**DOCKET NO. _____**

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| **APPLICATION OF SOUTHWESTERN PUBLIC SERVICE COMPANY FOR AUTHORITY TO CHANGE RATES** | **§ § §** | **PUBLIC UTILITY COMMISSION OF TEXAS** |

**DIRECT TESTIMONY**
***of***
**GARY J. O'HARA**

***on behalf of***

**SOUTHWESTERN PUBLIC SERVICE COMPANY**

*(Filename:* O'HaraRRDirect.doc)

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## GLOSSARY OF ACRONYMS AND DEFINED TERMS

| Acronym/Defined Term | Meaning |
|---|---|
| CAPS | Center for Advanced Purchasing Studies |
| FERC | Federal Energy Regulatory Commission |
| O&M | Operation and Maintenance |
| Operating Companies | Northern States Power Company, a Minnesota corporation; Northern States Power Company, a Wisconsin corporation; Public Service Company of Colorado, a Colorado corporation; and SPS |
| PTT | Productivity Through Technology |
| SPS | Southwestern Public Service Company, a New Mexico corporation |
| Test Year | April 1, 2018 through March 31, 2019 |
| Total Company or total company | Total SPS (before any jurisdictional allocation) |
| Update Period | April 1, 2019 through June 30, 2019 |
| Updated Test Year | July 1, 2018 through June 30, 2019 |
| Xcel Energy | Xcel Energy Inc. |
| XES | Xcel Energy Services Inc. |

## LIST OF ATTACHMENTS

| **Attachment** | **Description** |
|---|---|
| GJO-RR-1 | Supply Chain Organization Chart (*Non-native format*) |
| GJO-RR-2 | 2013 CAPS Research Utilities Industry Benchmarking Report (*Non-native format*) |
| GJO-RR-3 | 2015 CAPS Research Cross-Industry Report of Standard Benchmarks: Utilities Industry (*Non-native format*) |
| GJO-RR-4 | 2017 CAPS Research Cross-Industry Report of Standard Benchmarks: Utilities Industry (*Non-native format*) |
| GJO-RR-A (Updated Test Year) | Summary of XES Expenses to SPS by Affiliate Class and Billing Method (*Filename:* GJO-RR-ABCD.xlsx) |
| GJO-RR-B(CD) (Updated Test Year) | XES Expenses by Affiliate Class, Activity, Billing Method, and FERC Account (*Filename:* GJO-RR-ABCD.xlsx) |
| GJO-RR-C (Updated Test Year) | Exclusions from XES Expenses to SPS by Affiliate Class and FERC Account (*Filename:* GJO-RR-ABCD.xlsx) |
| GJO-RR-D (Updated Test Year) | Pro Forma Adjustments to XES Expenses by Affiliate Class and FERC Account (*Filename:* GJO-RR-ABCD.xlsx) |

**DIRECT TESTIMONY**
**OF**
**GARY J. O'HARA**

## I. WITNESS IDENTIFICATION AND QUALIFICATIONS

**Q. Please state your name and business address.**

A. My name is Gary J. O'Hara. My business address is 414 Nicollet Mall, Minneapolis, Minnesota 55401.

**Q. On whose behalf are you testifying in this proceeding?**

A. I am filing testimony on behalf of Southwestern Public Service Company, a New Mexico corporation ("SPS") and wholly-owned electric utility subsidiary of Xcel Energy Inc. ("Xcel Energy").

**Q. By whom are you employed and in what position?**

A. I am employed by Xcel Energy Services Inc. ("XES"), the service company subsidiary of Xcel Energy, as Vice President, Supply Chain.

**Q. Please briefly outline your responsibilities as Vice President, Supply Chain.**

A. I direct the sourcing and procurement of goods and services for all of the Xcel Energy Operating Companies.[1] I also have responsibility for materials management, supporting Xcel Energy's Transmission, Distribution, Gas, and Energy Supply business areas. Additionally, I am responsible for managing Xcel Energy's Accounts Payable, Investment Recovery, and Fleet Management functions.

[1] Northern States Power Company, a Minnesota corporation; Northern States Power Company, a Wisconsin corporation; Public Service Company of Colorado, a Colorado corporation; and SPS.

**Q. Please describe your educational background.**

A. I attended the University of Minnesota.

**Q. Please describe your professional experience.**

A. I have worked in the utility industry for over 40 years. All of my experience has been with Xcel Energy or its predecessor companies. I began my career in 1971 at Northern States Power Company in the construction department as a field employee. From 1971 to 1999, I worked in various field, staff, and management roles in Design & Engineering, Field Operations, and Business Development. After the merger that resulted in the creation of Xcel Energy, I became a Director in Field Operations, advancing to General Manager of Distribution Design & Construction across Xcel Energy. In October of 2007, I became the General Manager, Supply Chain. In October of 2011, I became Managing Director, and in January of 2013, I became Vice President, Supply Chain.

**Q. Have you attended or taken any special courses or seminars relating to public utilities?**

A. Yes. As a component of my professional development throughout my career, I have attended numerous technical seminars, including Utility Finance Accounting and Supply Chain Strategy and Management at the Massachusetts Institute of Technology, Sloan School of Management.

**Q. Are you a member of any professional organizations?**

A. Yes. I participate in the Institute of Supply Management as a representative of the Xcel Energy Supply Chain organization.

**Q. Have you testified before any regulatory authorities?**

A. Yes. I have filed testimony at the Public Utility Commission of Texas in Docket Nos. 38147, 40824, 42004, 43695, 45524 and 47527, SPS's six most recent base rate proceedings, on the Supply Chain class of affiliate services. In addition, I have testified before the Minnesota Public Utilities Commission on behalf of Northern States Power Company—Minnesota.

## II. ASSIGNMENT AND SUMMARY OF TESTIMONY AND RECOMMENDATIONS

**Q. What is your assignment in this proceeding?**

A. I support the Updated Test Year (July 1, 2018 through June 30, 2019)[2] operation and maintenance ("O&M") expenses and the administrative and general expenses for the Supply Chain class of affiliate services. In regard to the Supply Chain affiliate class, my testimony will:

- describe the services included in the class;
- explain that those services are reasonable and necessary for SPS's operation;
- explain that the costs for those services are reasonable and necessary;
- explain that these services do not duplicate services that SPS provides to itself through its own employees or that are provided from any other source; and
- explain that charges from XES to SPS for those services are no higher than the charges to SPS affiliates for the same or similar services.

**Q. Please summarize your testimony and recommendations.**

A. The estimated Updated Test Year costs that SPS seeks to recover for the services of the Supply Chain affiliate class are $1,137,608[3] (total SPS before jurisdictional allocation, "Total Company" or "total company"). Those costs are reasonable and necessary because they support SPS's ability to provide electric service to its Texas retail customers.

[2] The test Year in this case is April 1, 2018 through March 31, 2019, and the Update Period is April 1, 2019 through June 30, 2019. The Updated Test Year consists of the last nine months of the Test Year and the three months in the Update Period. I have reviewed the costs for the first three months of the Test Year for the classes I support and find those costs to be reasonable.

[3] This dollar amount reflects nine months of actual costs and three months of estimated costs.

- The costs are for services that are necessary to the sourcing and procurement of all of the goods and services used by SPS in providing electric service to its customers, including:
    - negotiating contracts for everything from day-to-day business necessities (e.g., office supplies and furniture) to capital items used to construct, operate, and maintain generation and transmission assets (e.g., transmission poles and transformers);
    - managing materials, including deliveries and storage;
    - implementing vendor, supplier, and contractor management strategies and policies;
    - managing the vehicles fleet; and
    - handling accounts payable.
- The costs are reasonable because they are shared with other affiliates, include reasonable personnel costs, and are subjected to rigorous budgeting and cost control processes.
- SPS does not provide these services for itself, and the services do not duplicate services provided by others.
- Each charge from SPS's affiliates for these services is no higher than the charge by those affiliates to any other entity for the same or similar service.

**Q. You mention that certain costs that you present in your testimony are estimates. Please explain why this is the case and what items are estimates.**

A. As explained by SPS witness William A. Grant, SPS will be using an Updated Test Year in this case. SPS's initial filing presents actual affiliate O&M expenses for the Test Year (April 1, 2018 through March 31, 2019) and estimated information for the period of April 1, 2019 through June 30, 2019, which is the Update Period. Accordingly, the first nine months of SPS's Updated Test Year (i.e., July 2018 through March 2019) consist of actual cost information, and the last three months (i.e., April through June 2019) consist of estimated cost

information. For this reason, certain SPS witnesses refer to the Updated Test Year in direct testimony as the "estimated Updated Test Year."

Regarding the Supply Chain affiliate costs I support, as explained by SPS witness Melissa L. Schmidt, actual figures for April and May 2019 have been provided, and June 2019 figures have been estimated based on the forecasted budget. However, these expenses have not gone through the full pro forma adjustment review process.

**Q. Will your testimony be updated to replace the estimated costs that you present and support with actual costs?**

A. Yes. SPS will file an update 45 days after the application has been filed. The update will provide actual costs to replace the estimates provided in the application for the Update Period. As part of that process, my Attachments GJO-RR-A through D will be updated by removing estimates of Supply Chain affiliate O&M expenses incurred by SPS during the Updated Test Year and then replacing those estimates with actual expenses, which will be used to establish SPS's base rates in this case.

**Q. Were Attachments GJO-RR-1 and GJO-RR-A through GJO-RR-D prepared by you or under your direct supervision and control?**

A. Yes, as to Attachment GJO-RR-1. Attachments GJO-RR-A through GJO-RR-D were prepared by Ms. Schmidt and her staff. My staff and I have reviewed these attachments, and I believe them to be accurate. Although the same information provided in Attachments GJO-RR-A through GJO-RR-D is presented in Ms. Schmidt's Attachments MLS-RR-A through MLS-RR-D, I have presented this

information in my testimony for the convenience of those reviewing my testimony.

**Q. Are Attachments GJO-RR-2 and GJO-RR-4 true and correct copies of the documents referenced in your testimony?**

A. Yes.

## III. AFFILIATE EXPENSES FOR THE SUPPLY CHAIN CLASS OF SERVICES

**Q. Earlier in your testimony, you referred to an "affiliate class." What do you mean by the terms "affiliate class" or "affiliate class of services"?**

A. A portion of SPS's costs reflects charges for services provided by a supplying affiliate, specifically XES or one of the Operating Companies. These charges have been grouped into various affiliate classes, or aggregations of charges, based upon the business area, organization, or department that provided the service or, in a few instances, the accounts that captured certain costs. In her direct testimony, Ms. Schmidt provides a detailed explanation of how the affiliate classes were developed and are organized for this case.

**Q. Which affiliate class do you sponsor?**

A. I sponsor the Supply Chain class of affiliate services.

### A. Summary of Affiliate Expenses for the Supply Chain Class of Services

**Q. Where does the Supply Chain affiliate class fit into the overall affiliate structure?**

A. Attachment MLS-RR-6 to Mr. Schmidt's direct testimony provides a list and a pictorial display of all affiliate classes, dollar amounts for those classes, and sponsoring witness for each class. As seen on that attachment, the Supply Chain affiliate class was part of the Operations Services business area during the Updated Test Year. Attachment GJO-RR-1 to my testimony is an organization chart showing the Supply Chain organization.

**Q. What services are grouped into the Supply Chain affiliate class?**

A. The Supply Chain organization is responsible for the sourcing and procurement of goods and services, materials management, fleet management, and accounts payable functions for all of Xcel Energy's Operating Companies. Supply Chain manages spending of approximately $3.9 billion annually. Among many other things, Supply Chain is involved in negotiating contracts for everything from day-to-day business necessities (e.g., office supplies and furniture) to capital items used to construct, operate, and maintain generation and transmission assets (e.g., transmission poles and transformers); implementing vendor, supplier, and contractor management strategies and policies; handling accounts payable; and implementing Xcel Energy-wide sourcing and procurement strategies to achieve cost savings.

