

**BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION**

**IN THE MATTER OF SOUTHWESTERN )  
PUBLIC SERVICE COMPANY'S )  
APPLICATION FOR: (1) REVISION OF )  
ITS RETAIL RATES UNDER ADVICE )  
NOTICE NO. 282; (2) AUTHORIZATION ) CASE NO. 19-00170-UT  
AND APPROVAL TO SHORTEN THE )  
SERVICE LIFE OF AND ABANDON ITS )  
TOLK GENERATING STATION UNITS; )  
AND (3) OTHER RELATED RELIEF, )  
SOUTHWESTERN PUBLIC SERVICE )  
COMPANY, )  
APPLICANT. )**

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**DIRECT TESTIMONY**

*of*

**MICHAEL T. KNOLL**

*on behalf of*

**SOUTHWESTERN PUBLIC SERVICE COMPANY**

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## **GLOSSARY OF ACRONYMS AND DEFINED TERMS**

| <b><u>Acronym/Defined Term</u></b> | <b><u>Meaning</u></b>                                                                                                                                                                           |
|------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| AIP                                | Annual Incentive Program                                                                                                                                                                        |
| Base Period                        | April 1, 2018 through March 31, 2019                                                                                                                                                            |
| CBA                                | Collective Bargaining Agreement                                                                                                                                                                 |
| Commission                         | New Mexico Public Regulation Commission                                                                                                                                                         |
| DART                               | Days Away, Restricted or Transferred                                                                                                                                                            |
| FLSA                               | Fair Labor Standards Act                                                                                                                                                                        |
| FMCP                               | Family Medical Care Plan                                                                                                                                                                        |
| HDHP                               | High Deductible Health Plan                                                                                                                                                                     |
| HSA                                | Health Savings Account                                                                                                                                                                          |
| IBEW                               | International Brotherhood of Electrical<br>Workers                                                                                                                                              |
| KPI                                | Key Performance Indicator                                                                                                                                                                       |
| Local 602                          | IBEW Local Union 602                                                                                                                                                                            |
| LTI                                | Long-Term Incentive                                                                                                                                                                             |
| O&M                                | Operation and Maintenance                                                                                                                                                                       |
| Operating Companies                | Northern States Power Company, a<br>Minnesota corporation; Northern States<br>Power Company, a Wisconsin corporation;<br>Public Service Company of Colorado, a<br>Colorado corporation; and SPS |

| <b><u>Acronym/Defined Term</u></b> | <b><u>Meaning</u></b>                                                                                                            |
|------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| SAIDI                              | System Average Interruption Duration Index                                                                                       |
| SIP                                | Wholesale Energy Marketing and Trading Supplemental Incentive Program                                                            |
| SPS                                | Southwestern Public Service Company, a New Mexico corporation                                                                    |
| Test Year                          | Historical Test Year Period consisting of the Base Period and further incorporating all proper adjustments and capital additions |
| TSR                                | Total Shareholder Return                                                                                                         |
| Xcel Energy                        | Xcel Energy Inc.                                                                                                                 |
| XES                                | Xcel Energy Services Inc.                                                                                                        |

## LIST OF ATTACHMENTS

| <b><u>Attachment</u></b> | <b><u>Description</u></b>                                                               |
|--------------------------|-----------------------------------------------------------------------------------------|
| MTK-1                    | Total Company Amounts and Jurisdictional Percentages<br>( <i>Filename: MTK-1.xlsx</i> ) |

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of  
Michael T. Knoll

1           **I. WITNESS IDENTIFICATION AND QUALIFICATIONS**

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

3   A. My name is Michael T. Knoll. My business address is 401 Nicollet Mall,  
4       Minneapolis, Minnesota 55401.

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

6   A. I am filing testimony on behalf of Southwestern Public Service Company, a New  
7       Mexico corporation (“SPS” or the “Company”) and wholly-owned electric utility  
8       subsidiary of Xcel Energy Inc. (“Xcel Energy”).

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

10   A. I am employed by Xcel Energy Services Inc. (“XES”), the service company  
11       subsidiary of Xcel Energy, as Director of Compensation.

12   **Q. Please briefly outline your responsibilities as Director of Compensation.**

13   A. My responsibilities include designing, developing, and implementing broad-based  
14       compensation programs, which include base pay and incentive strategy and  
15       administration, as well as managing the employee recognition programs. The  
16       goals of these programs are to attract, retain, and motivate talented employees at  
17       all levels throughout the organization. In my broader role as a member of the  
18       human resources management team, I am also responsible for supporting our

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1 regulatory process related to human resource matters for rate cases, including  
2 providing testimony describing our Total Rewards programs.

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

4 A. I received my Bachelor of Arts degree in Business Administration and Economics  
5 from Northland College, Ashland, Wisconsin and my Masters of Business  
6 Administration in Finance from The University of St. Thomas in St. Paul,  
7 Minnesota. Throughout the last 15 years of my corporate career, I have stayed  
8 educated on current market trends, human resource best-practices and workforce  
9 challenges facing employers, as well as presented materials regarding trending  
10 compensation topics.

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

12 A. Throughout the last 15 years of my corporate career, I have worked for domestic  
13 companies where my primary focus was compensation administration in the retail  
14 and business process services industries. Prior to joining XES, I worked as the  
15 Senior Manager of Compensation for Supervalu Corporation, a wholesale and  
16 retail grocery company located in various regions throughout the United States.  
17 My responsibilities included the design and administration of broad-based and  
18 executive compensation programs.

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1   **Q.   Have you attended or taken any special courses or seminars?**

2   A.   Yes. I have attended various seminars related to human resources topics,  
3       maintained insights by reading industry publications and have completed  
4       Certified Compensation Professional certification courses from the World at  
5       Work Society of Compensation Professionals.

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

7   A.   Yes. I provided pre-filed direct testimony in a Public Service Company of  
8       Colorado electric rate case before the Colorado Public Utilities Commission.

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

A. SPS’s proposed revenue requirement includes compensation and benefits costs for SPS’s employees and the XES and Operating Company employees who charge time to SPS for the necessary services they provide to SPS. I explain why these costs are reasonable and necessary for the provision of utility service. In particular, I discuss:

- The base pay costs incurred during the Test Year<sup>1</sup>; how the base pay costs were calculated; and how the base pay increases budgeted for Xcel Energy non-bargaining employees are competitive with the market and, therefore, reasonable;
- The structure for Xcel Energy’s Annual Incentive Program (“AIP”), and those related costs for the Test Year;
- The structure of Xcel Energy’s Long-Term Incentive Program (“LTI”) for executive and senior exempt employees and those related costs for the Test Year;
- The structure of Xcel Energy’s Wholesale Marketing and Trading Supplemental Incentive Program (“SIP”);
- The structure of Xcel Energy’s Recognition Program; and

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- The benefits offered to Xcel Energy employees, the initiatives undertaken by Xcel Energy to mitigate increases in these costs, and how the benefits costs are necessary.

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

A. Xcel Energy's objective is to provide comprehensive, market-competitive compensation and benefits, which make up an employee's Total Rewards, that are designed and valued to attract, retain and motivate the skilled workforce SPS needs to provide safe and reliable electric service to its customers. The pay and benefit levels are comparable to the market median, which indicates they are at or near the middle of pay and benefit offerings of similarly situated utility companies. The components of the Total Rewards Program are regularly evaluated to ensure competitiveness with the market, as well as innovative design features to maximize employee engagement. The Total Rewards Programs have limits regarding the minimum performance levels and maximum payout levels for incentive pay. There are also strict eligibility requirements built into the programs to eliminate excessive or unnecessary expenses. The non-bargaining Total Rewards Program is administered consistently across Xcel Energy to ensure customers are the focal point of all employee actions and decisions. In all, the Total Rewards Program follows the best practices in the market-place, reflects a reasonable level of costs to operate a large, national utility company, and the New

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1 Mexico Public Regulation Commission (“Commission”) should authorize  
2 recovery of the amounts related to these programs.

3 In addition to compensation, the benefit programs SPS employees receive  
4 are comparable to the market and necessary to attract and retain a qualified,  
5 skilled workforce. For these reasons, I recommend that the Commission approve  
6 the amounts of the compensation and recognition programs as well as benefits  
7 costs included in the cost of service study for the Test Year with known and  
8 measurable adjustments as set forth in Table MTK-1 below:

9 **Table MTK-1**

| <b>Compensation Type</b>                       | <b>New Mexico Retail</b> | <b>Total Company</b> |
|------------------------------------------------|--------------------------|----------------------|
| Bargaining wages                               | \$8,445,806              | \$29,809,836         |
| Non-Bargaining base pay                        | \$23,794,232             | \$86,221,578         |
| Annual incentive (AIP)<br>2019 year-end target | \$1,666,125              | \$6,090,779          |
| Long-term incentive (LTI)                      | \$888,660                | \$3,201,060          |

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1   **Q.   Do any other SPS witnesses address issues related to compensation and**  
2       **benefits?**

3   A.   Yes. Two other SPS witnesses address compensation and benefit issues in their  
4       direct testimonies:

- 5               • Richard R. Schrubbe supports SPS's request for active health and  
6               welfare expense, pension and other post-employment benefit expense,  
7               workers' compensation expense, and other benefit-related costs; and
- 8               • Arthur P. Freitas supports the cost of service study including the  
9               known and measurable adjustments for bargaining employee wages,  
10              non-bargaining employee base pay, AIP and LTI. The study also  
11              includes current pension and benefit-related expense, and it reflects the  
12              prepaid pension asset and prepaid retiree medical asset amounts that  
13              SPS seeks to include in rate base.

14   **Q.   How were the New Mexico retail jurisdictional amounts in your testimony**  
15       **and attachments calculated?**

16   A.   Throughout this testimony, I quantify the expense and asset amounts on a New  
17       Mexico retail basis based upon the jurisdictional allocation percentages Mr.  
18       Freitas uses to develop the New Mexico retail revenue requirement in his  
19       Attachment APF-6. Mr. Freitas is responsible for calculating jurisdictional  
20       allocation percentages that apply to the various costs components in the cost of  
21       service. My staff and I conferred with Mr. Freitas and his staff to determine these  
22       New Mexico retail jurisdictional amounts presented in my testimony and

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1        attachments. If the percentages used to allocate amounts to the New Mexico retail  
2        jurisdiction change, those new allocation percentages will need to be applied to  
3        the total company numbers to derive updated New Mexico retail  
4        amounts. Attachment MTK-1 contains the total company numbers and the  
5        jurisdictional percentages used to derive the New Mexico retail amounts in my  
6        testimony.

7        **Q.    Was Attachment MTK-1 prepared by you or under your direct supervision**  
8        **and control?**

9        A.    Yes.

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1                   **III.   PURPOSE OF TOTAL REWARDS PROGRAM**

2   **Q.    What is Xcel Energy's Total Rewards Program?**

3   A.    The term "Total Rewards Program" refers collectively to all of the components of  
4           compensation and benefits that Xcel Energy offers SPS and XES employees.  
5           Those components are:

- 6           • Compensation in the form of:
  - 7               o Base pay;
  - 8               o AIP incentive compensation;
  - 9               o SIP incentive compensation;
  - 10              o LTI incentive compensation; and
  - 11              o Recognition awards;
- 12          • Retirement benefits in the form of:
  - 13              o Qualified pension benefits;
  - 14              o Non-qualified pension benefits; and
  - 15              o Retiree medical benefits;
- 16          • Active health care benefits;
- 17          • Workers' compensation benefits;
- 18          • Long-term disability benefits;
- 19          • 401(k) matches; and
- 20          • Other miscellaneous benefits.

