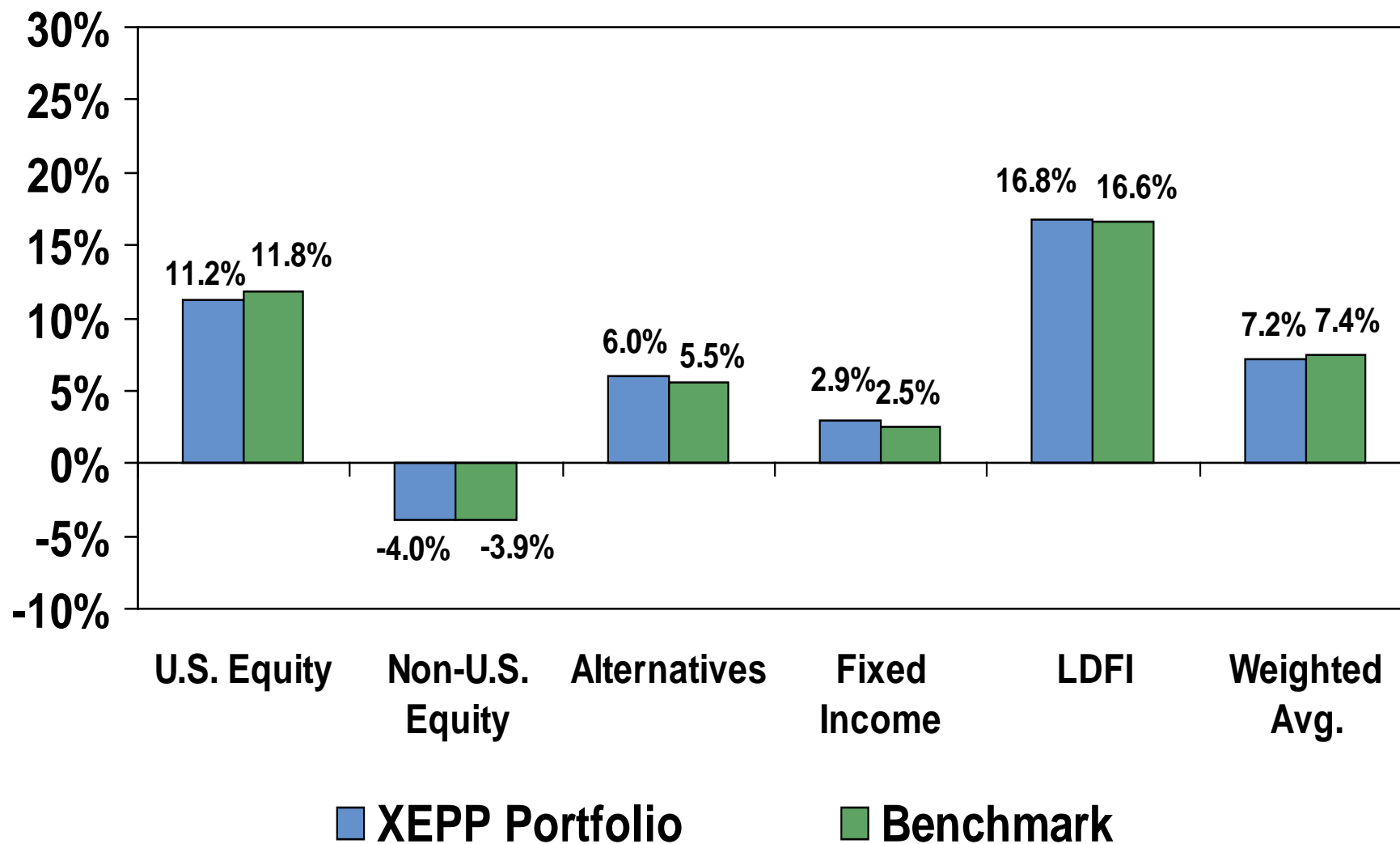


*Asset class targets incorporate bond equivalent adjustments for interest rate swaps.

Northern States Power Company
2013 Asset Class Returns

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Exhibit____(GET-1), Schedule 2
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Northern States Power Company
U.S. 10-Year Treasury rates

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Exhibit____(GET-1), Schedule 2
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Historical 10-Year Treasury rates as of September 4, 2015



Source: Bloomberg.

XEPP Plan Demographics

	1/1/2015	1/1/2014	1/1/2013	1/1/2012	1/1/2011	1/1/2010	1/1/2009	1/1/2008	1/1/2007
Active Employees	6916	6668	6878	6782	6812	6959	6637	6435	5980
Average Age	47.17	47.04	47.21	47.03	46.68	46.62	46.7	46.88	46.67
Average Credited Service	14.06	14.11	14.44	14.52	14.35	14.35	14.79	15.33	16.57
Participants with Deferred Benefits Non-A	904	984	909	912	974	920	936	984	1144
Average Age	51.99	52.5	51.45	51.24	51.2	50.55	50.22	49.98	50.07
Account Balance and Cash Balance Program	426	448	483	527	544	607	636	678	582
Average Age	52.96	52.78	52.21	51.44	52.28	50.87	50.06	49.48	47.35
Participants Receiving Benefits	4085	4093	4131	4020	4114	4092	4130	4157	4158
Average Age	75.79	75.46	75.27	75.11	75.72	74.54	74.25	74.64	73.55
Total Participants	12331	12193	12401	12241	12444	12578	12339	12254	11864

XEPP Plan Performance

	2007*	2008*	2009	2010	2011	2012	2013	2014	2009 - 2014 6Yr CAGR**
XEPP Net*	7.15%	-25.40%	13.32%	13.10%	6.23%	11.64%	7.08%	7.22%	9.72%
Composite Benchmark	5.08%	-31.30%	12.88%	11.86%	7.35%	11.74%	6.52%	7.39%	9.59%

*Prior to 2009 all plans had the same asset allocation and therefore the same return from the Master Trust. The returns are gross for 2007 and 2008; all other years are net.

Performance data prior to 2009 was provided by Watson Wyatt. Subsequent performance is provide by the Trustee - Wells Fargo.