**Q. What is the dollar amount of the estimated Updated Test Year XES charges that SPS requests, on a total company basis, for the Supply Chain affiliate class?**

A. The following Table GJO-RR-1 summarizes the dollar amount of the estimated Updated Test Year XES charges for the Supply Chain affiliate class. I will update the table below as part of SPS's 45-day case update filing to reflect the actual Updated Test Year costs for the Supply Chain affiliate class.

**Table GJO-RR-1**

| | | Requested Amount of XES Class Expenses Billed to SPS (Total Company) | | |
|---|---|---|---|---|
| Class of Services | Total XES Class Expenses | Requested Amount | % Direct Billed | % Allocated |
| Supply Chain | $10,187,483 | $1,137,608 | 73.96% | 26.04% |

| | |
|---|---|
| Total XES Class Expenses | Dollar amount of total Updated Test Year expenses that XES charged to all Xcel Energy companies for the services provided by this affiliate class. This is the amount from Column E in Attachment GJO-RR-A. |
| Requested Amount of XES Class Expenses Billed to SPS (Total Company) | Requested dollar amount of XES expenses to SPS (total company) for this affiliate class after exclusions and pro forma adjustments. This is the amount from Column K in Attachment GJO-RR-A. |
| % Direct Billed | The percentage of SPS's requested XES expenses (total company) for this class that were billed 100% to SPS. |
| % Allocated | The percentage of SPS's requested XES expenses (total company) for this class that were allocated to SPS. |

**Q. Please describe the attachments that support the information provided on Table GJO-RR-1.**

A. There are four attachments to my testimony that present information about the requested SPS affiliate expenses for the Supply Chain affiliate class.

**Attachment GJO-RR-A:** Provides a summary of the affiliate expenses for this class during the Updated Test Year. The portion of the summary specific

to billings to SPS starts with the total of the XES expenses to SPS for the services provided by this affiliate class and ends with the requested dollar amount of XES expenses to SPS (total company) for this affiliate class after exclusions and pro forma adjustments. The columns on this attachment provide the following information.

| | | |
|---|---|---|
| Column A — | Line No. | Lists the Attachment line numbers. |
| Column B — | Affiliate Class | Lists the affiliate class. |
| Column C — | Billing Method (Cost Center) | Shows the billing method that XES uses to charge the expenses to the affiliates, and the billing method short title. In her direct testimony, Ms. Schmidt explains the billing methods and defines the codes. |
| Column D — | Allocation Method | Shows the allocation method applicable to the billing method (cost center). |
| Column E — | Total XES Billings for Class to all Legal Entities (FERC Acct. 400-935) | Shows XES billings to all legal entities for the affiliate class. |
| Column F — | XES Billings for Class to all Legal Entities Except for SPS (FERC Acct. 400-935) | Shows XES billings to all legal entities except SPS for the affiliate class. |
| Column G — | XES Billings for Class to SPS (Total Company) (FERC Acct. 400-935) | Shows XES billings to SPS (total company) for the affiliate class. |
| Column H — | Exclusions | Shows the total dollars to be excluded from Column G. Exclusions reflect expenses not requested, such as expenses not allowed or other expenses excluded from the cost of service. |

| | | |
|---|---|---|
| Column I — | Per Book | Shows XES billings to SPS (total company), for the affiliate class, after the exclusions shown in Column H. The dollar amount in Column I is Column G plus Column H. |
| Column J — | Pro Formas | Shows the total dollar amount of pro forma adjustments to the dollar amount in Column I. Pro forma adjustments reflect revisions for known and measurable changes to the Updated Test Year expenses. |
| Column K — | Requested Amount (Total Company) | Shows the requested amount (total company) for the affiliate class. The dollar amount in Column K is Column I plus Column J. |
| Column L — | % of Class Charges | Shows the percentage of affiliate class charges billed using the cost center. |

In her direct testimony, Ms. Schmidt provides a consolidated summary of affiliate expenses billed to SPS for all classes during the Test Year and the Updated Test Year.

**Attachment GJO-RR-B(CD):** Provides the detail of the XES expenses for the Supply Chain affiliate class that are summarized on Attachment GJO-RR-A. The detail shows the XES expenses billed to SPS for the Supply Chain affiliate class, itemized by the amount, with each expense listed by individual activity and billing method (cost center). When summed, these amounts tie to the amounts shown on Attachment GJO-RR-A, and the detail regarding the expenses is organized to support that attachment. Specifically, the columns on this attachment provide the following information.

| | | |
|---|---|---|
| Column A — | Line No. | Lists the Attachment line numbers. |
| Column B — | Legal Entity Receiving XES Expenses | Shows the legal entity (Xcel Energy or one of its subsidiaries) that received the XES expense. |
| Column C — | Affiliate Class | Lists the affiliate class. |
| Column D — | Cost Element | Provides the cost element number. |
| Column E — | Activity | Provides a short title for the activity. |
| Column F — | Billing Method (Cost Center) | Identifies the billing method and short title. In her direct testimony, Ms. Schmidt explains the billing methods and defines the codes. |
| Column G — | FERC Account | Shows the FERC Account in which the expense was recorded for the operating companies. |
| Column H— | Total XES Billings for Class to all Legal Entities (FERC Acct. 400-935) | Shows the itemized amount of the listed XES expense that was billed to all legal entities for the affiliate class. |
| Column I— | XES Billings for Class to all Legal Entities Except SPS (FERC 400-935) | Shows the itemized amount of the listed XES expense that was billed to all legal entities except SPS for the affiliate class. |
| Column J — | XES Billings for Class to SPS (Total Company) (FERC Acct. 400-935) | Shows the itemized amount of the listed XES expense that was billed to SPS. For the affiliate class. Therefore, the sum of this column provides total billings to SPS and ties to the total dollar amount for the affiliate class in Column G of Attachment GJO-RR-A. |
| Column K — | Exclusions | Shows the total dollars excluded from Column J. The total dollar amount for the affiliate class in Column K ties to the total dollar amount for the affiliate class in Column H of Attachment GJO-RR-A. |

| | | |
|---|---|---|
| Column L — | Per Book | Shows XES billings to SPS (total company) for the affiliate class after the exclusions shown in Column K. The dollar amount in Column L is Column J plus Column K. The total dollar amount for the affiliate class in Column L ties to the total dollar amount for the affiliate class in Column I of Attachment GJO-RR-A. |
| Column M — | Pro Formas | Shows the dollar amount of pro forma adjustments to the dollar amount in Column L. The total dollar amount for the affiliate class in Column M ties to the total dollar amount for the affiliate class in Column J of Attachment GJO-RR-A. |
| Column N — | Requested Amount (Total Company) | Shows the requested amount (total company) for the affiliate class. The dollar amount in Column N is Column L plus Column M. The total dollar amount for the affiliate class in Column N ties to the total dollar amount for the affiliate class in Column K of Attachment GJO-RR-A. |

Ms. Schmidt also provides a consolidated summary of this information for all affiliate classes during the Test Year and the Updated Test Year.

**Attachment GJO-RR-C:** Both Attachments GJO-RR-A and GJO-RR-B(CD) show exclusions to the XES expenses billed to SPS for the Supply Chain affiliate class (Attachment GJO-RR-A, Column H; Attachment GJO-RR-B(CD), Column K). Attachment GJO-RR-C provides detail about those exclusions listed on Attachments GJO-RR-A and GJO-RR-B(CD). The columns on Attachment GJO-RR-C provide the following information.

| | | |
|---|---|---|
| Column A — | Line No. | Lists the Attachment line numbers. |
| Column B — | Affiliate Class | Lists the affiliate class. |
| Column C — | FERC Account | Identifies the FERC Account and FERC Account description for the expense that has been excluded. |
| Column D — | Explanations for Exclusions | Provides a brief rationale for the exclusion. |
| Column E — | Exclusions (Total Company) | Shows the dollar amount of the exclusion. |

In her direct testimony, Ms. Schmidt describes the calculations underlying the exclusions.

**Attachment GJO-RR-D:** Both Attachments GJO-RR-A and GJO-RR-B(CD) show pro forma adjustments to SPS's per book expenses for the Supply Chain affiliate class (Attachment GJO-RR-A, Column J; Attachment GJO-RR-B(CD), Column M). Attachment GJO-RR-D provides information about those pro forma adjustments shown on Attachments GJO-RR-A and GJO-RR-B(CD). The columns on Attachment GJO-RR-D provide the following information.

| | | |
|---|---|---|
| Column A — | Line No. | Lists the Attachment line numbers. |
| Column B — | Affiliate Class | Lists the affiliate class. |
| Column C — | FERC Account | Identifies the FERC Account and FERC Account description affected by the pro forma adjustment. |
| Column D — | Explanations for Pro Formas | Provides a brief rationale for the pro forma adjustment. |
| Column E — | Sponsor | Identifies the witness or witnesses who sponsor the pro forma adjustment. |

| | | |
|---|---|---|
| Column F — | Pro Formas (Total Company) | Shows the dollar amount of the pro forma adjustment. |

**Q. Does XES bill its expenses for the Supply Chain affiliate class to SPS in the same manner as it bills other affiliates for those expenses?**

A. Yes. As discussed by Ms. Schmidt, XES uses the same method for billing and allocating cost to affiliates other than SPS that it uses to bill and allocate those costs to SPS.

**Q. Are there any exclusions to the XES billings to SPS for the Supply Chain affiliate class?**

A. Yes. As I mentioned earlier, exclusions reflect expenses not requested, such as expenses not allowed or other below-the-line items. Exclusions are shown on Attachment GJO-RR-A, Column H, and on Attachment GJO-RR-B(CD), Column K. The details for the exclusions are provided in Attachment GJO-RR-C. Ms. Schmidt describes how the exclusions were calculated. In SPS's 45-day case update, I will present an updated Attachment GJO-RR-C that will provide actual exclusions to replace any estimated exclusions included in my original attachment.

**Q. Are there any pro forma adjustments to SPS's per book expenses for the Supply Chain affiliate class?**

A. Yes. As I mentioned earlier, pro forma adjustments are revisions to Updated Test Year expenses for known and measurable changes. Pro forma adjustments are shown on Attachment GJO-RR-A, Column J, and on Attachment GJO-RR-B(CD), Column M. The details for the pro forma adjustments, including

the witness or witnesses who sponsor each pro forma adjustment, are provided in Attachment GJO-RR-D. Given the time of SPS's initial filing, only the first nine months of the Updated Test Year have completed the full pro forma adjustment review process. In SPS's 45-day case update, I will present an updated Attachment GJO-RR-D that will complete the full pro forma adjustment review process for the last three months of the Updated Test Year.

**Q. Attachment GJO-RR-D shows that you sponsor pro forma adjustments for expenses for the Supply Chain affiliate class during the first nine months of the Updated Test Year that result in a net decrease for the Supply Chain affiliate class of $57.84. Please explain the adjustments.**

A. The adjustments that I sponsor reclassify costs to a new affiliate class (a decrease of $34.43) and remove an office supply expense (a decrease of 23.41).

## B. The Supply Chain Class of Services are Necessary Services

**Q. Are the services that are grouped in the Supply Chain affiliate class necessary for SPS's operations?**

A. Yes. The services grouped in the Supply Chain affiliate class are necessary to ensure that the goods and services needed for SPS's operations are procured in the most cost-effective manner, that fleet and warehouse services are managed cost effectively, and that invoices are paid. They are functions required by all utilities and without which SPS would not be able to provide electric service to its customers.

**Q. What are the specific services that are provided to SPS by the Supply Chain affiliate class?**

A. The specific services that are provided to SPS by the Supply Chain affiliate class are:

- **Strategic Planning** – These services are necessary to the development of the overall strategic business plan for Xcel Energy Supply Chain, including development of the strategic sourcing plan for all of Xcel Energy. Services include evaluating the requirements of the Operating Companies, including SPS, and assessing market conditions and supplier capabilities. The sourcing strategies developed in this process are designed to leverage the size and scale of Xcel Energy in the market place in order to benefit SPS and the other Operating Companies.