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1   **Q.   Does SPS rely solely on its own employees to provide safe and reliable**  
2       **service?**

3   A.   No. SPS relies on a combination of its own employees and XES employees to  
4       provide safe, reliable electric service. To avoid the need to distinguish between  
5       SPS and XES employees in my testimony, I will refer generally to the employees  
6       who provide services to SPS as being SPS employees, except when necessary to  
7       identify XES specifically. In addition, my testimony sometimes refers to Xcel  
8       Energy as a whole because my group takes a corporate-wide view of certain  
9       issues, such as attrition levels.

10   **Q.   What are Xcel Energy's compensation goals?**

11   A.   The goal of Xcel Energy's compensation programs is to attract, retain, and  
12       motivate the talented employees necessary to provide safe, reliable electric  
13       service to customers, such as SPS's New Mexico customers, at a reasonable cost.  
14       The achievement of this goal requires that Xcel Energy provide its employees  
15       with compensation, through the use of base pay, annual incentive compensation,  
16       recognition, and long-term incentive compensation plans that are competitive with  
17       what is provided by employers with whom Xcel Energy competes for talent (i.e.,  
18       the market).

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1   **Q.   Do the compensation and benefits costs in the Test Year include amounts for**  
2       **“bargaining” and “non-bargaining” employees?**

3   A.   Yes.   Bargaining employees are members of International Brotherhood of  
4       Electrical Workers (“IBEW”) Local Union No. 602 (“Local 602”). Through  
5       IBEW Local Union No. 602, those employees engage in collective bargaining  
6       with SPS over base wages and benefits. All other XES and SPS employees are  
7       considered to be non-bargaining employees whose compensation and benefits are  
8       established outside of the collective bargaining process.

9   **Q.   Are the bargaining and non-bargaining employees eligible for the same**  
10       **components of compensation?**

11   A.   No. Bargaining employees are eligible for the hourly wage amounts agreed to as  
12       part of the collective bargaining amounts, including the amounts negotiated for  
13       overtime work.

14       In contrast, non-bargaining employees are eligible for base pay and may be  
15       eligible for one or more of the following types of incentive compensation:

- 16               • AIP;
- 17               • the Wholesale Energy Marketing and Trading SIP compensation;
- 18               • LTI compensation; and
- 19               • Recognition awards.

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1 The respective compensation components vary by employee based on eligibility,  
2 but the combination of components is designed to provide each non-bargaining  
3 employee with all (100 percent) of the market-based compensation, on-average,  
4 relative to his or her job.

5 **Q. Please explain what you mean when you state that the compensation**  
6 **components for non-bargaining employees vary by employee based on**  
7 **eligibility.**

8 A. The eligibility for particular components of compensation varies depending on  
9 whether a non-bargaining employee is considered to be an “exempt” employee or  
10 “non-exempt” employee under the Fair Labor Standards Act (“FLSA”).  
11 Non-exempt employees, which are defined in the FLSA as those employees paid  
12 on an hourly basis and may receive over-time, are eligible only for base pay and  
13 recognition awards. Exempt employees, which are defined in the FLSA as  
14 salaried workers, are eligible for both base pay and various types of incentive  
15 compensation depending on their job or job level.

16 **Q. Are the compensation packages structured the same for all exempt non-**  
17 **bargaining employees?**

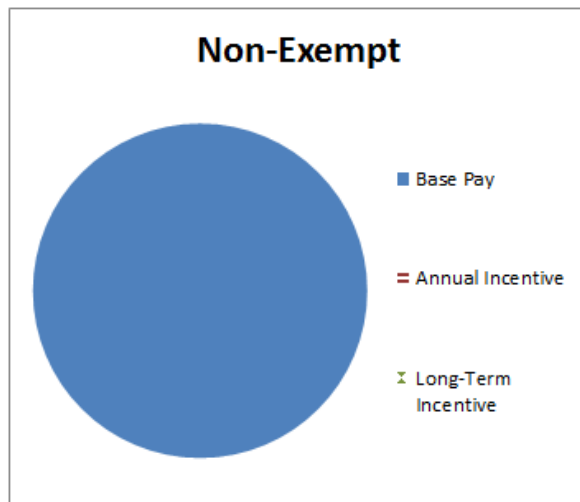
18 A. No. As shown in Charts MTK-1, MTK-2 and MTK-3 the combinations and  
19 values of each component of compensation (base pay, annual incentive and

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1 long-term incentive) differ by job and individual employee. For example, Chart  
2 MTK-3 shows that senior exempt employees receive a greater percentage of their  
3 compensation in the form of incentive compensation than more junior exempt  
4 employees do. This is similar to how other employers with whom SPS competes  
5 for employees structure their compensation components.

6 The compensation structure for all non-bargaining employees is designed  
7 to provide a total compensation package based on the market-competitive  
8 compensation levels and types necessary to attract, retain and motivate employees  
9 at varying levels.

10 **Chart MTK-1**

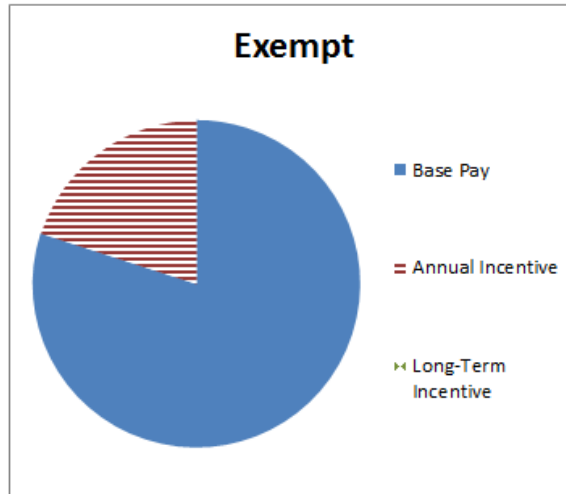


Base pay only = Total Compensation

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1

**Chart MTK-2**



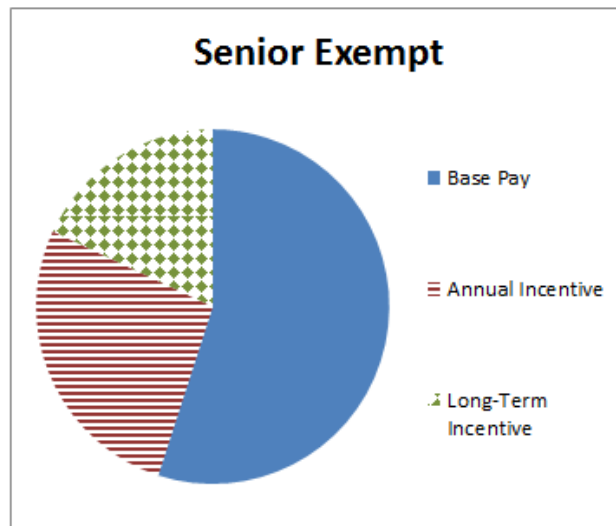
2

Base pay + AIP = Total Compensation

3

4

**Chart MTK-3**



Base pay + AIP + LTI = Total Compensation

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1   **Q.   Is SPS seeking recovery of all Test Year costs associated with its**  
2       **compensation components?**

3   A.   No. As I will explain in more detail later in my testimony, SPS has not included  
4       the LTI costs associated with relative total shareholder return (relative “TSR”) as  
5       a part of its requested compensation expense in this electric rate case. In addition,  
6       SPS is limiting its requested recovery of AIP costs to “target” levels of an  
7       employee’s base pay based on 2019 budgeted levels.<sup>2</sup> Thus, in this rate case, SPS  
8       is seeking recovery of the compensation costs related to base pay, the AIP at  
9       target, the SIP, the environmental component and time-based components of LTI  
10      and the Recognition Program. However, all of the expenses of SPS’s  
11      compensation programs are necessary and reasonable costs of attracting, retaining  
12      and motivating the employees needed to provide safe and reliable electric service.  
13      For this reason, SPS reserves the right to request full AIP and LTI expense  
14      recovery in future base rate cases.

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<sup>2</sup> I explain in the next section of my testimony what is meant by a “target” level of incentive compensation.

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**A. Base Wages and Base Pay**

*1. Bargaining Employee Base Wage*

**Q. How are the base wage amounts for bargaining employees determined?**

A. Bargaining employee base wage amounts, including the hourly wage increases, are based on the collective bargaining agreement (“CBA”) between SPS and Local 602.

**Q. What is the status of the current collective bargaining agreement?**

A. The current collective bargaining agreement is effective through October 31, 2019. Under that agreement, SPS bargaining employees received a base wage increase of 2.5 percent effective November 1, 2017 and another base wage increase of 2.5 percent took effect on November 1, 2018. Costs for these increases are included in the Test Year. A tentative agreement has been reached between SPS and Local 602. The current CBA conditions regarding annual base wage increases will continue with an effective date of November 1, 2019.

**Q. What has been the recent trend in the CBA related to SPS bargaining wage increases?**

A. Table MTK-2 below shows the base wage increases for bargaining employees in recent years under the CBA through October 31, 2019.

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**Table MTK-2**  
**Recent base wage increases for SPS bargaining employees**

| <b>Year</b> | <b>Base Wage Increase</b> |
|-------------|---------------------------|
| 2013        | 2.90%                     |
| 2014        | 2.50%                     |
| 2015        | 2.50%                     |
| 2016        | 2.50%                     |
| 2017        | 2.50%                     |
| 2018        | 2.50%                     |

1    **Q.    What amount is the SPS asking the Commission to approve for bargaining**  
2           **wage expense?**

3    A.    SPS asks the Commission to approve a New Mexico Retail amount of \$8,445,806  
4           for base wages for bargaining employees.

5    **Q.    Is the SPS's requested base wage amount for bargaining employees**  
6           **reasonable?**

7    A.    Yes. The base wage amount for bargaining employees was negotiated as part of a  
8           collective bargaining agreement between SPS and Local 602.

9           2.    *Non-Bargaining Employee Base Pay*

10   **Q.    How are base pay amounts established for non-bargaining employees?**

11   A.    On behalf of SPS and its other Operating Companies, Xcel Energy undertakes a  
12       comprehensive evaluation process for each non-bargaining position using external

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1 market data obtained from independent third-party compensation surveys to  
2 ensure its non-bargaining employee compensation levels are comparable to the  
3 market. To develop an apples-to-apples comparison, Xcel Energy must first  
4 match the job responsibilities of SPS positions to the job responsibilities of the  
5 positions within other companies that compete with Xcel Energy for employees.  
6 After that, Xcel Energy considers data from a variety of surveys, including data  
7 for both utility and non-utility companies.<sup>3</sup> The 50th percentile or median is then  
8 used to determine the appropriate pay range for a position. After an appropriate  
9 pay range is determined, the components of the compensation package are divided  
10 among base pay, AIP, SIP, and LTI, as applicable. By approaching compensation  
11 in this manner, Xcel Energy is able to ensure that its total compensation levels are  
12 comparable to the market and, thus, that those costs are set at a reasonable level.