- **Strategic Sourcing and Category Management**– These services are related to procuring goods and services needed by SPS. They include selecting and negotiating with suppliers, preparing bid packages, analyzing bids, and managing contracts. Goods and services are procured through a competitive bidding process that includes not only evaluation of price, but many other criteria such as the reliability of the supplier and its ability to meet the bid specifications. The process is applied to every possible goods and services contract.

- **Major Capital Projects Sourcing** – These services are related to procuring goods and services needed for major capital projects, including, but not limited to, the construction of SPS's power plants, including wind farms, transmission lines, and substations. The services include selecting and negotiating with suppliers, preparing bid packages, analyzing bids, and managing contracts.

- **Material Resource Planning and Logistics** – The resource planning services are used for planning and developing strategies for the cost-effective acquisition of materials used in the transmission and distribution functions of SPS and the other Operating Companies including setting inventory target levels and working with the group that sets design and equipment standards. These services increase buying power by consolidating purchases for items needed by all of the Operating Companies. For example, by using standardized designs for transformers, the bid criteria can be established once and used across multiple projects. The logistics services are related to management of the materials and supplies inventory of SPS and the other Operating Companies. This includes responsibility for storeroom operations, which includes receiving and issuing materials, performing inventory cycle counts, providing

equipment and material control, and performing accounting functions in coordination with the Finance and Asset Management departments. In addition, these services include establishing policies and procedures to provide appropriate and consistent inventory management practices throughout the business areas. These services also include salvaging and selling materials that are no longer in use. For example, copper wire removed from facilities is recycled and resold.

- **Business Operations** – These services include accounts payable, process controls, and purchasing. Accounts payable services consist of processing payments to vendors for all of the goods and services, including fuel, that are acquired by SPS and throughout Xcel Energy. The accounts payable function uses sophisticated technology to ensure on-time payment of SPS's bills and to capture rebates and discounts that lower SPS's costs. In addition, the financial health of SPS's suppliers is monitored to ensure they are able to meet their obligations. The process control group is responsible for conducting supply chain analytics and managing various internal controls, which ensure that corporate credit cards are used correctly and that expenses are properly documented, accurately recorded, and within policy and system compliance requirements. Expense reports are reviewed by management, system and process training is readily available to employees and executives, and policy training is required every 2 to 3 years. The purchasing group is responsible for the end-to-end process from business unit need identification to purchase order placement in accordance with sourcing strategy and invoice payment support. This requires work order review and an understanding of near-term supply needs and longer-term outage needs.

- **Fleet Management** – These services are used for determining the vehicle requirements of SPS and the other Operating Companies, performing life cycle analysis of the fleet, setting maintenance schedules, managing the garage functions, and developing standards for the types of vehicles needed. By analyzing the number and types of vehicles needed, these services ensure that SPS is efficiently using its vehicles. For example, renting rather than purchasing may be recommended for a specialty truck that might be used only twice in a year. By setting appropriate maintenance schedules, and managing garage functions, these services also ensure that the life cycle of SPS's fleet equipment is maximized.

- **Process Governance and Performance** – These services are related to ongoing governance of processes necessary to ensure realization of SAP implementation benefits by ensuring uniform use of processes, enterprise business unit alignment, and supply chain process adherence. They include supply chain project management of special initiatives, master data governance, continuous improvement efforts, and management of process alignment with business units.

**Q. Are any of the Supply Chain class of services that are provided to SPS duplicated elsewhere in XES or in any other Xcel Energy subsidiary such as SPS itself?**

A. No. Within XES, none of the services grouped in the Supply Chain affiliate class are duplicated elsewhere. No other Xcel Energy subsidiary performs these services for the Operating Companies. In addition, SPS does not perform these services for itself.

**Q. Do SPS's Texas retail customers benefit from the services that are part of the Supply Chain class of services?**

A. Yes. Supply Chain actively manages costs and negotiates better project and unit prices for the goods and services used by SPS in providing electric service to customers. This is accomplished through systematic, long-term category management strategies, designed to control costs for procurement and sourcing. In addition, the size, scale, and long-term purchasing power of the combined Xcel Energy Operating Companies are leveraged to lower costs through volume purchasing, and to enter into strategic alliances with major suppliers, such as vehicle suppliers, transformer and meter suppliers, and pole suppliers, who then operate in alignment with Xcel Energy as preferred vendors. This not only leads to better per unit pricing for the goods needed by SPS, but allows joint development of manufacturing criteria and allows Xcel Energy to reserve blocks of manufacturing space, ensuring that products or equipment will be available when needed without storing inventory, thus reducing overhead costs.

**Q. Is there objective evidence of the benefits achieved by the Supply Chain class of affiliate services?**

A. Yes. Xcel Energy participates in a benchmarking study performed by the Center for Advanced Purchasing Studies ("CAPS"), which is a research arm for the Institute of Supply Management. The study compares the services, costs, and cost savings achieved by the supply chain and sourcing functions of participating utilities. Notable among the data reported by CAPS are the statistics on cost savings achieved by the supply chain function as a percentage of total company spend. As shown in the tables below, the cost savings achieved by the XES Supply Chain function not only exceed the mean and median on key metrics but have also increased significantly over the past few years.

The 2013 CAPS Research Utilities Industry Benchmarking Report, which is provided as Attachment GJO-RR-2 to my testimony, reported that Xcel Energy's Supply Chain cost reduction savings exceeded and its total cost savings were consistent with the utility industry mean. In the area of cost avoidance, Xcel Energy's performance appeared to be below the industry mean, but that is because Xcel Energy is more rigorous with what it views to be "cost avoidance" than other participating utilities. For example, Xcel Energy uses the lowest of first-round bids as its baseline for determining whether a cost reduction savings has been achieved in its selection of products or services. Conversely, based on my participation in CAPS Benchmarking definition workshops, it appears that other utilities in the industry use an average of first round bids to serve as a baseline for calculating cost reduction savings. By doing so, these utilities appear to include

elements of cost avoidance in their definitions of cost savings, which I believe over-reports the true measure of cost savings. Table GJO-RR-2 below summarizes these metrics.

**Table GJO-RR-2**

| 2013 CAPS Metric | Xcel Energy | Industry Mean |
|---|---|---|
| **Cost reduction savings as a percent of total controlled spend** | 2.77% | 2.40% |
| **Cost avoidance savings as a percent of total controlled spend** | 0.59% | 1.55% |
| **Total cost savings as a percent of total spend** | 3.70% | 3.89% |

In 2014, CAPS eliminated its "total cost savings as a percent of total spend" metric and modified two related metrics – "cost reduction savings as a percent of managed spend" and "cost avoidance savings as a percent of managed spend." Nonetheless, Xcel Energy's performance in the area of cost savings continues to show improvement and remains strong in comparison to the utility industry.

As Table GJO-RR-3 below shows, Xcel Energy's Supply Chain cost reduction savings exceeded the utility industry mean and median and its cost avoidance savings were consistent with the utility industry median. In the area of cost avoidance, Xcel Energy's performance appeared to be below the industry mean, but as explained above, that is because Xcel Energy is more rigorous with what it views to be "cost avoidance" than other participating utilities.

**Table GJO-RR-3**

| 2015 CAPS Metric | Xcel Energy | Mean | Median |
|---|---|---|---|
| **Total cost reduction savings as a percent of managed spend** | 3.9% | 2.4% | 1.9% |
| **Total cost avoidance savings as a percent of managed spend** | 0.7% | 1.4% | 0.7% |

The information in Table GJO-RR-3 comes from the 2015 CAPS Research, Cross-Industry Report of Standard Benchmarks, Utilities Industry, which is provided as Attachment GJO-RR-3 to my testimony. As shown on page 1, line 2 of the report, more than 98.4% of total Xcel Energy spend is managed or controlled by the XES Supply Chain management. This is significantly larger than the industry mean of 82.9%. Actively managing spend in a structured program is key to achieving sourcing savings through volume purchasing and leveraged sourcing and increasing the benefit provided to SPS and its customers by the Supply Chain class of affiliate services.

As Table GJO-RR-4 below shows, Xcel Energy's Supply Chain cost reduction savings exceeded the utility industry mean and median and its cost avoidance savings were consistent with the utility industry median. In the area of cost avoidance, Xcel Energy's performance appeared to be below the industry mean. Again, as explained above, that is because Xcel Energy is more rigorous with what it views to be "cost avoidance" than other participating utilities.

**Table GJO-RR-4**

| 2017 CAPS Metric | Xcel Energy | Mean | Median |
|---|---|---|---|
| **Total cost reduction savings as a percent of managed spend** | 5.7% | 2.5% | 2.0% |
| **Total cost avoidance savings as a percent of managed spend** | 1.0% | 2.3% | 2.5% |

The information in Table GJO-RR-4 comes from the 2017 CAPS Research, Cross-Industry Report of Standard Benchmarks, Utilities Industry, which is provided as Attachment GJO-RR-4 to my testimony. As shown on page 1, line 2 of the report, more than 96.9% of total Xcel Energy spend is managed or controlled by the XES Supply Chain management. This is significantly larger than the industry mean of 87.7%. Actively managing spend in a structured program is key to achieving sourcing savings through volume purchasing and leveraged sourcing, and increasing the benefit provided to SPS and its customers by the Supply Chain class of affiliate services.

As preliminary data from the forthcoming 2019 CAPS report shows (reproduced in Table GJO-RR-5 below), Xcel Energy's Supply Chain cost reduction savings are expected to exceed the utility industry mean and median. In the area of cost avoidance, Xcel Energy's performance is expected to fall below the industry mean and median, however, as previously explained, Xcel Energy is more rigorous with what it views to be "cost avoidance" than other participating utilities.

**Table GJO-RR-5**

| Preliminary 2019 CAPS Metric | Xcel Energy | Mean | Median |
|---|---|---|---|
| **Total cost reduction savings as a percent of managed spend** | 6.1% | 1.9% | 1.4% |
| **Total cost avoidance savings as a percent of managed spend** | 1.7% | 3.9% | 2.7% |

I will update my testimony with a copy of the 2019 CAPS Research, Cross-Industry Report of Standard Benchmarks, and Utilities Industry as part of SPS's 45-day update.

The preliminary data also show that more than 89.7% of total Xcel Energy Normal Goods and Services spend is managed or controlled by the XES Supply Chain management. This is expected to be higher than the industry mean. As previously mentioned, actively managing spend in a structured program is key to achieving sourcing savings through volume purchasing and leveraged sourcing and increasing the benefit provided to SPS and its customers by the Supply Chain class of affiliate services. Building on the foundation of Productivity Through Technology ("PTT") training, One Xcel Energy Way (XE1) and a culture of continuous improvement, along with the generally more strict process requirements of the SAP system, enforcement of compliance to sourcing policy and procedure requiring all purchases of Normal Goods and Services to be executed by Supply Chain is enhanced. The PTT initiative was designed to improve business processes and systems throughout Xcel Energy by addressing needed technological changes, while XE1 and a culture of continuous

improvement focuses on PTT optimization by aligning people, process and technology to improve the procure to pay process and deliver value to SPS and its customers.

## C. The Supply Chain Class of Services are Provided at a Reasonable Cost

**Q. Are the costs of the Supply Chain class of services reasonable?**

A. Yes. The costs of the Supply Chain class of services are reasonable. XES provides the Supply Chain class of functions and services on a consolidated basis for multiple Xcel Energy legal entities. This reduces overhead, eliminates duplication of personnel, and allows the costs of necessary computer and software systems to be shared among the Operating Companies. As a result, SPS benefits from sophisticated services provided by a pool of talented professionals, the consolidated costs of which are shared. The economies of scale inherent in this system result in reasonable costs for SPS for these services.

*1. Additional Evidence*

**Q. Is there additional support for a portion of the expenses that you present in this testimony?**

A. Yes. Of the estimated Updated Test Year costs for the Supply Chain class, 70.34% are compensation and benefits costs for XES personnel. SPS witnesses Michael T. Knoll and Richard R. Schrubbe establish that the level of Xcel Energy's compensation and benefits is reasonable and necessary. In addition, a variety of cost data will be contained in the 2019 CAPS Report. Preliminary data for the 2019 CAPS Research, Cross-Industry Report of Standard Benchmarks, Utilities Industry, provided in the table below, shows that while Xcel Energy has

historically trended above industry mean for supply management operating expenses per supply management employee, 2019 numbers are expected to fall below the industry mean and are expected to remain relatively consistent at that level. The significant decrease in supply management operating expense per supply management employee as reported in 2019 is attributed to a change in the definition of the supply management group in the CAPS study. Prior to 2017, the definition of supply management included Xcel Energy's Fleet and Material Logistics functions that report to the Xcel Energy Supply Chain organization. In 2017, the definition was updated to exclude these groups in order to allow for a more "apples to apples" comparison of data between study participants. In 2017, Xcel Energy submitted data based on the previous definition; if 2017 Xcel Energy results were updated to the current definition of supply management, Xcel Energy's 2017 supply management operating expenses per supply management employee would be $117,924 and fall below the industry mean. Due to changing accounting systems, data detail is not available to recreate 2015 results with the current definition. However, Xcel Energy data submitted in 2015 is consistent with the benchmark definition. Improved reporting capabilities with SAP allow for more accurate adherence to study definitions and may also contribute to Xcel Energy's improved results.

**Table GJO-RR-6**

| Supply management operating expenses per supply management employee | 2015 | 2017 | 2019 (Preliminary) |
|---|---|---|---|
| Xcel Energy | $135,464 | $178,165 | $88,595 |
| Mean | $128,104 | $123,457 | $136,721 |

*2. Budget Planning*

**Q. Is the Supply Chain class of affiliate costs subject to a budget planning process?**

A. Yes. Annual O&M budgets are created for the Supply Chain class of affiliate costs, using guidelines developed at the corporate level. Each manager within the Supply Chain organization carefully reviews historical spend information, identifies changes that will be coming in the future, and analyzes the costs associated with those changes prior to submitting a proposed budget. The budgeting process is discussed in more detail by SPS witness Adam R. Dietenberger.

**Q. During the fiscal year, does the Supply Chain organization monitor its actual expenditures versus its budget?**

A. Yes. Actual versus budgeted expenditures are monitored on a monthly basis by management in the Supply Chain organization. Deviations are evaluated each month to ensure that costs are appropriate. In addition, action plans are developed to mitigate variations in actual to budgeted expenditures. These mitigation plans may either reduce or delay other expenditures so that the revised budget supports the authorized budget. If authorized budget adjustments are required, they are identified and approved at an appropriate level of management.

**Q. Are employees within the Supply Chain organization held accountable for deviations from the budget?**

A. Yes. All directors in the Supply Chain organization have specific budgetary goals that are incorporated into their performance evaluations. Performance is

measured on a monthly basis to ensure adherence to the goals and provide for action plan development to address variances.

*3. Cost Trends*

**Q. Please state the dollar amounts of the actual per book charges from XES to SPS for the Supply Chain class of services for the three fiscal years preceding the end of the Updated Test Year and the estimated per book charges for the estimated Updated Test Year.**

A. The following table shows, for the fiscal years 2016, 2017, and 2018 (calendar years) the actual per book charges and, for the estimated Updated Test Year, the estimated per book affiliate charges (Column I on Attachment GJO-RR-A) from XES to SPS for the services grouped in the Supply Chain affiliate class:

**Table GJO-RR-7**

| | Per Book Charges Over Time | | | |
|---|---|---|---|---|
| Class of Services | 2016 | 2017 | 2018 | Updated Test Year (Estimated) |
| Supply Chain | $439,489 | $1,495,778 | $1,863,116 | $1,118,293 |

**Q. What are the reasons for this trend?**

A. The increase in costs from 2016 to 2017 was primarily related to the allocation of O&M resources to the capital project associated with the corporate PTT initiative. The cost increase between 2017 and 2018 is due to several of those resources rolling off the PTT capital project and charging back to their normal O&M roles. Additionally, contingent workforce "surge" resources have been deployed in Purchasing and Accounts Payable during the stabilization of SAP processes

following the PTT initiative. The remainder of the increase is due to additional employee expenses related to the training needs required for the new applications being deployed for the PTT initiative. Those additional employee expenses related to training also affect the test year actuals as well. The cost decrease between 2018 and the Updated Test Year estimate is anticipated based on the rolling off of contingent surge resources as efficiency continues to improve.

*4. Staffing Trends*

**Q. Please provide the staffing levels for the Supply Chain class of services for the three fiscal years preceding the end of the Updated Test Year and the Updated Test Year.**

A. The following table shows, for the fiscal years 2016, 2017, and 2018 (calendar years) and for the Updated Test Year, the average of the end-of-month staffing levels for the Supply Chain class of services.

**Table GJO-RR-8**

| | Average End of Month # of Staff | | | |
|---|---|---|---|---|
| Class of Services | 2016 | 2017 | 2018 | Updated Test Year (Estimated) |
| Supply Chain | 181 | 185 | 187 | 186 |

**Q. What are the reasons for this trend?**

A. Table GJO-RR-8 includes both Supply Chain employees whose time is charged to balance sheet clearing accounts or capital cost centers and those whose time is charged to O&M. Therefore, the variances in average staffing levels are not directly reflected in the variances in O&M costs over the same periods. The

increases in average staffing levels from 2016 through the Updated Test Year are the result of increases in the staffing required to support the PTT initiative and corporate implementation of SAP. PTT positions were funded from existing open headcount. In some cases, the original Supply Chain position was backfilled with a new hire. In other cases, the Supply Chain position remained vacant while the individual was on assignment for PTT.

*5. Cost Control and Process Improvement Initiatives*

**Q. Separate from the budget planning process, does the Supply Chain organization take any steps to control its costs or to improve its services?**

A. Yes. The Supply Chain organization continually evaluates current practices to identify areas for improvement, including ways to maximize resources and make Supply Chain operations more efficient.

## D. The Costs for the Supply Chain Class of Services are Priced in a Fair Manner

**Q. For those costs that XES charges (either directly or through use of an allocation) to SPS for the Supply Chain class of services, does SPS pay any more for the same or similar service than does any other Xcel Energy affiliate?**

A. No. The XES charges to SPS for any particular service are no higher than the XES charges to any other Xcel Energy affiliate. The costs charged for particular services are the actual costs that XES incurred in providing those services to SPS. A single, specific allocation method, rationally related to the costs drivers associated with the service being provided, is used with each cost center (billing

method). In her direct testimony, Ms. Schmidt discusses the selection of billing methods and XES's method of charging for services in more detail.

**Q. How are the costs of the Supply Chain affiliate class billed to SPS?**

A. My Attachment GJO-RR-B(CD) shows all of the costs in this class broken out by activity and, in conjunction with Column C in my Attachment GJO-RR-A, shows the billing method associated with each activity. My Attachment GJO-RR-A shows the allocation method (Column D) associated with each billing method (Column C) used in the affiliate class.

In SPS's 45-day case update, I will present updated Attachments GJO-RR-A and GJO-RR-B(CD) so that the entries for the last three months of the Updated Test Year provide actual data and conform to the information provided for the first nine months. In the event the predominant billing methods and associated allocation methods for the Supply Chain affiliate O&M expenses on my updated Attachments GJO-RR-A and GJO-RR-B(CD) differ from those discussed below, I will explain those differences in supplemental testimony in SPS's 45-day case update filing.

**Q. What are the predominant allocation methods used for billing the costs that SPS seeks to recover for the Supply Chain affiliate class of services?**

A. All of the requested XES charges to SPS for this class were charged using one of the following five billing allocation methods:

- Direct Billing – 73.96% of XES charges to SPS – $841,384.72;
- Invoice Transactions –25.86% of XES charges to SPS - $294,204.08;
- Assets, Revenue, and Number of Employees –0.01% of XES charges to SPS – $150.52; and
- Number of Employees – 0% of XES charges to SPS.

**Q. Why is the "Direct Billing" method appropriate for assigning the costs captured in the cost centers that use that allocation method?**

A. For the cost centers that are assigned using the "Direct Billing" method, the costs normally reflect work that was performed specifically for SPS only. In some cases, however, the direct billing occurred after the application of an off-line allocator that tracks the relevant cost drivers. In either situation, the cost centers charged using the "Direct Billing" method are appropriate because the assignment of costs is in accordance with the distribution of benefits for the services received. For example, the costs related to oversight and training for material coordinators were assigned using the "Direct Billing" method. The cost of these services benefited SPS, the work was performed specifically for SPS alone, and the cost driver is management of SPS employees. Thus, the "Direct Billing" method is appropriate because it assigns costs in accordance with cost causation and benefits received. For the cost centers that assign costs using Direct Billing, the per unit amounts charged by XES to SPS are no higher than the unit amounts billed by XES to other affiliates for the same or similar services and represent the actual costs of the services.

**Q. Why is it appropriate to allocate costs based upon the "Invoice Transactions" method for the costs captured in the cost centers that use that allocation method?**

A. Cost Center 200132, which uses the "Invoice Transactions" method as the allocator, captures the costs of the centralized accounts payable organization, which processes invoices and payments for all of Xcel Energy. For example, the labor costs associated with accounts payable personnel are collected in Cost

Center 200132 and are allocated using this allocation method. These costs are driven by the activities required to process invoices for each legal entity. Thus, the costs in this cost center are allocated among the Xcel Energy legal entities based on each legal entities proportionate share of invoice transactions (i.e., the number of invoices processed for a particular legal entity as a percentage of the total number of invoices processed for all of the legal entities). This allocation reflects cost causation and the distribution of the benefits of the services received. For the cost centers that assign costs based upon this allocation method, the per unit amounts charged by XES to SPS as a result of the application of this allocation method are no higher than the unit amounts billed by XES to other affiliates for the same or similar services and represent the actual costs of the services.

**Q. Why is it appropriate to allocate costs based upon the "Assets, Revenue, and Number of Employees" method for the costs captured in the cost centers that use that allocation method?**

A. The three factor allocation method using assets, revenue, and number of employees produces an allocation of costs that recognizes the complexity, risk, and overall business activity levels that drives the costs included in the cost centers and measures the benefits received from those activities. For the cost centers billed using this allocator, there is no one specific cost driver for the support tasks and services provided, and the services benefit multiple Xcel Energy affiliates. For example, the costs associated with a Supply Chain special program associated with diversity program expenses, which are collected in Cost Center 200094 – Supply Chain – Special Program, are allocated using this method.

Within the Xcel Energy holding company group, those legal entities that have proportionately more assets, revenues, and employees will have more focus placed on their operations due to those subsidiaries' relative influence on the consolidated business balance sheet, income statement, and statement of cash flow, and the subsidiaries will benefit accordingly from the services provided. Thus, allocating these costs based upon the average of the total asset ratio, revenue ratio, and the employee ratio is appropriate because it allocates costs in accordance with cost causation and benefits received. Ms. Schmidt discusses this billing method in more detail in his testimony. For the cost centers that assign costs based upon this allocation method, the per unit amounts charged by XES to SPS as a result of the application of this allocation method are no higher than the unit amounts billed by XES to other affiliates for the same or similar services and represent the actual costs of the services.

**Q. Why is it appropriate to allocate costs based upon the "Number of Employees" method for the costs captured in the cost centers that use that allocation method?**

A. Cost Center 200166 – Diversity, Safety, Employee Relations - which uses the "Number of Employees" method as the allocator, captures costs associated with employees and their regulatory safety requirements. For example the costs associated with employees' safety-related drug and alcohol testing are captured in this cost center and allocated using the "Number of Employees" method. The cost driver for these activities is regulatory-related testing provided to employees. Thus, this cost center allocates costs among the Xcel Energy legal entities based upon the proportionate share of employees of each Xcel Energy legal entity (i.e.,

the number of employees of a particular legal entity as a percentage of the total number of employees of all of the legal entities). This allocation reflects cost causation and the distribution of the benefits of the services received. For the cost centers that assign costs based upon this allocation method, the per unit amounts charged by XES to SPS as a result of the application of this allocation method are no higher than the unit amounts billed by XES to other affiliates for the same or similar services and represent the actual costs of the services.