13 **Q. Can non-bargaining employees earn base pay increases?**

14 A. Yes. Although base pay is considered to be a fixed component of cash  
15 compensation, managers are allowed to award base pay increases based on  
16 employees' performance, their position in the pay range (an indicator of relative  
17 market position), and internal equity between employees. Base pay increases tend

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<sup>3</sup> If SPS's position is unique to the utility industry, Xcel Energy may restrict its comparison to only the utility-specific data in the surveys.

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1 to be higher for employees who have high levels of performance and who are  
2 currently at the low end of the pay range. On the other hand, average performers  
3 who are at the higher end of the pay range for their job classification may only  
4 receive a small base pay increase, and a poor performer generally receives no base  
5 pay increase. Base pay increases are generally effective in March each year.

6 **Q. Are the base pay increases earned by non-bargaining employees the same as**  
7 **cost-of-living increases?**

8 A. No. An employee must earn a base pay increase based upon performance, among  
9 other factors. This is distinct from cost-of-living increases in base pay, which are  
10 typically provided to all employees of a company, regardless of performance.  
11 Xcel Energy does not provide cost-of-living increases.

12 **Q. How does Xcel Energy determine the annual budget for base pay increases?**

13 A. For non-bargaining employees, a number of factors are considered to arrive at  
14 budgeted base pay increases. The factors include:

- 15 • A review of external market surveys regarding base pay increases;
- 16 • Economic conditions;
- 17 • Xcel Energy performance; and
- 18 • A comparison to potential or negotiated wage increases for bargaining  
19 employees.

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1   **Q.    What base pay increase did non-bargaining employees earn in 2019?**

2    A.    Effective March 2019, eligible non-bargaining employees earned, on average, a  
3           3.0 percent base pay increase. To earn a base pay increase, a non-bargaining  
4           employee had to be eligible based on job performance and had to be employed by  
5           SPS on the effective date of the base pay increase.

6   **Q.    Why does Xcel Energy rely on independent third-party surveys as a**  
7           **reference to set base pay amounts and to evaluate base pay increase**  
8           **amounts?**

9    A.    Use of independent third-party compensation surveys is a best practice for  
10           determining compensation across industries. SPS relies on independent  
11           third-party compensation surveys because the survey vendors use rigorous  
12           methodologies to collect and aggregate compensation information from a wide  
13           array of companies. Those surveys are compiled in compliance with Department  
14           of Justice and Federal Trade Commission Antitrust Safety Zone guidelines, which  
15           specify who can administer surveys and define parameters such as the minimum  
16           number of participants in the survey, the percentage of data a single survey  
17           participant can represent in weighted results, and the age of the data. In addition,  
18           the results of the surveys are available only to authorized users, which motivates  
19           companies to share competitive information they would not release publicly.

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1   **Q.    Was the 3.0 percent base pay increase earned by non-bargaining employees**  
2       **in 2019 reasonable?**

3    A.    Yes. The independent third-party surveys that I described above demonstrate that  
4       for 2019, the 3.0 percent base pay increase for non-bargaining employees was  
5       competitive with the market as a whole. In particular, five different survey  
6       sources reported the following base pay increase ranges:

- 7               • 3.0 percent to 3.2 percent for all utilities on a national basis; and  
8               • 2.9 percent to 3.3 percent for all companies on a national basis.<sup>4</sup>

9       As these independent surveys show, the 3.0 percent base pay increase for SPS's  
10      non-bargaining employees was reasonable, and perhaps even conservative, when  
11      compared to the market in 2019.

12   **Q.    Is a 3.0 percent base pay increase consistent with long-term trends for base**  
13       **pay increases for non-bargaining employees?**

14    A.    Yes. Table MTK-3 identifies the survey results for projected and actual  
15       non-bargaining base pay increase percentages available from 2014 through the  
16       2019 projected increase:

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<sup>4</sup> WorldatWork "2018-2019 Salary Budget Survey;" The Conference Board "2019 Salary Increase Budget Survey Results;" Willis Towers Watson "2018 General Industry Salary Budget Survey;" Mercer "2018/2019 US Compensation Planning Survey Report;" and Aon Hewitt "U.S. Salary Increase Survey 2018-2019."

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1

**Table MTK-3**

| <b>Year</b> | <b>Survey Data:<br/>Projected Increase</b> | <b>Survey Data:<br/>Actual Increase</b> |
|-------------|--------------------------------------------|-----------------------------------------|
| 2014        | 2.8% - 3.0%                                | 2.8% - 3.0%                             |
| 2015        | 2.8% - 3.1%                                | 2.8% - 3.0%                             |
| 2016        | 2.9% - 3.0%                                | 2.7% - 3.0%                             |
| 2017        | 2.9% - 3.2%                                | 2.8% - 3.0%                             |
| 2018        | 2.9% - 3.1%                                | 2.9% - 3.3%                             |
| 2019        | 3.0% - 3.3%                                | TBD                                     |

2     **Q.     Based on this survey data, what do you conclude about Xcel Energy’s base**  
3           **pay increases for non-bargaining employees and the amount included in**  
4           **SPSs rate request?**

5     A.     The 2019 base pay increases for non-bargaining employees are reasonable and  
6           should be included in the cost of service in this case. Accordingly, SPS requests  
7           that the Commission approve recovery of \$23,794,232 on a New Mexico Retail  
8           basis for non-bargaining base pay.

9                     **B.     Annual Incentive Compensation**

10    **Q.     What topics do you discuss in this subsection of your testimony?**

11    A.     I discuss three topics related to SPS’s Annual Incentive Program, which is  
12           sometimes referred to by the acronym “AIP.” First, I explain that the use of

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1 incentive compensation benefits customers, as compared to a compensation  
2 system that would provide all of a non-bargaining employee's compensation  
3 through base pay only. Second, I describe the structure of the incentive  
4 compensation program and quantify the amount of incentive compensation that  
5 SPS asks the Commission to approve. Third, I briefly describe the changes made  
6 to the AIP in recent years to incentivize employee behavior that leads to customer  
7 benefits.

8 *1. Benefits of Annual Incentive Compensation Programs*

9 **Q. Why does Xcel Energy include annual incentive compensation as part of its**  
10 **overall compensation plan?**

11 A. Like most employers, Xcel Energy has the option of offering cash compensation  
12 to employees solely through base pay or offering cash compensation through a  
13 combination of base pay and incentive compensation. Xcel Energy has chosen to  
14 offer its non-bargaining employees a combination of base pay and incentive  
15 compensation because that compensation structure produces a number of  
16 well-recognized benefits because it: (1) promotes superior employee  
17 performance; (2) reduces fixed labor costs; and (3) provides a comparable,  
18 market-based compensation design similar to other employers with whom Xcel  
19 Energy and SPS compete for employees.

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1   **Q.   Please explain how offering incentive compensation promotes superior**  
2       **employee performance.**

3   A.   A well-designed incentive compensation plan motivates employees to focus on  
4       activities that benefit customers, such as improving customer service response  
5       times, enhancing reliability, and achieving environmental goals. In addition, a  
6       compensation structure that includes incentive compensation strengthens the link  
7       between pay and performance because the employee must meet the performance  
8       standards to earn the full compensation amount. Using base pay alone to offer an  
9       employee compensation consistent with the 50<sup>th</sup> percentile of the market would  
10      allow an employee to receive all compensation regardless of performance. Thus,  
11      the use of incentive compensation helps Xcel Energy motivate and reward its  
12      employees for delivering superior performance.

13   **Q.   How does incentive compensation reduce fixed labor costs?**

14   A.   The use of incentive compensation reduces labor costs by lowering the base pay  
15      amount to which any annual percentage wage increase is applied. For example, if  
16      a non-bargaining employee's total compensation was \$100 in year one and all of  
17      the compensation was in the form of base pay, a 3.0 percent base pay increase  
18      would lead to a base pay increase of \$3 in year two and a new base pay of \$103.

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1           In contrast, if the compensation was structured as 70 percent base pay and  
2           30 percent incentive compensation, the 3.0 percent base pay increase would lead  
3           to an increase of only \$2.10 in year two ( $\$70 \times .03 = \$2.10$ ) and a new base pay of  
4           \$72.10, with the remainder needing to be earned through incentive components.  
5           Thus, by moving a portion of each employee's pay from base pay to incentive  
6           pay, SPS reduces overall fixed labor costs by avoiding the compounding effect of  
7           annual base pay increases.

8           Furthermore, fixed costs associated with base pay affect a variety of  
9           benefit-related expenses, such as 401(k) match, life insurance premiums,  
10          long-term disability premiums, and short-term disability expenses, among others.  
11          If total compensation was provided through only base pay, the additional fixed  
12          costs would correspondingly increase benefit-related expenses. In contrast,  
13          expenses associated with incentive compensation do not affect all benefit  
14          expenses, and they may fluctuate from year to year. This is another example of  
15          cost savings for customers that result from designing a compensation program  
16          with both base pay and incentive components.

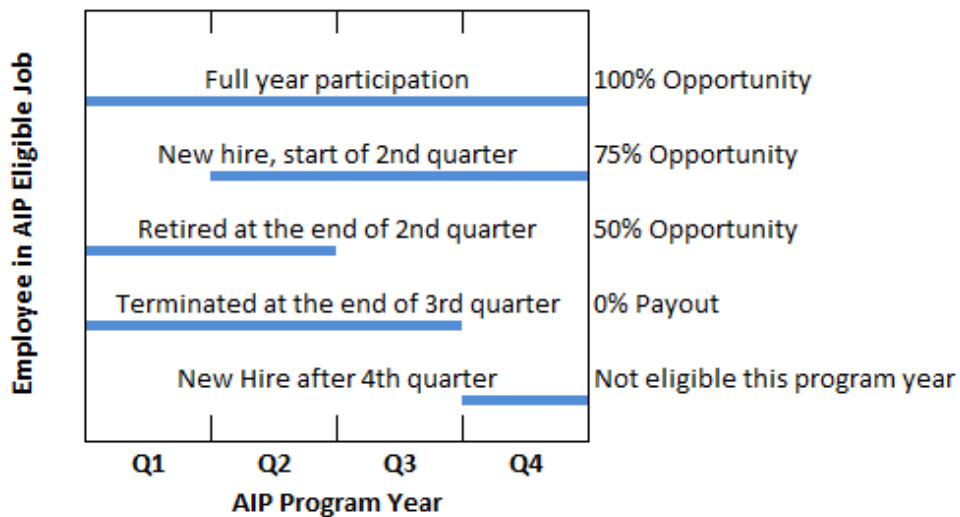
17          Finally, incentive compensation is paid only to those employed at the time  
18          of payout in most circumstances. An example of an exception to this

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1 circumstance would be eligible employees who retire during the AIP performance  
2 year. The incentive compensation calculation also prorates the payout of  
3 incentive compensation to new or transferring participants based on the dates  
4 those employees were in an eligible position during the program year. By  
5 avoiding payouts to departing employees and prorating payouts of arriving  
6 employees, SPS pays less in incentive compensation than it would have paid  
7 those employees if all of their compensation had been in the form of base pay.