**Q. Why is it appropriate to allocate costs based upon the "Purchasing Transactions" method for the costs captured in the cost centers that use that allocation method?**

A. Cost Center 200175 – Purchasing – which uses "Purchasing Transactions" method as the allocator, captures the labor and non-labor costs associated with the Purchasing module. This includes application development and maintenance costs, licensing fees, server system costs, and technology risk costs specific to disaster recovery of this application. This method of allocation is reasonable for these costs because there is a direct causal relationship with the companies using the purchasing functions. This allocation reflects cost causation and the distribution of the benefits of the services received. For the cost centers that assign costs based upon this allocation method, the per unit amounts charged by XES to SPS as a result of the application of this allocation method are no higher than the unit amounts billed by XES to other affiliates for the same or similar services and represent the actual costs of the services.

**Q. Does this conclude your pre-filed direct testimony?**

A. Yes.

**AFFIDAVIT**

STATE OF MINNESOTA )
)
COUNTY OF HENNEPIN )

GARY J. O'HARA, first being sworn on his oath, states:

I am the witness identified in the preceding testimony. I have read the testimony and the accompanying attachment(s) and am familiar with the contents. Based upon my personal knowledge, the facts stated in the testimony are true. In addition, in my judgment and based upon my professional experience, the opinions and conclusions stated in the testimony are true, valid, and accurate.

GARY J. O'HARA

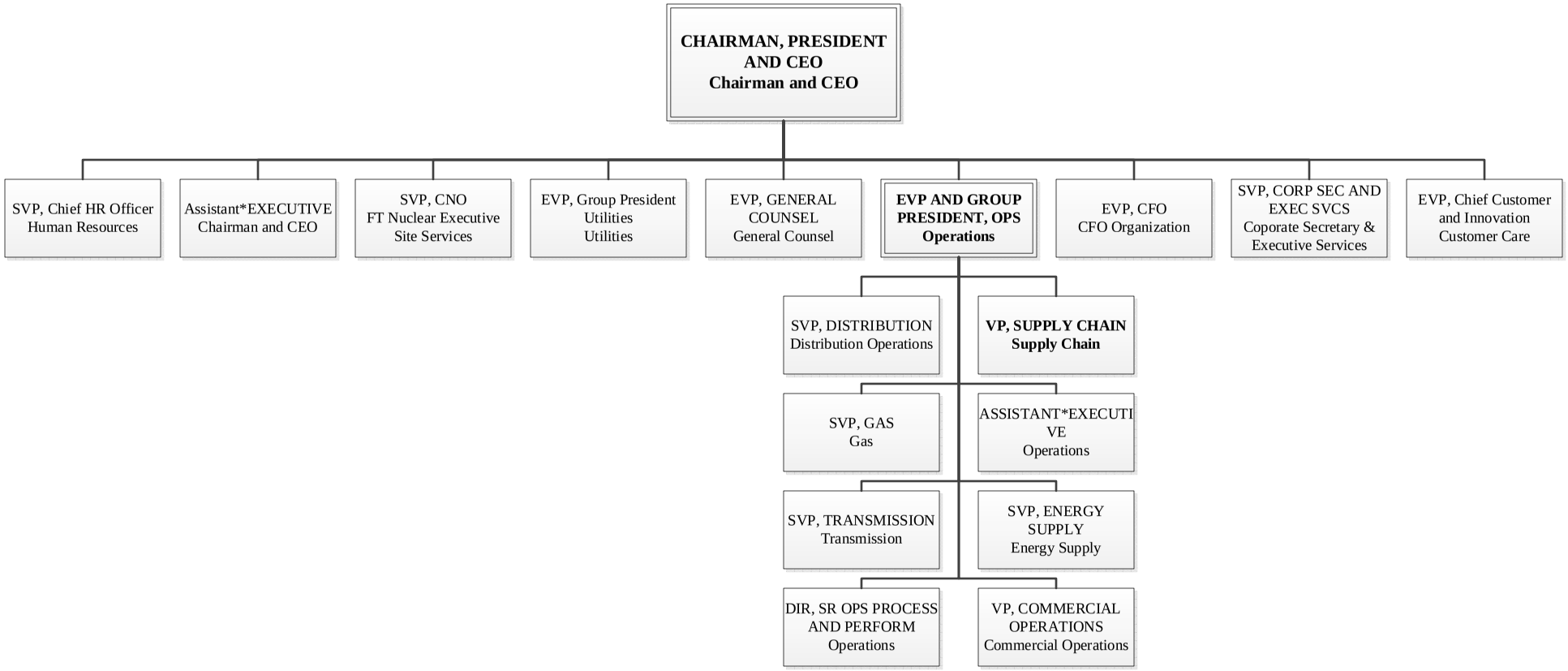
Subscribed and sworn to before me this 29th day of July, 2019 by GARY J. O'HARA.

PAMELA C. WILSON
NOTARY PUBLIC - MINNESOTA
My Commission Expires
January 31, 2020

Notary Public, State of Minnesota

My Commission Expires: 1-31-2020

Southwestern Public Service Company
Organization Chart – Supply Chain
As of March 31, 2019



CAPS RESEARCH

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CAPS Research
Utilities Industry
2013 Supply Management Performance Benchmarking Report

*Release Date: September 18, 2013*

| # | Benchmarks | *Xcel Energy* | Mean | Minimum | Maximum | Median | *Previous Report Mean* |
|---|---|---|---|---|---|---|---|
| | ***Organization/Employee Metrics*** | | | | | | |
| 1a | Supply management employees as a percent of total company employees | *3.27%* | 2.57% | 0.38% | 5.48% | 2.79% | *2.72%* |
| 1b | FTE supply management employees as a percent of total company employees (does not include contract/temporary employees) | *2.78%* | 2.42% | 0.38% | 3.82% | 2.77% | *2.60%* |
| 2 | Percent of organizations that include the following functional areas and activities as part of their supply management organization: | | | | | | |
| | Senior Management | *X* | 100.00% | | | | *89.47%* |
| | Planning | *X* | 42.86% | | | | *52.63%* |
| | Professional Support Staff | *X* | 71.43% | | | | *84.21%* |
| | Accounts Payable | *X* | 21.43% | | | | *26.32%* |
| | Administrative | *X* | 64.29% | | | | *84.21%* |
| | Supplier Diversity | *X* | 71.43% | | | | *78.95%* |
| | Category Sourcing/Procurement | *X* | 78.57% | | | | *78.95%* |
| | Purchasing | *X* | 92.86% | | | | *89.47%* |
| | Major Project Sourcing | *X* | 64.29% | | | | *78.95%* |
| | Other Project Sourcing | *X* | 42.86% | | | | *26.32%* |
| | Warehouse and Operations Management | *X* | 85.71% | | | | *84.21%* |

**CAPS Research**
**Utilities Industry**
**2013 Supply Management Performance Benchmarking Report**

*Release Date: September 18, 2013*

| # | Benchmarks | *Xcel Energy* | Mean | Minimum | Maximum | Median | *Previous Report Mean* |
|---|---|---|---|---|---|---|---|
| 3 | **Percent of planned supply management employees in the following functional areas and activities (includes contract/temporary employees):** | | | | | | |
| | Senior Management | *2.47%* | 8.88% | 1.52% | 25.81% | 8.04% | |
| | Planning | *1.10%* | 7.29% | 1.10% | 23.71% | 3.68% | |
| | Professional Support Staff | *6.87%* | 7.32% | 2.15% | 14.50% | 7.98% | |
| | Accounts Payable | *5.77%* | i.d. | | | | |
| | Administrative | *1.37%* | 2.63% | 1.03% | 6.45% | 1.84% | |
| | Supplier Diversity | *0.82%* | 1.24% | 0.21% | 2.27% | 1.03% | |
| | Category Sourcing/Procurement | *4.40%* | 14.05% | 4.29% | 32.26% | 10.20% | |
| | Purchasing | *8.79%* | 25.34% | 7.22% | 82.35% | 20.01% | |
| | Major Project Sourcing | *5.22%* | 3.34% | 0.61% | 6.84% | 2.65% | |
| | Other Project Sourcing | *2.75%* | 4.13% | | | | |
| | Warehouse and Operations Management | *60.44%* | 50.20% | 30.93% | 67.74% | 50.79% | |
| 4 | **Percent of planned supply management employees in the following overall functional areas (includes contract/temporary employees):** | | | | | | |
| | Planning<br>(Includes Senior Management, Planning, Professional Support Staff, Accounts Payable, Administrative) | *17.58%* | 20.07% | 5.38% | 38.06% | 17.61% | |
| | Purchasing<br>(Includes Supplier Diversity, Category Sourcing/ Procurement, Purchasing, Major Project Sourcing, Other Project Sourcing) | *21.98%* | 39.69% | 21.98% | 82.35% | 31.15% | |
| | Operations<br>(Includes Warehouse and Operations Management) | *60.44%* | 50.20% | 30.93% | 67.74% | 50.79% | |

**CAPS Research**
**Utilities Industry**
**2013 Supply Management Performance Benchmarking Report**

*Release Date: September 18, 2013*

| # | Benchmarks | *Xcel Energy* | Mean | Minimum | Maximum | Median | *Previous Report Mean* |
|---|---|---|---|---|---|---|---|
| 5 | **Percent of actual supply management employees in the following functional areas and activities (includes contract/temporary employees):** | | | | | | |
| | Senior Management | *2.46%* | 8.65% | 1.49% | 25.93% | 6.67% | *5.54%* |
| | Planning | *1.09%* | 6.34% | 1.09% | 24.21% | 3.35% | *1.82%* |
| | Professional Support Staff | *7.65%* | 7.68% | 1.67% | 14.45% | 7.65% | *10.80%* |
| | Accounts Payable | *5.74%* | i.d. | | | | *11.49%* |
| | Administrative | *1.09%* | 2.21% | 1.05% | 3.85% | 1.87% | *2.88%* |
| | Supplier Diversity | *0.82%* | 1.18% | 0.22% | 2.28% | 1.05% | *1.41%* |
| | Category Sourcing/Procurement | *4.37%* | 12.29% | 0.00% | 33.33% | 8.56% | *13.23%* |
| | Purchasing | *8.74%* | 27.69% | 7.37% | 81.25% | 22.33% | *18.95%* |
| | Major Project Sourcing | *5.19%* | 5.93% | 0.62% | 26.92% | 2.90% | *6.38%* |
| | Other Project Sourcing | *2.73%* | 3.40% | 0.00% | 11.11% | 2.58% | *3.36%* |
| | Warehouse and Operations Management | *60.11%* | 47.97% | 10.68% | 67.74% | 52.74% | *51.36%* |
| 6 | **Percent of actual supply management employees in the following overall functional areas (includes contract/temporary employees):** | | | | | | |
| | Planning<br>(Includes Senior Management, Planning, Professional Support Staff, Accounts Payable, Administrative) | *18.03%* | 19.20% | 5.38% | 34.74% | 18.03% | *21.69%* |
| | Purchasing<br>(Includes Supplier Diversity, Category Sourcing/ Procurement, Purchasing, Major Project Sourcing, Other Project Sourcing) | *21.86%* | 41.04% | 21.86% | 81.62% | 31.52% | *35.61%* |
| | Operations<br>(Includes Warehouse and Operations Management) | *60.11%* | 47.97% | 10.68% | 67.74% | 52.74% | *51.36%* |
| 7 | **Actual contract/temporary employees as a percent of total supply management employees** | *15.03%* | 7.63% | 2.85% | 15.03% | 3.03% | *8.67%* |

| 8 | Percent of participants reporting that the following supply management job functions are all centrally located, co-located with clients, or other: | | | |
|---|---|---|---|---|
| | | All Centrally Located | Co-Located with Clients | Other |
| | Supplier Diversity | *All Centrally Located* | 78.57% | 14.29% | 0.00% |
| | Category Sourcing/Procurement | *All Centrally Located* | 78.57% | 14.29% | 0.00% |
| | Purchasing | *All Centrally Located* | 85.71% | 14.29% | 0.00% |
| | Major Project Sourcing | *All Centrally Located* | 71.43% | 7.14% | 0.00% |
| | Other Project Sourcing | *All Centrally Located* | 71.43% | 0.00% | 0.00% |

| # | Benchmarks | *Xcel Energy* | Mean | Minimum | Maximum | Median | *Previous Report Mean* |
|---|---|---|---|---|---|---|---|
| | ***Financial Information*** | | | | | | |
| 9 | Total spend as a percent of sales/revenue | ***30.62%*** | 36.44% | 15.44% | 71.33% | 32.00% | *40.60%* |
| 10 | Controlled spend as a percent of sales/revenue | ***28.55%*** | 28.01% | 14.85% | 45.89% | 27.60% | *27.90%* |
| 11 | Percent of total spend that is controlled by supply management | ***93.23%*** | 75.83% | 28.38% | 100.00% | 80.64% | *74.85%* |
| 12a | Controlled spend per FTE supply management employee (does not include contract/temp employees) | ***$9,296,299*** | $13,096,677 | $4,205,828 | $37,721,083 | $9,718,144 | *$10,135,373* |
| 12b | Controlled spend per procurement-related FTE supply management employee (does not include warehouse and operations management employees) | ***$27,020,084*** | $21,222,159 | $7,923,837 | $55,130,814 | $18,343,470 | *$20,461,781* |