8 Chart MTK-4 illustrates a few simple examples of how and when  
9 employees in AIP-eligible jobs may or may not have full or pro-rated AIP  
10 opportunities in relation to the year-end AIP award.

11 **Chart MTK-4**



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1   **Q.    Is it common practice for large companies such as utilities to use annual**  
2       **incentive compensation as part of their compensation packages?**

3    A.    Yes. The use of incentive compensation by employers is a prevalent practice  
4       throughout the United States. In fact, performance-based award programs, in  
5       which a portion of compensation must be earned each year, remained very high,  
6       with more than 90 percent of employers shifting their compensation practices to  
7       this type of program, according to a 2015 Aon Hewitt survey of 1,214 U.S.  
8       companies.<sup>5</sup> According to the 2018 Willis Towers Watson Compensation Study,  
9       100 percent of energy companies in the national sample maintain an annual  
10       incentive plan, and 100 percent of energy companies comparable to Xcel Energy  
11       in terms of revenue maintain an annual incentive plan.

12       2.       *Structure of Xcel Energy Annual Incentive Program (AIP)*

13   **Q.    Please summarize the AIP.**

14    A.    The AIP is the mechanism through which Xcel Energy and SPS tie part of an  
15       eligible employee's compensation to the achievement of defined performance  
16       objectives called Key Performance Indicators ("KPI"). SPS uses the AIP to align  
17       employees' goals with Xcel Energy's corporate and business goals and to

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<sup>5</sup> <http://aon.mediaroom.com/2015-08-26-U-S-Organizations-Report-Highest-Compensation-Spend-in-39-Years>, accessed on 1/9/2019.

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recognize and reward employees for results that contribute to the achievement of reliability, customer satisfaction, and safety goals. When combined with base pay, the AIP compensation component is designed to produce a market-competitive total cash compensation package.

**Q. What performance objectives were reflected in the 2019 AIP?**

A. Performance goals in the AIP are set at the Individual and Corporate levels as follows in Table MTK-4:

**Table MTK-4**  
**2019 AIP Performance Goals**

| <b>Performance Component</b> | <b>Types of Goals within Component</b>                                                                                                       | <b>Purpose of Goals within Component</b>                                                                                                                 |
|------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|
| Individual                   | The individual component is based on an employee's performance results for specific goals identified by the employee and his or her manager. | Goals are tied specifically to the employee's job functions and competencies and are developed in alignment with business area and corporate objectives. |
| Corporate                    | The corporate component consists of goals and KPI focused on operational, environmental, and safety measures.                                | Goals represent customer and employee interests.                                                                                                         |

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1   **Q.    Which employees are eligible to participate in AIP?**

2    A.    The AIP applies to exempt, non-bargaining employees.  An eligible employee  
3       must be employed by October 1 of a particular year to be eligible for a prorated  
4       year-end portion of the AIP compensation for that program year.  With limited  
5       exceptions, a person must also be actively employed by Xcel Energy on the date  
6       that the year-end award payments are made in order to receive an incentive  
7       award.<sup>6</sup>

8   **Q.    In the previous answer, you refer to the “year-end portion of the AIP**  
9       **compensation.”  Are employees able to earn incentive compensation at times**  
10      **other than year-end under the AIP?**

11   A.    Yes.  In addition to the year-end portion of their AIP, which is based on  
12       achievement of Corporate KPIs and individual performance results, employees  
13       are eligible to earn a portion of their individual component throughout the course  
14       of the year.  The AIP provides leaders with the opportunity to recognize  
15       employees and reinforce positive behavior in a timely manner.  This portion of the  
16       AIP can be received during the program’s prescribed intervals (monthly or  
17       quarterly) during the performance year.

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<sup>6</sup> The exceptions are involuntary termination with severance, retirement, death, disability, or qualified leave of absence.

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1   **Q.     In connection with the year-end AIP awards, you referred to Corporate KPIs**  
2       **and individual performance results. Please describe the Corporate KPIs.**

3   **A.**   Each year, Xcel Energy develops a Corporate Scorecard that identifies certain  
4       priorities for the year. In 2019, for example, the Corporate KPIs are focused on  
5       three priorities: (1) enhancing the customer experience; (2) keeping bills low; and  
6       (3) promoting safety and reliability. As shown in Table MTK-5, those three  
7       priorities resulted in five Corporate KPIs for the year:

**Table MTK-5**

| <b>Priority</b>                            | <b>KPI</b>                                         | <b>Threshold<br/>(50%)</b> | <b>Target<br/>(100%)</b> | <b>Maximum<br/>(150%)</b> | <b>KPI<br/>Weight</b> |
|--------------------------------------------|----------------------------------------------------|----------------------------|--------------------------|---------------------------|-----------------------|
| <b>Enhance<br/>Customer<br/>Experience</b> | <b>Customer<br/>Satisfaction<br/>(Residential)</b> | 726                        | 737                      | 759                       | 20%                   |
| <b>Keep Bills<br/>Low</b>                  | <b>O&amp;M Growth<br/>(Over 2017)</b>              | 2.0%                       | 0.0%                     | (1.0%)                    | 20%                   |
| <b>Safety and<br/>Reliability</b>          | <b>Employee<br/>Safety<sup>7</sup></b>             | 0.61                       | 0.49                     | 0.45                      | 20%                   |
|                                            | <b>Public safety</b>                               | 85%                        | 89%                      | 94%                       | 20%                   |
|                                            | <b>Electric system<br/>reliability<br/>(SAIDI)</b> | 100                        | 92                       | 84                        | 20%                   |

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<sup>7</sup> Calculated using the DART (Days Away, Restricted or Transferred) rate.

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1 While I specifically address customer benefits related to incentive compensation  
2 in my testimony, the KPIs are designed to address all stakeholders Xcel Energy  
3 serves. In addition to customers, that also includes employees themselves and  
4 shareholders. The KPIs provide employees with tangible ways to focus their  
5 behavior and performance to operate in a safe, cost-effective and reliable manner.  
6 All of SPS's stakeholders benefit when the Corporate KPIs are met.

7 **Q. Table MTK-5 uses the terms “threshold,” “target,” and “maximum” for the**  
8 **Corporate Scorecard. Can you explain what those terms mean?**

9 A. Yes. As shown in the table, Xcel Energy establishes quantitative measures to  
10 evaluate whether the Corporate Scorecard KPIs have been met. The “threshold”  
11 amount represents the minimum level of performance that must be achieved  
12 before an incentive payment can be earned for the particular KPI (50 percent).  
13 Performance below the threshold results in no incentive being earned for that KPI.  
14 The “target” represents the level of performance that must be achieved to receive  
15 a target payout for that KPI (100 percent payout). The “maximum” represents the  
16 level of performance that must be achieved to receive the maximum payout  
17 possible for a particular KPI (150 percent) of results for purposes of establishing  
18 the maximum amount of incentive compensation for that Corporate KPI. As  
19 shown in Table MTK-6, the amount of incentive compensation an employee is

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1 eligible to receive under the Corporate Scorecard depends on the degree of  
2 success that the corporation as a whole achieves for the Corporate KPIs:

3 **Table MTK-6**

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

4 \* mathematical calculation used to estimate values between two points

5 **Q. Is it reasonable to set the maximum at 150 percent?**

6 A. Yes. Xcel Energy relies on market studies to determine the payout ranges for  
7 AIP, and uses a conservative 150 percent maximum payout opportunity. This  
8 maximum is lower than the incentive compensation opportunity offered by other  
9 companies. Based on a study from WorldatWork and Deloitte Consulting in  
10 2014, 53 percent of incentive programs had a maximum payout of 175 percent or  
11 greater. And while there is an opportunity to payout incentives up to a 150  
12 percent maximum, SPS is only requesting the target-level (100 percent) AIP  
13 expense in rate recovery.

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1   **Q.    Do the 2019 Corporate performance goals benefit customers?**

2    A.    Yes. The Customer Satisfaction goal was focused on improving our residential  
3       customer experience compared to the prior year. The Public Safety goal focused  
4       on limiting exposure to potentially dangerous situations and maintaining service  
5       reliability. The Operation and Maintenance (“O&M”) Growth goal was designed  
6       to focus employee behavior on maintaining, reducing and eliminating expenses  
7       through a variety of cost saving measures and streamlining processes to keep  
8       customer bills low. The System Average Interruption Duration Index (“SAIDI”)   
9       goal focused on providing customers reliable energy services. Finally, Employee  
10      Safety is a key priority of Xcel Energy and is part of the 2019 Corporate  
11      Scorecard. Employee Safety is measured by “days away, restricted or  
12      transferred,” which is known as DART. Stressing a culture of safety results in a  
13      more productive working environment for our employees and more reliable  
14      service for our customers.

15   **Q.    Is the AIP Corporate Scorecard for 2019 representative of the scorecards**  
16    **Xcel Energy expects to use on a prospective basis?**

17    A.    Yes. Xcel Energy will continue to be customer focused by driving operational  
18      and cost efficiencies to deliver safe and reliable service to our customers.  
19      Although the specific KPIs and measures may change slightly to reflect specific

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1 objectives from year to year, our commitment to our customers and the safety of  
2 the communities SPS serves and our employees will always be high priorities.

3 **Q. Do you consider all Corporate KPIs to be Operational goals?**

4 A. Yes. The 2019 Corporate Scorecard shown above in Table MTK-6 contains 100  
5 percent operational goals designed to focus employee performance on positive  
6 outcomes for customers. Each of the goals is designed to influence employee  
7 activity, and each goal has some type of cost element, whether through labor  
8 hours to complete the work or equipment and material needs to safely and  
9 effectively complete the job. Operating in a safe, reliable, cost-efficient manner,  
10 benefits customers receiving utility service. And while a goal may be measured  
11 in dollars, such as the O&M KPI, this measurement is focused on operational  
12 efficiency, conserving resources and expense management. Therefore, while  
13 measured in dollars, this goal is designed to deliver operational results to benefit  
14 customers.

15 **Q. Please turn now to the individual component and explain how that is**  
16 **evaluated.**

17 A. The purpose of the individual component is to focus an employee on individual  
18 goals and to reward that employee for his or her achievement of those goals.  
19 Including an individual component allows managers to recognize and reward

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1 employees based on their levels of contribution and performance, consistent with  
2 Xcel Energy's pay-for-performance philosophy.

3 **Q. Who establishes the individual goals?**

4 A. The individual component is based on the individual performance results of  
5 specific goals identified by the employee and his or her manager. Goals are tied  
6 specifically to the employee's job functions and competencies and are developed  
7 in alignment with business area and corporate objectives. Each manager has  
8 discretion to determine the year-end individual component award within a range  
9 of 0 to 150 percent based on the employee's contributions and performance  
10 during the year.<sup>8</sup> Note, however, that the budget for overall payouts for all  
11 employees is based on 100 percent of all employees' target opportunities. This  
12 means that for every employee who receives a payout above the target level,  
13 another employee's payout must be below target level.