**CAPS Research**
**Utilities Industry**
**2013 Supply Management Performance Benchmarking Report**

*Release Date: September 18, 2013*

| # | Benchmarks | *Xcel Energy* | Mean | Minimum | Maximum | Median | *Previous Report Mean* |
|---|---|---|---|---|---|---|---|
| 13a | Percent of total controlled spend that is for materials | ***31.04%*** | 33.87% | 12.98% | 64.53% | 32.03% | *35.74%* |
| 13b | Percent of total controlled materials spend for: | | | | | | |
| | Corporate | ***0.39%*** | 10.07% | 0.39% | 24.62% | 7.11% | *10.22%* |
| | T&D | ***52.46%*** | 54.37% | 19.94% | 100.00% | 52.46% | *40.10%* |
| | Generation | ***47.18%*** | 37.59% | 28.00% | 47.18% | 38.59% | *32.51%* |
| | Water | *n/a* | i.d. | | | | *i.d.* |
| | Other | *n/a* | i.d. | | | | *24.48%* |
| 14a | Percent of total controlled spend that is for services | ***68.95%*** | 66.28% | 35.47% | 87.01% | 67.97% | *64.12%* |
| 14b | Percent of total controlled services spend for: | | | | | | |
| | Corporate | ***29.67%*** | 17.27% | 7.76% | 29.67% | 15.21% | *15.96%* |
| | T&D | ***28.13%*** | 38.07% | 21.00% | 100.00% | 28.13% | *32.68%* |
| | Generation | ***42.20%*** | 43.74% | 32.21% | 60.50% | 40.81% | *33.85%* |
| | Water | *n/a* | i.d. | | | | *i.d.* |
| | Other | *n/a* | i.d. | | | | *26.99%* |

**CAPS Research**
**Utilities Industry**
**2013 Supply Management Performance Benchmarking Report**

*Release Date: September 18, 2013*

| # | Benchmarks | *Xcel Energy* | Mean | Minimum | Maximum | Median | *Previous Report Mean* |
|---|---|---|---|---|---|---|---|
| 15 | Percent of total controlled spend for goods and services that were strategically sourced | *63.08%* | 53.01% | 7.47% | 77.35% | 60.00% | |
| 16 | Percent of total controlled spend for goods and services purchased under contracts awarded during the reporting period | *107.26%* | 55.97% | 7.44% | 107.26% | 56.71% | |
| 17a | Supply management operating expense as a percent of total spend | *1.93%* | 1.03% | 0.23% | 2.53% | 0.98% | |
| 17b | Supply management operating expense as a percent of controlled spend | *2.07%* | 1.35% | 0.31% | 2.53% | 1.19% | |
| 18 | Supply management operating expense per supply management employee | *$163,127* | $119,513 | $70,019 | $163,127 | $123,317 | |
| 19a | Percent of organizations that include the following when determining their organization's total supply management operating expense: | | | | | | |
| | Salaries and payroll-related expenses | *X* | 100.00% | | | | |
| | Non-allocated expenses | *X* | 64.29% | | | | |
| | IT (infrastructure and desktop support) | *X* | 21.43% | | | | |
| | Business Systems | *X* | 14.29% | | | | |
| | Allocated Expenses | *X* | 50.00% | | | | |
| 19b | Average percent that the following allocations contribute to the organization's total supply management operating expense: | | | | | | |
| | Salaries and payroll-related expenses | *n/a* | 84.00% | 63.75% | 100.00% | 87.24% | |
| | Non-allocated expenses | *n/a* | 10.38% | 2.75% | 25.93% | 9.34% | |
| | IT (infrastructure and desktop support) | *n/a* | i.d. | | | | |
| | Business Systems | *n/a* | i.d. | | | | |
| | Allocated Expenses | *n/a* | 21.36% | | | | |
| 20 | Total supply management salaries (unburdened) as a percent of total controlled spend | *n/a* | 0.80% | 0.23% | 1.48% | 0.85% | *1.02%* |
| 21 | Average salary (unburdened) per FTE supply management employee | *n/a* | $78,826 | $67,220 | $116,270 | $75,464 | *$77,406* |

| # | Benchmarks | *Xcel Energy* | Mean | Minimum | Maximum | Median | *Previous Report Mean* |
|---|---|---|---|---|---|---|---|
| 22 | Salary (unburdened) per FTE supply management employee in the following functional areas and activities: | | | | | | |
| | Senior Management | *n/a* | $128,058 | $84,810 | $179,800 | $123,092 | *$135,928* |
| | Planning | *n/a* | $75,568 | $58,961 | $103,324 | $68,282 | *$92,304* |
| | Professional Support Staff | *n/a* | $85,002 | $61,060 | $114,601 | $82,098 | *$78,744* |
| | Accounts Payable | *n/a* | i.d. | | | | *i.d.* |
| | Administrative | *n/a* | $51,484 | $37,276 | $88,889 | $45,548 | *$51,606* |
| | Supplier Diversity | *n/a* | $76,200 | $57,130 | $111,932 | $78,253 | *$85,194* |
| | Category Sourcing/Procurement | *n/a* | $78,842 | $67,902 | $95,267 | $75,048 | *$106,466* |
| | Purchasing | *n/a* | $71,081 | $49,600 | $93,750 | $73,038 | *$72,040* |
| | Major Project Sourcing | *n/a* | $93,493 | $37,953 | $139,683 | $89,503 | *$106,372* |
| | Other Project Sourcing | *n/a* | $68,207 | | | | *$82,238* |
| | Warehouse and Operations Management | *n/a* | $71,064 | $63,776 | $76,852 | $70,569 | *$75,203* |
| 23 | Total salaries (burdened) as a percent of total controlled spend | *n/a* | 1.16% | 0.31% | 2.11% | 1.19% | *1.40%* |
| 24 | Average salary (burdened) per FTE supply management employee | *n/a* | $105,625 | $68,091 | $126,610 | $108,218 | *$112,597* |

**CAPS Research**
**Utilities Industry**
**2013 Supply Management Performance Benchmarking Report**

*Release Date: September 18, 2013*

| # | Benchmarks | *Xcel Energy* | Mean | Minimum | Maximum | Median | *Previous Report Mean* |
|---|---|---|---|---|---|---|---|
| 25 | Salary (burdened) per FTE supply management employee in the following functional areas and activities: | | | | | | |
| | Senior Management | *n/a* | $178,869 | $126,353 | $260,600 | $176,261 | |
| | Planning | *n/a* | $115,395 | $88,889 | $158,801 | $111,816 | |
| | Professional Support Staff | *n/a* | $128,616 | $82,145 | $192,267 | $129,333 | |
| | Accounts Payable | *n/a* | i.d. | | | | |
| | Administrative | *n/a* | $63,712 | $54,871 | $74,000 | $64,632 | |
| | Supplier Diversity | *n/a* | $114,534 | $76,850 | $151,108 | $118,667 | |
| | Category Sourcing/Procurement | *n/a* | $118,810 | $91,348 | $159,836 | $119,641 | |
| | Purchasing | *n/a* | $99,123 | $69,800 | $120,210 | $103,060 | |
| | Major Project Sourcing | *n/a* | $123,789 | $58,429 | $169,000 | $123,485 | |
| | Other Project Sourcing | *n/a* | $100,561 | | | | |
| | Warehouse and Operations Management | *n/a* | $104,812 | $91,341 | $111,976 | $105,410 | |

**CAPS Research**
**Utilities Industry**
**2013 Supply Management Performance Benchmarking Report**

*Release Date: September 18, 2013*

| # | Benchmarks | Xcel Energy | Mean | Minimum | Maximum | Median | Previous Report Mean |
|---|---|---|---|---|---|---|---|
| 26a | Burdened rate as a percent of total FTE salaries for the following functional areas and activities: | | | | | | |
| | Senior Management | *n/a* | 48.49% | | | | *47.57%* |
| | Planning | *n/a* | 53.79% | | | | *50.66%* |
| | Professional Support Staff | *n/a* | 50.48% | | | | *46.86%* |
| | Accounts Payable | *n/a* | i.d. | | | | *i.d.* |
| | Administrative | *n/a* | 45.71% | | | | *47.93%* |
| | Supplier Diversity | *n/a* | 51.37% | | | | *43.40%* |
| | Category Sourcing/Procurement | *n/a* | 50.53% | | | | *42.88%* |
| | Purchasing | *n/a* | 49.02% | | | | *42.46%* |
| | Major Project Sourcing | *n/a* | 46.15% | | | | *41.65%* |
| | Other Project Sourcing | *n/a* | 47.24% | | | | *29.34%* |
| | Warehouse and Operations Management | *n/a* | 48.17% | | | | *42.75%* |
| 26b | Overall average burdened rate as a percent of total FTE salaries | *n/a* | 48.47% | 34.53% | 74.53% | 44.46% | *42.91%* |
| 27a | Percent of organizations that track cost avoidance savings | *Yes* | **Yes:** | 61.54% | **No:** | 38.46% | *76.19%* |
| 27b | If yes, average cost avoidance savings as a percent of total controlled spend | *0.59%* | 1.55% | | | | |
| 27c | Percent of organizations that track cost reduction savings | *Yes* | **Yes:** | 76.92% | **No:** | 23.08% | *85.71%* |
| 27d | If yes, average cost reduction savings as a percent of total controlled spend | *2.77%* | 2.40% | | | | |
| 27e | Percent of organizations that track total cost savings | *Yes* | **Yes:** | 64.29% | **No:** | 35.71% | *85.71%* |
| 27f | If yes, average total cost savings as a percent of total controlled spend | *Goal: 2.84%* *Actual: 3.70%* | **Goal:** | 2.81% | **Actual:** | 3.89% | |

| # | Benchmarks | *Xcel Energy* | Mean | Minimum | Maximum | Median | *Previous Report Mean* |
|---|---|---|---|---|---|---|---|
| | ***Supplier Information*** | | | | | | |
| 28a | Percent of active suppliers that account for 80% of total spend | *4.13%* | 5.26% | 2.42% | 8.60% | 4.98% | |
| 28b | Percent of active suppliers that account for the top 20% of total spend | *0.10%* | 0.19% | 0.08% | 0.67% | 0.14% | |
| 29 | Percent of organizations that have suppliers working onsite | *Yes* | 50.00% | | | | |
| 30a | Percent of organizations that track on-time delivery from suppliers | *Yes* | 35.71% | | | | |
| 30b | Of those organizations that track on-time delivery, average on-time delivery performance to contractual due date | *89.20%* | 71.77% | 54.00% | 89.20% | 67.40% | |
| 31 | Percent of organizations that have a supplier relationship management program | *Yes* | 28.57% | | | | |

| 32 | Percent of organizations that regularly include the following supplier performance measures in their supplier performance rating process or system for strategic suppliers: | | |
|---|---|---|---|
| | Cost reduction | X | 33.33% |
| | Emergency response readiness | | 25.00% |
| | Environment | X | 16.67% |
| | Health | | 8.33% |
| | Innovation expertise | | 16.67% |
| | Management expertise | | 16.67% |
| | On-time delivery | X | 66.67% |
| | Operational performance | X | 50.00% |
| | Performance to expectations for sub-tier management | | 0.00% |
| | Quality | X | 66.67% |
| | Responsiveness/flexibility | X | 33.33% |
| | Risk mitigation | | 16.67% |
| | Safety | X | 75.00% |
| | Security of supply chain | | 8.33% |
| | Social responsibility | | 8.33% |
| | Supplier viability | | 8.33% |
| | Supply reliability | | 41.67% |
| | Sustainability | | 8.33% |
| | Total cost of ownership | X | 16.67% |
| | Other | | 8.33% |
| | Other List: | Customer Service; Financial Management | |

**CAPS Research**
**Utilities Industry**
**2013 Supply Management Performance Benchmarking Report**

*Release Date: September 18, 2013*

| # | Benchmarks | *Xcel Energy* | Mean | Minimum | Maximum | Median | *Previous Report Mean* |
|---|---|---|---|---|---|---|---|
| | ***Miscellaneous*** | | | | | | |
| 33a | Average value per procurement transaction that was: | | | | | | |
| | Manually prepared/released documents (not automated) | ***$29,565*** | $22,687 | $5,484 | $37,598 | $21,841 | *$92,019* |
| | Stand-alone | ***$11,819*** | $12,391 | $10,019 | $17,081 | $11,819 | *$76,350* |
| | Contract/Master Service Agreement Release | ***$44,515*** | $145,274 | $2,453 | $636,667 | $44,553 | *$152,538* |
| | Automated (auto-sourced) or 'touchless' transactions | ***$5,840*** | $17,835 | $1,388 | $74,093 | $5,840 | *$5,540* |
| | Procurement card (pCard or similar) transactions | ***$190*** | $260 | $92 | $526 | $241 | *$254* |
| 33b | Average number of total procurement transactions that were: | | | | | | |
| | Manually prepared/released documents (not automated) | ***76,239*** | 43,939 | 9,512 | 76,239 | 31,240 | *46,087* |
| | Stand-alone | ***34,860*** | 23,588 | 7,483 | 37,986 | 25,166 | *23,753* |
| | Contract/Master Service Agreement Release | ***41,379*** | 45,211 | 240 | 245,873 | 9,914 | *18,758* |
| | Automated (auto-sourced) or 'touchless' transactions | ***55,822*** | 25,037 | 3,160 | 79,879 | 11,800 | *52,625* |
| | Procurement card (pCard or similar) transactions | ***378,279*** | 212,643 | 13,602 | 1,126,214 | 68,376 | *202,339* |
| 33c | Average number of line items per procurement transaction that was: | | | | | | |
| | Manually prepared/released documents (not automated) | ***2.20*** | 2.68 | 1.33 | 5.04 | 2.49 | *2.38* |
| | Stand-alone | ***2.58*** | 2.47 | 1.89 | 2.95 | 2.51 | *2.38* |
| | Contract/Master Service Agreement Release | ***1.88*** | 9.09 | 1.88 | 36.25 | 3.92 | *2.19* |
| | Automated (auto-sourced) or 'touchless' transactions | ***3.87*** | 4.14 | 1.08 | 15.45 | 3.06 | *3.01* |
| 34 | ***See Appendix A for a list of the top three initiatives for participating organization's supply chains during the reporting period*** | | | | | | |
| 35 | Percent of organizations that participate in benchmarking activities with organizations other than CAPS Research | *Yes* | 85.71% | | | | *76.19%* |
| | If yes, list of other organizations: | 1st Quartile Consulting; ***Dow Jones Sustainability Index***; Electric Utility Industry Sustainable Supply Chain Alliance (EUISSCA); Hackett; PA Consulting; ***Utilities Procurement Management Group (UPMG) (10)*** | | | | | |

i.d. indicates insufficient data
n/a indicates not applicable

CAPS RESEARCH BENCHMARKING

**CAPS Research**
**Cross-Industry Report of Standard Benchmarks**
**Utilities Industry**

Release Date: October 2, 2015

| # | Benchmarks | Xcel Energy Inc. | Mean | Minimum | First Quartile | Median | Third Quartile | Maximum |
|---|---|---|---|---|---|---|---|---|
| 1 | Total spend as a percent of sales/revenue dollars | *33.2%* | 36.5% | 16.2% | 25.4% | 30.0% | 33.7% | 86.5% |
| 2 | Percent of total spend managed and/or controlled by supply management | *98.4%* | 82.9% | 27.5% | 78.3% | 96.3% | 98.8% | 100.0% |
| 3 | Supply management employees as a percent of company employees | *3.0%* | 2.0% | 0.6% | 0.8% | 1.8% | 3.0% | 3.7% |
| 4 | Percent of supply management employees that are strategic | *15.9%* | 23.0% | 5.2% | 14.9% | 19.3% | 30.6% | 46.5% |
| 5 | Percent of companies that reported an increase in supply management strategic employees | *Increase* | 46.2% | | | | | |
| | Percent of companies that reported a decrease in supply management strategic employees | *Increase* | 15.4% | | | | | |
| 6 | Percent of supply management employees that are operational | *84.1%* | 77.0% | 53.5% | 69.4% | 80.7% | 85.1% | 94.8% |
| 7 | Percent of companies that reported an increase in supply management operational employees | *Increase* | 15.4% | | | | | |
| | Percent of companies that reported a decrease in supply management operational employees | *Increase* | 46.2% | | | | | |
| 8 | Average supply management return on investment (ROI) | *381.3%* | 524.7% | 20.4% | 122.9% | 244.5% | 831.0% | 1500.0% |
| 9 | Supply management operating expense as a percent of total spend | *1.2%* | 0.9% | 0.1% | 0.3% | 0.8% | 1.2% | 2.3% |
| 10 | Supply management operating expense per supply management employee | *$135,464* | $128,104 | $74,074 | $105,027 | $128,087 | $145,707 | $207,184 |
| 11 | Total spend per supply management employee | *$11,412,173* | $29,189,693 | $7,024,463 | $8,877,591 | $18,880,318 | $30,171,671 | $134,921,875 |
| 12 | Managed spend per supply management employee | *$11,231,312* | $18,737,211 | $6,272,821 | $8,066,566 | $13,086,777 | $26,973,252 | $42,558,140 |

CAPS Research
Cross-Industry Report of Standard Benchmarks
Utilities Industry

Release Date: October 2, 2015

| # | Benchmarks | Xcel Energy Inc. | Mean | Minimum | First Quartile | Median | Third Quartile | Maximum |
|---|---|---|---|---|---|---|---|---|
| 13 | Percent of total spend processed through pCards | *2.3%* | 1.3% | 0.2% | 0.5% | 1.2% | 1.7% | 3.4% |
| | Percent of managed spend processed through pCards | *2.4%* | 1.6% | 0.2% | 0.9% | 1.2% | 2.3% | 3.6% |
| 14 | Annual spend on training per supply management employee | *$441* | $1,030 | $79 | $339 | $465 | $947 | $6,019 |
| 15 | Cost reduction savings as a percent of managed spend | *3.9%* | 2.4% | 0.4% | 0.8% | 1.9% | 3.6% | 5.9% |
| 16 | Cost avoidance savings as a percent of managed spend | *0.7%* | 1.4% | 0.1% | 0.5% | 0.7% | 2.2% | 4.2% |
| 17 | Average purchase order processing cost | *$435* | $481 | $52 | $102 | $175 | $473 | $2,909 |
| 18 | Average cycle time (in days) from requisition approval to PO Placement for direct goods | *i.d.* | 9.1 | 2.0 | 2.4 | 5.0 | 7.0 | 31.4 |
| 19 | Average cycle time (in days) from requisition approval to PO Placement for indirect goods and services | *1.0* | 9.4 | 1.0 | 2.1 | 5.1 | 11.0 | 39.6 |
| 20 | Percent of active suppliers that account for 80% of total spend | *3.6%* | 4.9% | 1.0% | 3.3% | 4.2% | 6.6% | 9.6% |
| 21 | Percent of spend with qualified socioeconomic program suppliers | *10.1%* | 14.5% | 2.9% | 7.7% | 11.7% | 17.6% | 42.3% |
| Bonus 1 | Of those companies reporting an increase in strategic employees, percent of increase | *1.9%* | 20.3% | 1.1% | 1.9% | 9.1% | 31.8% | 57.7% |
| Bonus 2 | Of those companies reporting a decrease in strategic employees, percent of decrease | *n/a* | i.d. | | | | | |
| Bonus 3 | Of those companies reporting an increase in operational employees, percent of increase | *0.7%* | i.d. | | | | | |
| Bonus 4 | Of those companies reporting a decrease in operational employees, percent of decrease | *n/a* | 15.8% | 6.5% | 8.2% | 8.9% | 9.5% | 45.8% |

i.d. indicates insufficient data
n/a indicates not applicable

CAPS RESEARCH

# 2017 Supply Management Metrics (Cross-Industry) Report

## August 2017



Cross-Industry Comparison of Metrics

| | | Xcel Energy Inc. | Utilities Industry Profile | | | | Process Sector Profile | | | | Population |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Minimum | Median | Mean | Maximum | Minimum | Median | Mean | Maximum | Population Average |
| | *Breakdown of Spend Categories* | | | | | | | | | | |
| 1 | Sourceable spend as a percent of sales/revenue dollars | 32.4% | 20.1% | 31.6% | 34.4% | 70.7% | 3.2% | 36.1% | 38.2% | 77.4% | *39.5%* |
| 2 | Percent of sourceable spend managed/controlled by supply management | 96.9% | 63.6% | 92.7% | 87.7% | 98.7% | 30.0% | 95.1% | 85.7% | 100.0% | *86.3%* |
| 3 | Percent of sourceable spend that is direct | 65.3% | 0.0% | 65.3% | 57.4% | 90.6% | 0.0% | 32.5% | 41.5% | 100.0% | *52.9%* |
| 4 | Percent of sourceable spend that is indirect | 34.7% | 9.4% | 34.7% | 42.6% | 100.0% | 0.0% | 67.5% | 58.5% | 100.0% | *47.1%* |
| 5 | Percent of managed spend that is direct | 55.8%** | 0.0% | 69.5% | 54.2% | 100.0% | 0.0% | 31.9% | 38.2% | 100.0% | *50.8%* |
| 6 | Percent of managed spend that is indirect | 28.5%** | 0.0% | 30.5% | 45.8% | 100.0% | 0.0% | 68.1% | 61.8% | 100.0% | *49.2%* |
| 7 | Diversity spend with suppliers that are formally certified as diverse, as a percent of all spend with diverse suppliers | i.d. | i.d. | i.d. | i.d. | i.d. | i.d. | i.d. | 90.7% | i.d. | *77.7%* |
| 8 | Diversity spend with small businesses as a percent of all spend with diverse suppliers | i.d. | i.d. | i.d. | i.d. | i.d. | i.d. | i.d. | i.d. | i.d. | *71.8%* |
| | *The Supply Management Group* | | | | | | | | | | |
| 9 | Percent of supply management groups with a functional alignment that is centralized, decentralized, or center-led | | | | | | | | | | |
| a | Centralized | Centralized | n/a | n/a | 60% | n/a | n/a | n/a | 50% | n/a | *43%* |
| b | Decentralized | | n/a | n/a | 10% | n/a | n/a | n/a | 0% | n/a | *9%* |
| c | Center-led | | n/a | n/a | 30% | n/a | n/a | n/a | 50% | n/a | *48%* |
| 10 | Supply management operating expense as a percent of sourceable spend | 0.7% | 0.3% | 1.0% | 1.1% | 3.1% | 0.0% | 0.7% | 1.0% | 5.6% | *1.5%* |
| 11 | Supply management operating expense as a percent of managed spend | 0.7% | 0.2% | 0.5% | 0.7% | 1.5% | 0.0% | 0.6% | 1.0% | 6.3% | *1.4%* |
| 12 | Supply management employees as a percent of company employees | 1.2% | 0.5% | 1.0% | 1.4% | 3.5% | 0.3% | 1.6% | 2.1% | 10.0% | *2.0%* |
| 13 | Percent of supply management employees that are strategic | 32.1%** | 17.1% | 26.1% | 31.7% | 68.4% | 13.8% | 31.0% | 35.7% | 100.0% | *37.7%* |
| 14 | Percent of supply management employees that are operational | 21.4%** | 31.6% | 73.9% | 68.3% | 82.9% | 0.0% | 69.0% | 64.3% | 86.2% | *62.3%* |