14 **Q. Are the Corporate and Individual KPIs weighted equally when assessing the**  
15 **performance of an employee?**

16 A. No. The importance of the Corporate KPIs for year-end AIP payout varies based  
17 upon the employee's position and level of responsibility. The weightings of

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<sup>8</sup> The individual component also includes the "I Deliver Award" and "Innovator Award." These awards, however, are not part of the year-end evaluation of whether an employee achieved his or her individual KPIs during that year.

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Corporate versus Individual KPIs are designed such that an employee's goals are more strongly linked to objectives that he or she has the greatest potential to affect (line of sight). For example, the weighting for employees with a greater focus on day-to-day activities and responsibilities tied to customer satisfaction, safety, and reliability. Therefore, the AIP weightings are based more heavily at the individual level. In contrast, when an employee's position has the ability to affect Xcel Energy at a higher level, the weighting for those positions focuses on broader corporate goals, though it will continue to require accountability for individual performance. Table MTK-7 shows the weightings of these different categories for the 2019 AIP:

**Table MTK-7**  
**Weightings of AIP by Employee Position**

| <b>Salary Tiers/Grades</b>      | <b>Individual</b> | <b>Corporate</b> |
|---------------------------------|-------------------|------------------|
| Exempt N, O<br>Engineer A, B    | 90%               | 10%              |
| Exempt P, Q<br>Engineer C       | 80%               | 20%              |
| Management R-T<br>Engineer D, E | 70%               | 30%              |
| Management U-X                  | 60%               | 40%              |

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1   **Q.   Do the category weightings change the total amount of target incentive**  
2       **compensation that can be earned?**

3   A.   No. The weightings modify the mix of accomplishments needed for employees to  
4       achieve the target levels of AIP opportunity for the respective employee  
5       groupings, but they do not change the target opportunity levels for employees. A  
6       job with a market-based target opportunity of 10 percent would remain 10  
7       percent, even if the mix of Corporate versus Individual weightings changes.

8   **Q.   Do all eligible non-bargaining employees receive the same percentage of their**  
9       **overall compensation as incentive compensation?**

10  A.   No. As I explained earlier, the percentage of total compensation paid as incentive  
11       compensation is determined by the non-bargaining employee's position or level  
12       within the organization. Thus, for example, an employee at a 10 percent target  
13       opportunity level with a base salary of \$50,000 will receive \$5,000 in incentive  
14       compensation, assuming achievement of 100 percent of the Corporate KPIs and  
15       Individual goals. Target opportunities will vary based on market competitive  
16       incentive and design levels. As such, the more senior the non-bargaining  
17       employee, the more of his or her total compensation is paid as incentive  
18       compensation.

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1   **Q.    Is the amount of an employee’s incentive compensation earned always at the**  
2       **incentive target amount?**

3    A.    No. An employee receives his or her incentive target opportunity payout only if  
4       that employee achieves 100 percent of his or her individual goals and the  
5       Corporate KPI results are at 100 percent. The actual incentive payment earned by  
6       an employee may exceed or fall below the incentive target amount, depending  
7       upon the actual performance of the weighted AIP components. The maximum  
8       year-end payout is 150 percent of the incentive target amount based on  
9       exceptional performance for established Corporate KPIs and Individual goals.  
10      The year-end threshold for a minimum payout is 50 percent of the incentive  
11      target, which reflects meeting the minimum expected level of performance for a  
12      Corporate KPI. Performance below the 50 percent level for a Corporate KPI  
13      results in no incentive compensation for the associated goal. Overall, an  
14      employee’s final year-end payout may range from 0 to 150 percent of the  
15      Individual incentive target opportunity.

16   **Q.    What amount of incentive compensation expense is SPS seeking to recover**  
17       **through rates in this case?**

18    A.    The entire SPS 2018 AIP expense was \$6,972,608 (Total Company), which is a  
19       reasonable and necessary component of overall cash compensation, and is based

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1 on achievement of KPIs and other goals above target levels. Nevertheless, SPS is  
2 requesting recovery of the 2019 AIP target-level expense, which is known and  
3 measurable, from New Mexico Retail customers in the amount of \$1,666,125  
4 (Total Company amount of \$6,090,779). This amount reflects AIP awarded at the  
5 100 percent target level and does not include any amounts for payouts above the  
6 100 percent target level. Thus, customers are not being asked to pay any amounts  
7 above what Xcel Energy has identified as the incentive target opportunity.

8 *3. Recent Changes in AIP Structure*

9 **Q. Does Xcel Energy monitor its AIP design to determine whether**  
10 **improvements can be made to maintain the competitiveness of the AIP**  
11 **opportunities as well as to continue to motivate employees?**

12 A. Yes. Xcel Energy regularly examines its compensation programs to determine  
13 whether improvements can be made and whether the programs are effectively  
14 motivating employees.

15 **Q. Did Xcel Energy make AIP design changes in recent years?**

16 A. Yes. Xcel Energy implemented changes to the AIP with the goals of: (1) further  
17 strengthening the connection between individual employees' work and customer  
18 benefits; and (2) further promoting superior employee performance.

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1    **Q.    Can you provide some additional details about the plan design changes?**

2    A.    Yes. Prior to 2017, the AIP had three performance components included in  
3           year-end incentive payouts – Corporate, Business Area, and Individual. To  
4           strengthen the connection between individual employees’ work and customer  
5           benefits, Xcel Energy redesigned the program so that only the Corporate and  
6           Individual performance components now exist. As a result, the weighting of the  
7           Individual performance component has increased.

8           The design changes resulted in the majority of eligible employees having  
9           the highest AIP weightings for the Individual performance component. This  
10          means that most employees earn the majority of their incentive compensation  
11          based on the successful completion of individual goals that are designed to benefit  
12          customers. This change creates a clearer “line of sight” between the employees’  
13          accomplishments and receiving AIP compensation.

14          In addition to the performance component change, the program provides  
15          eligible employees the opportunity to earn a portion of their AIP individual  
16          component in a more timely fashion during the program year, which allows an  
17          employee to be rewarded for positive performance at the time it occurs rather than  
18          waiting until the year-end payout. This can be accomplished by delivering greater  
19          than expected results that make an impact at a team or department level and are

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1 linked to supporting Xcel Energy's strategy and priorities. Examples of that type  
2 of activity include: reducing time and labor costs related to a process whether at  
3 an operational site or support location. It can also be accomplished through the  
4 implementation of innovative, high-impact solutions or processes that deliver  
5 significant benefits at a company-wide level such as testing and evaluating a  
6 stored piece of equipment at one plant location to replace a costly item at another  
7 plant to safely and effectively meet customer needs. These AIP payments can be  
8 made throughout the program year and are separate from the year-end incentive  
9 compensation payouts.

10 **Q. Is an employee's annual incentive compensation target opportunity still**  
11 **expressed as a percentage of base pay?**

12 A. Yes. The employee's incentive target opportunity continues to be a percentage of  
13 base pay. The target opportunity levels are designed to provide eligible  
14 employees with 100 percent or all of their market-competitive total cash  
15 compensation when base pay and incentive are combined.

16 **Q. Did the target-level AIP costs change in light of the AIP design changes?**

17 A. No. The target-level AIP costs continue to be calculated using the individual  
18 target opportunity levels of incentive pay in the market, so the AIP budgeting  
19 process used to determine the AIP target-level expense has not changed. Thus,

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1 from a rate-making perspective, the level of costs that SPS seeks to recover in  
2 rates will remain consistent under the design changes. In other words, the AIP  
3 design changes will not increase the target amount of AIP expense in comparison  
4 to the target amounts in prior years under the prior AIP design.

5 Also, as confirmed by Willis Towers Watson, the target opportunity level  
6 of AIP will allow the total cash compensation to be competitive with the market  
7 and, thus, is a reasonable and necessary cost of providing electric service to SPS's  
8 customers.

9 **Q. Has the Commission previously approved SPS's request to recover AIP costs**  
10 **through rates at the 100 percent target payout level?**

11 A. Yes. SPS has previously had the target-level incentive opportunity approved by  
12 the Commission in its recovery request.

13 **C. Supplemental Incentive Program (SIP)**

14 **Q. Please explain Xcel Energy's Supplemental Incentive Program.**

15 A. The Xcel Energy SIP is designed to provide certain eligible employees who work  
16 in wholesale energy trading activities with compensation opportunities that are  
17 competitive with compensation practices in the wholesale energy trading sector.  
18 The SIP is designed to reward employees for achievement of wholesale energy  
19 trading profit margins. The program is a supplement to the AIP and is part of the

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1 total cash compensation offered only to Xcel Energy wholesale energy trading  
2 employees. Taken together, a wholesale energy trading employee's base pay, AIP  
3 and SIP are designed to compensate an employee at the median of the market.

4 **Q. Is it reasonable for the SPS to recover the cost of the SIP from retail**  
5 **customers?**

6 A. Yes. The incentive is designed to motivate trading employees to seek out  
7 cost-effective trades and to achieve the maximum possible margins, a large  
8 percentage of which are shared with customers through the fuel clause. Thus, the  
9 benefits for customers are immediate and directly flow from the employee  
10 activities that are rewarded under the SIP.

11 **Q. How are energy trading margins shared with customers?**

12 A. Margin dollars that are generated through the energy trading process are shared  
13 based on the established jurisdictional fuel clauses. In 2018, customers across  
14 Xcel Energy received nearly 80 percent of the margins generated by Xcel  
15 Energy's Trading group. This program provides an exceptional benefit, as the  
16 great majority of the value is provided directly to customers.

17 **Q. Has the Commission previously approved SPS's request to recover SIP costs**  
18 **through rates?**

19 A. Yes.

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**D. Long-Term Incentive Compensation**

**Q. Please describe Xcel Energy's long-term incentive program.**

A. Like the other Xcel Energy compensation programs, the LTI program is intended to attract, retain, and motivate employees. LTI differs from AIP and other types of compensation in that it is offered only to executives, senior management employees, and senior exempt employees, as determined by market competitive compensation designs. Like all other compensation components, LTI is necessary to ensure that those employees' compensation levels and the mix of compensation are competitive.

**Q. Are long-term incentive programs commonly used in the utility industry?**

A. Yes. Long-term incentive programs are widely used compensation vehicles for executives and certain non-executive employees, according to Willis Towers Watson. Ninety-eight percent of the companies in the Willis Towers Watson study provided LTI as a component of pay for their executives. These types of programs create an incentive for eligible employees to engage in high-level planning that will lead to benefits over the long-term. It also encourages those employees to remain with Xcel Energy and to follow through on longer-term decisions and projects, rather than only short-term windfalls.

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1   **Q.    Is SPS seeking recovery of all of the long-term incentive compensation paid**  
2       **to eligible employees?**

3    A.    No. SPS is not seeking recovery for the relative total shareholder return portion  
4       of LTI.<sup>9</sup> SPS is, however, requesting recovery of the performance-based  
5       component of LTI related to Xcel Energy's environmental activities for  
6       executives, which I refer to as the "environmental component" of the LTI. SPS  
7       also seeks recovery of the time-based component of LTI related to executives and  
8       senior exempt participants.

9   **Q.    Please generally describe the environmental component of the LTI program.**

10   A.    Some of the performance-based shares granted to executives relate to the  
11       environmental component of the LTI program, which ensures strong  
12       environmental stewardship. The measurement for the environmental portion of  
13       the performance shares is the three-year average percent reduction in carbon  
14       emissions. The types of activities that affect the results are implementing  
15       renewable energy resources, promoting energy efficiency programs, and  
16       improving plant operations to reduce carbon output, among others. Because the  
17       majority of Xcel Energy's LTI for executives is performance-based, payout of

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<sup>9</sup> Mr. Freitas has removed more than \$4.9 million from the Test Year cost of service related to LTI costs for Relative Total Shareholder Return for SPS total company.

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1 compensation occurs only when pre-defined performance goals are achieved. The  
2 performance shares are granted in the first year, and the average performance is  
3 measured at the end of the third year to determine the level of achievement.

4 **Q. Is it reasonable to grant rate recovery of LTI costs related to the**  
5 **environmental component?**

6 A. Yes. The achievement of the environmental component directly benefits  
7 customers and the public through prudently reducing air emissions and their  
8 impact on the environment. Reducing carbon emissions is a reasonable and  
9 accepted practice. In addition, the Commission has recently approved renewable  
10 wind energy projects that enable Xcel Energy to achieve its long-term goals to  
11 reduce and eliminate carbon-based energy production. The alignment of Xcel  
12 Energy's compensation-related incentive with New Mexico policy goals is further  
13 demonstrated by the policy goals reflected in New Mexico's passage of the  
14 Energy Transition Act, as well as Governor Michelle Lujan Grisham's Executive  
15 Order 2019-003, "Addressing Climate Change and Energy Waste Prevention."  
16 For these reasons, the costs related to achievement of the environmental  
17 component of the LTI program are a reasonable and necessary cost of providing  
18 electric service to SPS's customers.

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1   **Q.   Please generally describe the time-based LTI for executives and senior**  
2       **exempt employees.**

3   A.   The time-based LTI is used to attract, retain and motivate eligible employees for  
4       the reasons I discussed earlier — it ensures that those employees engage in  
5       long-term planning for the benefit of Xcel Energy and SPS and that they remain  
6       with Xcel Energy long enough to implement those long-term plans. Xcel Energy  
7       accomplishes that goal by requiring a three-year vesting period for the LTI  
8       payment. Less than five percent of the non-bargaining employee population is  
9       eligible for the LTI program. These employees are hired into hard-to-fill  
10      positions that can be expensive and time consuming to fill. In the last ten years,  
11      employees receiving LTI have a lower resignation rate than those not receiving  
12      LTI (3.05 percent vs. 4.21 percent).

13             Retaining these experienced employees is also critical. This group of  
14      employees has a significant impact on the direction, leadership and  
15      decision-making within Xcel Energy and SPS, therefore, it is imperative that the  
16      compensation value and design for these employees are comparable to the options  
17      available in the market. The study conducted by Willis Towers Watson indicated  
18      98 percent of the companies included in the results offered LTI as a component of  
19      their compensation design.

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1   **Q.    Is it reasonable to grant rate recovery of LTI costs related to the time-based**  
2           **component for executive and non-executive employees?**

3    A.    Yes.   The time-based component of LTI ensures that employees are making  
4           long-term plans that align with strategic priorities and embarking on multi-year  
5           projects that create stability for SPS's operations.   Because payment of related  
6           LTI compensation is contingent on the employee remaining with Xcel Energy for  
7           an extended period of time, it requires employee commitment beyond a single  
8           year.   While this piece of the employee's compensation pie makes the employee  
9           whole each year, the actual compensation is not realized until after the three-year  
10          vesting period.   The LTI costs for meeting the time-based component of the LTI  
11          program are a reasonable and necessary cost of providing electric service to SPS's  
12          customers.

13   **Q.    How does the three-year performance period affect the accrual of LTI**  
14           **expense for the cost of service?**

15   A.    Accrual of LTI expense occurs ratably over a three-year period and, therefore,  
16           reflects LTI plans in effect during each of the three years.   Because the majority  
17           (nine months) of the Test Year is in 2018, costs for the 2016, 2017, and 2018 LTI  
18           years are included in the Test Year cost of service.

1     **Q.     What amounts for the LTI program were accrued for the 2018 Test Year?**

3 **Table MTK-8**

4 **Q. Although SPS is not requesting recovery for LTI expense associated with**  
5 **Relative TSR, please explain Relative TSR and the expense for the Test Year.**

## E. Recognition Programs

13 A. The recognition programs include a years-of-contribution program, a corporate  
14 recognition program, and the Spot-On Award program. The years-of-contribution

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1 program recognizes employee loyalty and cumulative career effort every five  
2 years. The corporate recognition program provides thank-you cards, nominal gift  
3 cards, small gifts, or items with the Xcel Energy logo to recognize individuals and  
4 groups of employees for extraordinary performance. The Spot-On Award  
5 program was created as a tool for managers to reward outstanding performance  
6 for non-exempt, non-bargaining employees, who are generally not eligible to  
7 receive AIP.

8 **Q. Are AIP-eligible employees also eligible for the Spot-On Award Recognition**  
9 **Program?**

10 A. No. Employees eligible for the AIP are not eligible for awards under the Spot-On  
11 Award Program.

12 **Q. Has the Commission previously approved SPS's request to recover**  
13 **recognition program costs through rates?**

14 A. Yes.

**F. Reasonableness of SPS's Compensation Programs**

15 **Q. Has SPS compared its total cash compensation and total direct compensation**  
16 **levels to the competitive market, including other utilities?**

17 A. Yes. Xcel Energy uses market survey data to ensure that its total cash  
18 compensation and total direct compensation levels are consistent with the median

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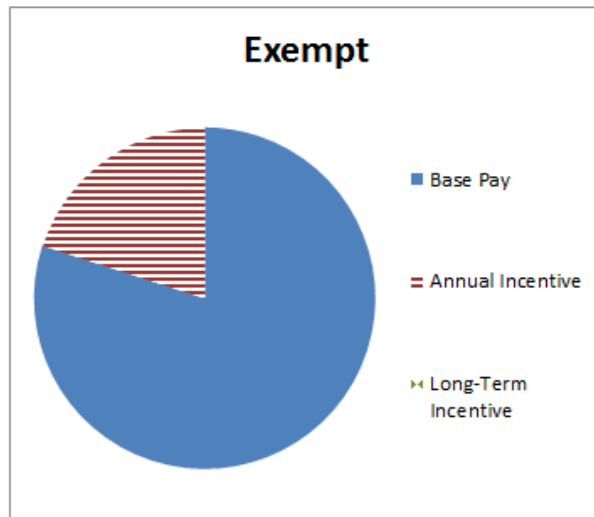
1 of the market. Xcel Energy also engaged Willis Towers Watson to perform an  
2 analysis of how Xcel Energy's target total cash compensation and total direct  
3 compensation compare with the compensation of other utility companies, which I  
4 discuss below. The analysis included compensation information related to  
5 exempt and executive employees.

6 **Q. In the previous response, you used the phrases "total cash compensation"**  
7 **and "total direct compensation." What is the difference between those**  
8 **concepts?**

9 A. Total cash compensation is the combination of base pay plus short-term incentive  
10 compensation (AIP) components, as applicable (Chart MTK-5)(next page). These  
11 two compensation components apply to all non-bargaining, exempt employees,  
12 and are the main components of the compensation package offered to a majority  
13 of these non-bargaining, exempt employees to make up all of their market-based  
14 compensation.

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**Chart MTK-5**

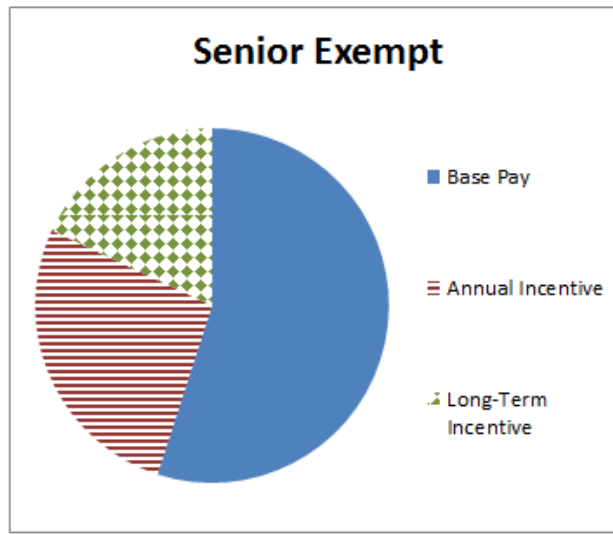


2 For illustrative purposes only

3 Total direct compensation is used to describe the compensation package  
4 offered to highly specialized or senior-level talent and leadership employees who  
5 are eligible for LTI. Total direct compensation includes base pay plus short-term  
6 incentive compensation (AIP) and long-term incentive (LTI) (Chart MTK-6).  
7 This third component of compensation, LTI, provides Xcel Energy with a  
8 market-based attraction and retention compensation vehicle, as the long-term  
9 incentive offered requires a three-year vesting period before payment in most  
10 circumstances. These three components make up all (100 percent) of the  
11 compensation for this group of eligible employees.

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**Chart MTK-6**



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**Q. Please describe the specific focus of the 2018 Willis Towers Watson compensation study.**

**A.** The 2018 Willis Towers Watson Compensation Study compared Xcel Energy's level of compensation to the median and average levels of compensation paid by the comparison groups. The 2018 Willis Towers Watson Compensation Study includes the following comparisons:

- Xcel Energy's total cash compensation levels, which are base salary plus target annual incentive compensation, were compared with competitive market target total cash compensation levels;
- Xcel Energy's total direct compensation levels, which are base salary plus target annual incentive plus long-term incentive compensation,

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1                   were compared with total target compensation levels offered in the  
2                   market;

- 3                   • Xcel Energy's base salary levels were compared with competitive  
4                   market total base salary levels;
- 5                   • Xcel Energy's annual incentive targets were compared with market  
6                   annual incentive targets; and
- 7                   • Xcel Energy's long-term incentive targets were compared with the  
8                   market long-term incentive targets.

9   **Q.    What comparison groups were used in the 2018 Willis Towers Watson**  
10 **compensation study?**

11   A.    Compensation levels were compared with two sets of data. The first set of data  
12           compared Xcel Energy's compensation programs to the programs of a large  
13           number of investor-owned utilities across the nation, including those both smaller  
14           and larger than Xcel Energy. The second set of data compared Xcel Energy's  
15           compensation programs to those of investor-owned utilities similar in size to Xcel  
16           Energy based on revenue size.