Data Year: 2016
Release Date: August 2017

# 2017 Supply Management Metrics (Cross-Industry) Report

**August 2017** 

Cross-Industry Comparison of Metrics

| | | Xcel Energy Inc. | Utilities Industry Profile | | | | Process Sector Profile | | | | Population |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Minimum | Median | Mean | Maximum | Minimum | Median | Mean | Maximum | Population Average |
| | ***Efficiency Metrics*** | | | | | | | | | | |
| 15 | Supply management return on investment (cost reduction and cost avoidance) | 934.5% | 78.2% | 654.1% | 1101.6% | 6817.6% | 78.2% | 526.3% | 891.5% | 6817.6% | *723.5%* |
| 16 | Supply management return on investment (cost reduction only) | 791.3% | 13.2% | 298.4% | 642.9% | 3976.2% | 13.2% | 314.4% | 548.8% | 3976.2% | *509.9%* |
| 17 | Cost reduction savings as a percent of managed spend | 5.7% | 0.2% | 2.0% | 2.5% | 6.2% | 0.2% | 2.4% | 3.5% | 14.6% | *4.0%* |
| 18 | Cost avoidance savings as a percent of managed spend | 1.0% | 0.1% | 2.5% | 2.3% | 5.2% | 0.1% | 1.2% | 2.1% | 7.4% | *2.5%* |
| 19 | Percent of active suppliers that account for 80% of sourceable spend | 4.6% | 1.2% | 5.6% | 5.6% | 10.0% | 1.2% | 5.1% | 5.6% | 18.8% | *6.0%* |
| | ***Per Employee Ratios*** | | | | | | | | | | |
| 20 | Supply management operating expense per supply management employee | $178,165 | $42,841 | $114,303 | $123,457 | $236,985 | $36,800 | $129,237 | $132,336 | $274,023 | *$129,577* |
| 21 | Sourceable spend per supply management employee (millions) | $25.7 | $4.4 | $18.6 | $20.7 | $44.3 | $3.6 | $19.4 | $28.4 | $256.3 | *$19.0* |
| 22 | Managed spend per supply management employee (millions) | $24.9 | $7.5 | $24.9 | $25.0 | $49.5 | $3.0 | $22.0 | $25.8 | $202.0 | *$17.0* |
| 23 | Total savings per strategic supply management employee (millions) | $5.2 | $0.7 | $2.8 | $3.2 | $6.8 | $0.5 | $1.8 | $2.8 | $10.3 | *$2.9* |
| 24 | Cost reduction savings per strategic supply management employee (millions) | $4.4 | $0.1 | $1.3 | $1.7 | $4.4 | $0.1 | $1.3 | $1.8 | $6.8 | *$1.7* |
| 25 | Managed spend per transactional purchasing employee (millions) | $64.5 | $33.0 | $61.1 | $59.3 | $88.4 | $3.3 | $51.0 | $65.7 | $400.0 | *$67.5* |
| 26 | Managed spend per category management employee (millions) | $4.7 | $44.7 | $171.3 | $164.0 | $265.4 | $17.3 | $90.4 | $112.7 | $265.4 | *$115.1* |
| 27 | Purchase order lines per transactional purchasing employee | 7,497 | 4,786 | 8,256 | 9,819 | 22,110 | 493 | 7,497 | 8,209 | 22,110 | *12,427* |
| | ***Percent of Supply Management Employees Assigned to Selected Areas*** | | | | | | | | | | |
| 28 | Category Management | 55.7% | 0.0% | 11.0% | 15.1% | 55.7% | 0.0% | 11.0% | 22.7% | 100.0% | *23.4%* |
| 29 | Transactional Purchasing | 38.6% | 4.3% | 28.1% | 30.2% | 55.0% | 4.3% | 36.9% | 38.8% | 90.0% | *39.4%* |
| 30 | Supplier Programs | 12.9% | 0.2% | 9.9% | 16.0% | 62.7% | 0.0% | 1.0% | 7.9% | 62.7% | *6.6%* |
| 31 | Supplier Diversity | 2.1% | 0.0% | 2.5% | 2.9% | 7.9% | 0.0% | 1.3% | 2.2% | 7.9% | *1.5%* |
| 32 | Supplier Risk Management | 72.9% | 0.0% | 1.3% | 14.6% | 72.9% | 0.0% | 0.9% | 7.5% | 72.9% | *5.7%* |
| 33 | Center of Excellence | 0.0% | 0.0% | 3.4% | 6.8% | 38.2% | 0.0% | 2.8% | 5.3% | 38.2% | *6.9%* |
| 34 | Data Analytics | 14.3% | 0.9% | 3.9% | 5.5% | 14.3% | 0.0% | 3.5% | 4.3% | 14.3% | *4.6%* |

i.d. indicates insufficient data; ** indicates data removed from report

**Data Year: 2016**
**Release Date: August 2017**

**Summary of XES Expenses to SPS by Affiliate Class and Billing Method**
**For Twelve Months ended June 30, 2019**
**O'Hara**

| (A) | (B) | (C) | (D) | (E) | (F) | (G) | (H) | (I) | (J) | (K) | (L) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Line No.** | **Affliate Class** | **Billing Method (Cost Center)** | **Allocation Method** | **Total XES Billings for Class to all Legal Entities (FERC Acct. 400-935)** | **XES Billings for Class to all Legal Entities Except for SPS (FERC Acct. 400-935)** | **XES Billings for Class to SPS (Total Company) (FERC Acct. 400-935)** | **Exclusions** | **Per Book** | **Pro Formas** | **Requested Amount (Total Company)** | **% of Class Charges** |
| 1 | Supply Chain | 200090 - Risk Mgmt - OpCos | Assets/Revenue/No. of employees | $ 1,011.87 | $ 865.73 | $ 146.14 | $ - | $ 146.14 | $ 4.38 | $ 150.52 | 0.01% |
| 2 | Supply Chain | 200094 - Supply Chain | Assets/Revenue/No. of employees | 12,912.64 | 11,042.00 | 1,870.64 | - | 1,870.64 | (1.68) | 1,868.96 | 0.16% |
| 3 | Supply Chain | 200132 - Payment and Reporting | Invoice Transactions | 3,001,938.30 | 2,705,740.58 | 296,197.72 | (4.32) | 296,193.40 | (1,989.32) | 294,204.08 | 25.86% |
| 4 | Supply Chain | 200165 - PeopleSoft | Number of Employees | 240.14 | 205.71 | 34.43 | - | 34.43 | (34.43) | - | 0.00% |
| 5 | Supply Chain | Direct | Direct | 7,171,379.92 | 6,345,296.52 | 826,083.40 | (6,035.00) | 820,048.40 | 21,336.32 | 841,384.72 | 73.96% |
| 6 | **Supply Chain Total** | | | **$ 10,187,482.87** | **$ 9,063,150.54** | **$ 1,124,332.33** | **$ (6,039.32)** | **$ 1,118,293.01** | **$ 19,315.28** | **$ 1,137,608.29** | **100.00%** |
| | | | | | | | | | | | |
| 7 | **Total Witness - Gary O'Hare** | | | **$ 10,187,482.87** | **$ 9,063,150.54** | **$ 1,124,332.33** | **$ (6,039.32)** | **$ 1,118,293.01** | **$ 19,315.28** | **$ 1,137,608.29** | |
| | | | | | | | | | | | |
| | Amounts may not add or tie to other schedules due to rounding. | | | | | | | | | | |

**Southwestern Public Service Company**

**XES Expenses by Affiliate Class, Activity, Billing Method and FERC Account**

**Gary J. O'Hara**

**2019 TX Rate Case**

**APPLICATION OF**
**SOUTHWESTERN PUBLIC SERVICE COMPANY**
**FOR AUTHORITY TO CHANGE RATES**

**GJO-RR-B(CD)**

**Exclusions from XES Expenses to SPS by Affiliate Class and FERC Account**
**For Twelve Months ended June 30, 2019**
**O'Hara**

| (A) | (B) | (C) | (D) | (E) |
|---|---|---|---|---|
| Line No. | Affiliate Class | FERC Account | Explanation for Exclusions | Exclusions (Total Company) |
| 1 | Supply Chain | 426.4 - Life Insurance | Below the line | $ (6,035.00) |
| 2 | Supply Chain | 426.5 - Other Deductions | Below the line | (4.32) |
| 3 | **Supply Chain Total** | | | **$ (6,039.32)** |
| | | | | |
| 4 | | **Total Witness - Gary O'Hare** | | **$ (6,039.32)** |
| | | | | |
| | Amounts may not add or tie to other schedules due to rounding. | | | |

**Pro Forma Adjustments to XES Expenses by Affiliate Class and FERC Account**
**For Twelve Months ended June 30, 2019**
**O'Hara**

| (A) | (B) | (C) | (D) | (E) | (F) |
|---|---|---|---|---|---|
| **Line No.** | **Affiliate Class** | **FERC Account** | **Explanation for Pro Formas** | **Sponsor** | **Pro Formas (Total Company)** |
| 1 | Supply Chain | 566 - Miscellaneous transmission expenses | 116.5% Incentive | Arthur Freitas/Michael Knoll | $ (245.45) |
| 2 | Supply Chain | 580 - Operation supervision and engineering | 3% Wage Adjustment | Arthur Freitas/Michael Knoll | 9.50 |
| 3 | Supply Chain | 920 - Administrative and general salaries | 116.5% Incentive | Arthur Freitas/Michael Knoll | (2,398.93) |
| 4 | Supply Chain | 920 - Administrative and general salaries | 3% Wage Adjustment | Arthur Freitas/Michael Knoll | 27,399.69 |
| 5 | Supply Chain | 920 - Administrative and general salaries | Business Area Adjustment | Gary O'Hara | (34.43) |
| 6 | Supply Chain | 920 - Administrative and general salaries | Foundation | William Grant | (2,338.25) |
| 7 | Supply Chain | 921 - Office supplies and expenses | Business Area Adjustment | Gary O'Hara | (23.41) |
| 8 | Supply Chain | 926 - Employee pensions and benefits | Pension & Benefits Adjustment | William Grant | (3,033.56) |
| 9 | Supply Chain | 930.1 - General advertising expenses | Advertising | Arthur Freitas | (73.27) |
| 10 | Supply Chain | 931 - Rents | 3% Wage Adjustment | Arthur Freitas/Michael Knoll | 53.38 |
| 11 | **Supply Chain Total** | | | | **$ 19,315.28** |
| | | | | | |
| 12 | **Total Witness - Gary O'Hare** | | | | **$ 19,315.28** |
| | | | | | |
| | Amounts may not add or tie to other schedules due to rounding | | | | |