17 **Q.    What were the results of the 2018 Willis Towers Watson compensation**  
18 **study?**

19   A.    As shown on Table MTK-9, the 2018 Willis Towers Watson Compensation Study  
20           finds that with the inclusion of AIP, Xcel Energy's median total cash  
21           compensation levels are generally in line with other utilities, although they fall

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below market. Without the target-level AIP, the median total cash compensation provided would be well below the overall utility market, which shows that not offering AIP would put Xcel Energy at a material disadvantage in the competition for employees.

Similarly, Xcel Energy's compensation would be at an unacceptably low level with regard to total direct compensation for certain employee groups if it did not provide a competitive LTI package for its executive and senior exempt talent and leadership. Long-term incentives are a significant portion of the compensation package offered to attract, retain and motivate this group of employees to design, organize, lead and manage one of the most forward-looking utilities in the country.

**Table MTK-9**

| <b>Components of Xcel Energy Compensation</b>             | <b>Compared to Base Salaries and Incentives of U.S. Utilities (National Sample)</b> | <b>Compared to Base Salaries and Incentives of U.S. Utilities with Similar Revenues (Revenue Sample)</b> |
|-----------------------------------------------------------|-------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| Base Salary Only (excludes Target AIP)                    | Below Market by 11.8%                                                               | Below Market by 15.3%                                                                                    |
| Target Total Cash Compensation (Base Salary + Target AIP) | Above Market by 3.1%                                                                | Below Market by 1.0%                                                                                     |

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| <b>Components of Xcel Energy Compensation</b>                      | <b>Compared to Base Salaries and Incentives of U.S. Utilities (National Sample)</b> | <b>Compared to Base Salaries and Incentives of U.S. Utilities with Similar Revenues (Revenue Sample)</b> |
|--------------------------------------------------------------------|-------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------|
| Base Salary Only (excludes Target AIP and Target LTI*)             | Below Market by 19.0%                                                               | Below Market by 22.8%                                                                                    |
| Base Salary + Target AIP (excludes Target LTI*)                    | Below Market by 5.3%                                                                | Below Market by 9.7%                                                                                     |
| Target Total Direct Compensation (Base + Target AIP + Target LTI*) | Above Market by 8.5%                                                                | Above Market by 2.9%                                                                                     |

\* Includes those eligible for LTI

**Q. Of the two columns in Table MTK-9, which group does Xcel Energy consider to be a better comparator group for analyzing the reasonableness of Xcel Energy's compensation components?**

A. While both the National Sample and Revenue Sample provide good points of comparison, references to utilities with revenues comparable to Xcel Energy's are more informative than comparisons to an array of utilities throughout the United States. The Revenue Sample is more informative because it is more representative of the total compensation package design for large utilities. The National Sample includes many smaller regional utilities that may not have the

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1 same total compensation design structure as Xcel Energy, as some may not  
2 include LTI when they are not publicly traded companies or they reduce the total  
3 compensation package based on the overall size of their company.

4 **Q. What do you conclude from the 2018 Willis Towers Watson Compensation**  
5 **Study?**

6 A. The study illustrates that Xcel Energy's compensation structure (i.e., both base  
7 salary and the AIP) provides a market level of compensation, which confirms that  
8 SPS's requested compensation expense in the Test Year is appropriate and  
9 reasonable. The study also confirms that the target level annual incentives  
10 provided to employees through the AIP are aligned with those for similar  
11 positions in the competitive market. Without the AIP, however, Xcel Energy's  
12 total cash compensation would significantly lag behind the market by 15.3 percent  
13 (compared to utilities with similar revenues), which would put Xcel Energy at a  
14 material disadvantage when competing for skilled employees. For example, if  
15 SPS were authorized to recover only base pay and not also AIP costs, it would be  
16 collecting only 85% of the reasonable and necessary costs it incurs to compensate  
17 employees.

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1           Additionally, the study confirms that the level of LTI offered to eligible  
2           employees is both in-line with the market and a necessary component of pay for  
3           executives, other senior management and senior specialized employees to fully  
4           reach their market-based level of compensation. Similarly, the study confirms  
5           that without offering LTI, Xcel Energy's total direct compensation for those  
6           employees would lag behind the market by 9.7 percent compared to utilities with  
7           similar revenues.

8           In total, not offering AIP and LTI would significantly hamper Xcel Energy  
9           from attracting, retaining and motivating eligible employees because the study  
10          shows the levels of compensation would be 22.8 percent below market  
11          competitive levels compared to utilities with similar revenues.

12   **Q.   Are Xcel Energy's compensation programs and related costs necessary and**  
13   **reasonable?**

14   A.   Yes. SPS and Xcel Energy must provide a market-competitive level of total cash  
15          compensation to attract and retain the employees who provide safe and reliable  
16          electric service to SPS's customers. Furthermore, base pay coupled with the AIP  
17          is an appropriate method of providing market competitive total cash compensation  
18          because it includes some form of fixed base pay in addition to an incentive

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1 opportunity that requires an individual employee to perform at expected levels in  
2 order to be compensated in a competitive way.

3 In order to have a competitive compensation program design, a  
4 combination of base pay and incentive opportunities is necessary to attract and  
5 retain employees at higher levels within SPS and Xcel Energy. This can only be  
6 done with the inclusion of LTI. The design of the LTI program and the levels of  
7 LTI offered to select groups of employees are market-based and require a greater  
8 level of commitment from these employees before this form of compensation is  
9 realized. Without this component of compensation, employees in these eligible  
10 positions would not have access to a competitively designed compensation  
11 package, and Xcel Energy would be at a great risk of not being able to attract or  
12 retain employees in these positions. Without LTI, Xcel Energy would be  
13 misaligned with market best practices regarding compensation plan design.  
14 However, Xcel Energy would still be required to provide competitive  
15 compensation in another manner to attract, retain and motivate these groups of  
16 critical employees. Xcel Energy would also lose the motivational tool incentive  
17 pay provides and would not have the ability to vary employee compensation  
18 based on performance of the company or the employee.

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1   **Q.    Do SPS's New Mexico retail customers benefit from Xcel Energy's ability to**  
2       **provide market-competitive compensation?**

3    A.    Yes. Providing market competitive compensation is necessary to attract, retain,  
4       and motivate experienced and talented employees, and these employees perform  
5       the work necessary to provide quality electric service to SPS's customers. For  
6       example, Xcel Energy's ability to attract and retain qualified engineers, plant  
7       managers, and other professional positions would be adversely affected if Xcel  
8       Energy did not offer market competitive compensation.

9               Market competitive compensation is important in attracting employees  
10       with the specialized knowledge and skills necessary to provide safe and reliable  
11       electric service. Without competitive compensation, SPS would likely lose these  
12       skilled employees, resulting in added costs associated with recruitment and  
13       training, as well as a loss in productivity.

14   **Q.    Earlier you defined the employment and compensation market. With whom**  
15       **does Xcel Energy compete for employees?**

16    A.    Xcel Energy principally competes for employees with utility-sector employers,  
17       but also competes with non-utility sector employers. Utility-sector competition  
18       generally takes place for jobs specific to utility operations and the delivery of  
19       utility services, such as control center operators, engineers, plant operators,

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1 technicians, welders, and machinists. Xcel Energy also competes with other  
2 utilities for corporate employees such as regulatory accountants and load  
3 forecasters who skills sets are uniquely suited for utility work. For example, there  
4 are currently three investor owned electric companies, including Xcel Energy, and  
5 21 rural electric cooperatives in New Mexico who are competing for the same or  
6 similar industry expertise and experience.<sup>10</sup> Xcel Energy also competes with  
7 non-utility employers for jobs that are not specific to utilities, such as finance and  
8 accounting analysts, marketing analysts, designers, information technology  
9 specialists, customer service representatives, and leadership in various areas.  
10 Additionally, SPS competes with the oil and gas industry for employees filling  
11 engineering and various technical jobs.

12 **Q. Although Xcel Energy strives to provide market-competitive compensation to**  
13 **non-bargaining employees, do SPS and XES still experience challenging**  
14 **levels of attrition?**

15 A. Yes. Both XES and SPS are experiencing challenging attrition rates for  
16 non-bargaining employees, as depicted in Table MTK-10 below:

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<sup>10</sup> <http://www.nmprc.state.nm.us/consumer-relations/company-directory.html>, accessed on 4/22/19.

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**Table MTK-10**  
**Attrition by Year (non-bargaining employees)**

|            | 2013 | 2014  | 2015  | 2016  | 2017  | 2018  | 2019<br>(Full Year<br>Projected)* |
|------------|------|-------|-------|-------|-------|-------|-----------------------------------|
| <b>SPS</b> | 7.8% | 7.6%  | 10.6% | 8.0%  | 9.9%  | 8.8%  | 9.8%                              |
| <b>XES</b> | 9.5% | 14.8% | 14.1% | 11.2% | 14.0% | 15.3% | 13.4%                             |

\*Projections based on 2019 first quarter actuals

**Q. To what do you attribute the challenging levels of attrition?**

A. The attrition levels are the result of: (1) the market's need for the types of skills and training that SPS and XES employees possess, for example, engineers, safety consultants, designers, technical instructors, load forecasters, and environmental analysts; (2) the growth of the utility industry;<sup>11</sup> and (3) retirement of our seasoned workforce.

**Q. Do you have concerns regarding the attrition levels that SPS and XES are experiencing for non-bargaining employees?**

A. Yes. On a going-forward basis, Xcel Energy projects that attrition will remain at the same level or rise; particularly as many members of Xcel Energy's seasoned workforce retire. In fact, 41 percent of Xcel Energy's total workforce will be

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<sup>11</sup> [https://www.dws.state.nm.us/Portals/0/DM/LMI/NM\\_2016\\_State\\_of\\_the\\_Workforce\\_Report\\_033016.pdf](https://www.dws.state.nm.us/Portals/0/DM/LMI/NM_2016_State_of_the_Workforce_Report_033016.pdf).

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1 eligible to retire in the next 10 years. SPS will have approximately 33 percent of  
2 its employees eligible to retire in the next 10 years. Thus, SPS expects to replace  
3 a large portion of its workforce, including many employees with specialized  
4 knowledge and significant experience.

5 **Q. Does SPS experience competition in recruiting and retaining employees?**

6 A. Yes. Prospective employees with the skills and training required for the utility  
7 industry are in high demand. Many of SPS and XES jobs require strong science,  
8 technology, engineering, and math skills. Contracting firms, utilities, and other  
9 sectors of both the energy and non-energy industries need these employees, too.  
10 Thus, SPS experiences steep competition in attracting and retaining these  
11 employees.

12 In addition, SPS continues to see an imbalance in the supply and demand  
13 of engineers across a broad spectrum of production industries. There is a limited  
14 pool of candidates for many engineering jobs within SPS, and SPS competes for  
15 qualified candidates on a national and regional level as well.

16 **Q. Please provide examples of SPS's and Xcel Energy's recruiting challenges.**

17 A. As noted above, SPS competes with other utilities and consulting firms, which  
18 generally offer significantly higher pay and benefits according to feedback

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1 received from job candidates. Twenty-five percent of the 200 plus SPS-specific  
2 jobs filled during the Test Year were Science, Technology, Engineering and  
3 Mathematics jobs. Many of the jobs are specific to engineering at various  
4 experience levels, information technology support and analysis, and operational  
5 leadership. Xcel Energy employs people in each of these positions, and we  
6 experience the additional challenge of trying to recruit these specialties in rural  
7 locations and employee relocation situations.

8 **Q. What do the recruiting challenges, the attrition data, and retirement outlook**  
9 **mean regarding the necessity to provide market-competitive compensation?**

10 A. Given the current environment in which attrition and competition for employees  
11 is steadily increasing, and while at the same time 41 percent of Xcel Energy's  
12 total workforce, including 33 percent of employees within SPS, will be eligible to  
13 retire in the next 10 years, it is imperative that SPS continue to provide  
14 market-competitive compensation to employees who provide safe, reliable  
15 electric service to SPS's customers. Thus, the Commission, SPS, and SPS's  
16 customers should be aligned in supporting SPS's request to recover its reasonable  
17 and necessary compensation expenses that are incurred to compensate employees  
18 consistent with the compensation offered in the market by other employers.

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**G. Benefits**

1

2 **Q. What benefits does Xcel Energy provide to employees?**

3 A. Xcel Energy provides a comprehensive benefit program to all of its  
4 benefit-eligible employees, including employees of SPS and its affiliates. These  
5 programs include coverage for medical, dental, vision, life insurance, short-and  
6 long-term disability, employee assistance programs, adoption assistance, tuition  
7 assistance, pre-tax reimbursement accounts, paid time off, 401(k) savings plans,  
8 pension, and other post-retirement benefits.

9 **Q. Please briefly summarize the features of Xcel Energy's retirement programs.**

10 A. Xcel Energy's pension or defined benefit programs are non-contributory  
11 programs (i.e., programs to which employees do not contribute), which provide  
12 retirement benefits to eligible employees. The 401(k) savings plan encourages  
13 employees to save regularly for their retirement through pre-tax and after-tax  
14 employee deferrals and provides an employer matching contribution. The amount  
15 of the employer contribution is 50 percent of employee contributions up to 8  
16 percent of pay, which results in a maximum employer contribution of 4 percent of  
17 eligible pay.

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1   **Q.   Has Xcel Energy taken any steps to manage costs related to retirement**  
2       **programs?**

3   A.   Yes. Effective January 1, 2012, bargaining and non-bargaining new hires and  
4       rehired employees are no longer eligible for legacy pension plan formulas, which  
5       provided a higher level of benefit. Instead, these employees participate in a 5  
6       percent Cash Balance Plan formula without pension supplements (i.e., Retirement  
7       Savings Account or Social Security Supplement) or retiree medical subsidies.  
8       Mr. Schrubbe addresses how the retiree medical plan design changes have  
9       assisted in lowering the overall level of retiree medical expense that SPS seeks to  
10      recover in its requested revenue requirement.

11           Effective January 1, 2018, the annual Retirement Spending Account  
12      credits were eliminated on a go-forward basis for all non-bargaining employees,  
13      and the Social Security Supplement was eliminated for all non-bargaining  
14      employees who will not meet retirement eligibility by December 31, 2022.

15   **Q.   Please explain the Cash Balance Plan formula.**

16   A.   Through the Cash Balance Plan formula, participants earn a 5 percent benefit on  
17      eligible wages each year, which has interest credited annually. The interest is  
18      based on the 30-year treasury rate based on November from the prior year and has

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1 no minimum guarantees. This interest bearing account acts like a savings account  
2 or a 401(k) plan and will reduce Xcel Energy's pension obligations prospectively  
3 compared to the legacy employee benefits programs.

4 **Q. Please briefly summarize the features of Xcel Energy's health benefits**  
5 **programs.**

6 A. In the health care arena, Xcel Energy offers employees one medical plan option,  
7 the High Deductible Health Plan ("HDHP") with a Health Savings Account  
8 ("HSA"). Non-bargaining employees and their eligible dependents are  
9 responsible for an upfront annual deductible of \$2,400 per individual or \$4,800  
10 per family (in-network). After the deductible is satisfied, the plan covers 80  
11 percent of costs, with employees or their dependents contributing 20 percent of  
12 costs until they reach an annual out-of-pocket maximum, which is \$3,500 per  
13 individual or \$7,000 per family. After the out-of-pocket maximum is met, the  
14 plan covers the remaining eligible medical and pharmacy expenses for the  
15 calendar year. The HSA is a tax-advantaged medical savings account that Xcel  
16 Energy offers to employees to provide a vehicle for them to save for their  
17 out-of-pocket costs under the plan.

18 Effective May 1, 2017, as part of Union negotiations, SPS bargaining  
19 employees asked to move from the HDHP to a multi-employer union plan, called

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1 the Family Medical Care Plan (“FMCP”). This plan is managed outside of Xcel  
2 Energy, and I explain some of the details of the FMCP below.

3 **Q. Has Xcel Energy undertaken any initiatives to slow the rate of growth in**  
4 **health and welfare related benefit costs?**

5 A. Yes. Over the past several years, Xcel Energy has made several design changes  
6 and undertaken an array of initiatives to help mitigate health care costs. These  
7 initiatives include:

- 8 • Xcel Energy offers a HDHP medical plan with a focus on individual  
9 consumerism and wellness to encourage healthier lifestyle choices;
- 10 • Xcel Energy’s pharmacy coverage mandates generic prescriptions be  
11 used when available to help mitigate pharmacy costs, unless there is a  
12 specific medical need dictating a name-brand prescription;
- 13 • SPS bargaining employees hired after January 1, 2012 no longer  
14 receive post-retirement medical benefits. This change will reduce  
15 Xcel Energy’s future Other Post Employment Benefit costs  
16 prospectively;
- 17 • Vendor contracts are continually monitored and renegotiated with  
18 benefit vendors on an ongoing basis. These negotiations focus on  
19 administrative fee reductions, better performance guarantees and  
20 rebates, and improved discounts on provider networks. All contribute  
21 to our ability to minimize rising healthcare costs and benefit  
22 administration costs charged by third parties;
- 23 • Effective January 2017, Xcel Energy introduced a monthly premium  
24 surcharge for non-bargaining employees for coverage of a spouse  
25 when the spouse’s employer offers medical coverage;

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- 1                   • Effective April 2017, Xcel Energy outsourced the Family Medical  
2                   Leave Act administration, resulting in greater efficiencies, as well as  
3                   cost savings;
- 4                   • Effective May 1, 2017, as part of Union negotiations, SPS bargaining  
5                   employees asked to move from the HDHP to a union plan, called the  
6                   FMCP. SPS agreed because the change provided an opportunity to  
7                   mitigate costs and risk through this insured plan, especially as the  
8                   FMCP agreed to include zero premium increase in 2018 and cap  
9                   financial risk for 2019 at the same trend experienced with the current  
10                  HDHP (i.e., 6 percent);<sup>12</sup> and
- 11                  • Effective January 2018, Xcel Energy introduced a monthly premium  
12                  for non-bargaining employees and spouses who are enrolled in the  
13                  medical plan and are tobacco users.

14   **Q.    Are Xcel Energy's benefits programs and their costs necessary and**  
15   **reasonable?**

16   A.    Yes. Xcel Energy provides competitive benefit programs that are necessary to  
17           attract and retain a qualified, skilled workforce. Based upon my experience  
18           designing, implementing, and administering benefits plans, and my familiarity  
19           with corporate benefits practices, Xcel Energy's benefit plans are reasonable,  
20           appropriate, and competitive. For these reasons, SPS should be authorized to  
21           recover its Test Year benefits costs.

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

23   A.    Yes.

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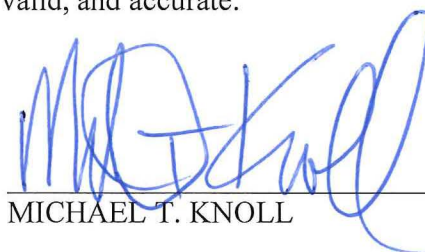
<sup>12</sup> As discussed earlier, there is an existing CBA, which expires in 2019.

**VERIFICATION**

STATE OF MINNESOTA            )  
                                          ) ss.  
COUNTY OF HENNEPIN        )

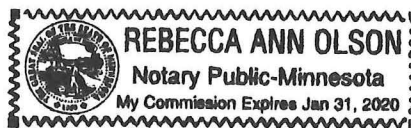
MICHAEL T. KNOLL, first being sworn on his oath, states:

I am the witness identified in the preceding direct testimony. I have read the direct testimony and the accompanying attachment(s) and am familiar with their 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.

  
MICHAEL T. KNOLL

SUBSCRIBED AND SWORN TO before me this 27 day of June, 2019 by MICHAEL T. KNOLL.

  
Notary Public of the State of Minnesota  
My Commission Expires: 2020



| Line No. | Witness | Description                                             | Page No. | Line No.    | Total Company Amount | Number Scale | Allocator (Name) | TY Allocator (%) | NM Amount     |
|----------|---------|---------------------------------------------------------|----------|-------------|----------------------|--------------|------------------|------------------|---------------|
| 1        | Knoll   | Bargaining Wages                                        | 6        | Table MTK-1 | \$ 29,809,836        | dollars      |                  | *                | \$ 8,445,806  |
| 2        | Knoll   | Non-Bargaining Base Pay                                 | 6        | Table MTK-1 | \$ 86,221,578        | dollars      |                  | *                | \$ 23,794,232 |
| 3        | Knoll   | Annual Incentive (AIP) 2019 Target                      | 6        | Table MTK-1 | \$ 6,090,779         | dollars      |                  | *                | \$ 1,666,125  |
| 4        | Knoll   | Long-Term Incentive (LTI)                               | 6        | Table MTK-1 | \$ 3,201,060         | dollars      | LABXAG           | 0.277614         | \$ 888,660    |
| 5        | Knoll   | Bargaining Wages                                        | 17       | 3           | \$ 29,809,836        | dollars      |                  | *                | \$ 8,445,806  |
| 6        | Knoll   | Non-Bargaining Base Pay                                 | 22       | 7           | \$ 86,221,578        | dollars      |                  | *                | \$ 23,794,232 |
| 7        | Knoll   | Annual Incentive (AIP) 2019 Target                      | 39       | 3           | \$ 6,090,779         | dollars      |                  | *                | \$ 1,666,125  |
| 8        | Knoll   | Executive Environment (Component of LTI)                | 49       | Table MTK-8 | \$ 1,459,025         | dollars      | LABXAG           | 0.277614         | \$ 405,046    |
| 9        | Knoll   | Executive & Senior Exempt Time-Based (Component of LTI) | 49       | Table MTK-8 | \$ 1,742,035         | dollars      | LABXAG           | 0.277614         | \$ 483,614    |
| 10       | Knoll   | Long-Term Incentive (LTI)                               | 49       | Table MTK-8 | \$ 3,201,060         | dollars      | LABXAG           | 0.277614         | \$ 888,660    |

\* In order to calculate the NM Retail Share numerous allocators were used, please see Attachment APF-6 of Arthur P. Freitas Testimony for calculation.