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Direct Testimony and Schedules
Ruth K. Lowenthal

Before the Minnesota Public Utilities Commission
State of Minnesota

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

Docket No. E002/GR-20-723
Exhibit____(RKL-1)

Employee Compensation and Benefits

November 2, 2020

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I. INTRODUCTION

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Q. PLEASE STATE YOUR NAME AND OCCUPATION.

A. My name is Ruth K. Lowenthal. I am the Vice President, Total Rewards for Xcel Energy Services Inc., which is the service company affiliate of Northern States Power Company, a Minnesota corporation (the Company) and an operating company of Xcel Energy Inc. (Xcel Energy).

Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

A. As Vice President of Total Rewards, I oversee the Company's Total Rewards (Compensation, Employee Benefits, and Recognition), Payroll, and HR Operations functions. My statement of qualifications is included as Exhibit___(RKL-1), Schedule 1.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. I support the Company's request to recover in electric rates the costs of our employee compensation and benefits, which are elements of the Xcel Energy Total Rewards Program.

Q. PLEASE PROVIDE A SUMMARY OF YOUR TESTIMONY.

A. To provide safe and reliable electric service for our customers, meet their changing needs, and deliver on our vision of providing 100 percent carbon-free electricity by 2050, the Company must be able to attract, retain, and motivate high-quality employees. To help achieve this goal, the Company is requesting recovery of amounts necessary to provide a market-competitive compensation and benefits package to candidates and employees.

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The Company uses a market-based approach to compensation focused on the market-median, which ensures our base pay and incentive compensation is set at a competitive level, creating a program expense that is necessary and reasonable to attract employees in our industry.

Additionally, the Company provides benefits and retirement programs for employees that are consistent with market practices. It is well-known that the cost of these programs has been on the rise, and the Company continuously looks at ways to provide a competitive benefit for employees, while being cost effective for customers.

In summary, we are requesting to recover the necessary and reasonable costs required to allow the Company to maintain and invest in our employees, so that they can provide safe and reliable electric service for our customers.

- Q. HOW IS YOUR TESTIMONY STRUCTURED?
- A. In Section II, I describe the Total Rewards Program and the components for which the Company is, and is not, seeking recovery. In Section III, I provide information about the evolving utility landscape and basic needs of the workforce. In Section IV, I provide additional information about base pay, forms of incentive compensation, and the rationale for eliminating compliance filings and refund requirements associated with incentive compensation. In Section V, I describe the Company’s cost to provide our active employees with health and welfare benefits. In Section VI, I describe the retirement benefits the Company offers.

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1 Q. ARE ANY OTHER WITNESSES ADDRESSING ISSUES RELATED TO COMPENSATION
2 AND BENEFITS?

3 A. Yes. Company witness Mr. Richard R. Schrubbe is providing testimony related
4 benefit expenses, and Company witness Mr. Benjamin C. Halama describes
5 adjustments made to the incentive program expenses.
6

7 **II. OVERVIEW OF RECOVERY REQUEST FOR TOTAL REWARDS**
8 **PROGRAM**
9

10 Q. WHAT ARE THE ELEMENTS OF THE TOTAL REWARDS PROGRAM?

11 A. The Total Rewards Program includes the following components:

- 12 • *Total compensation* consisting of base pay, the Annual Incentive Program
13 (AIP), Long-Term Incentive Program (LTI), and an employee
14 recognition program.
- 15 • *Active employee health and welfare programs* primarily consisting of medical,
16 pharmacy, dental, disability, vision, and life insurance coverage for our
17 active (as opposed to retired) employees and their families, plus employee
18 long-term disability and workers' compensation.
- 19 • *Retiree benefits* consisting of medical benefits for certain retired employees
20 as we honor our legacy programs for these employees.
- 21 • *Retirement package* consisting of a defined benefit pension plan and a
22 defined contribution 401(k) savings plan.

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

25 Q. WHAT IS THE LEVEL OF COSTS THAT THE COMPANY IS FORECASTING FOR THE
26 2020 BRIDGE YEAR, 2021 TEST YEAR, AND 2022 AND 2023 PLAN YEARS?

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1 A. Table 1 sets forth Total Rewards Program costs on a Minnesota electric basis
2 for the 2020 bridge year, 2021 test year, and 2022 and 2023 plan years.

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

6

Expense Amount for State of MN Electric Jurisdiction O&M (\$000s)				
Type of Benefit	2020 Bridge Year	2021 Test Year	2022 Plan Year	2023 Plan Year
AIP*	\$23,508	\$23,963	\$24,743	\$25,540
LTI**	\$5,093	\$3,982	\$4,176	\$4,293
Qualified Pension	\$19,901	\$16,491	\$13,913	\$12,168
401(k)	\$9,127	\$9,434	\$9,676	\$9,939
Active Health	\$33,829	\$35,993	\$38,024	\$39,875
Misc. Ben., Life, LTD	\$3,666	\$3,480	\$3,483	\$3,539
Retiree Medical	\$430	\$373	\$333	\$1,405
Recognition	\$976	\$1,020	\$1,062	\$1,105

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16
17 * Amount accounts for limitations we have placed on our request for recovery in this case

18 **Environmental and Time-based LTI

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

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

25

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1 Q. IS THE COMPANY SEEKING TO INCLUDE ALL OF THE NECESSARY AND
2 REASONABLE COSTS OF THE TOTAL REWARDS PROGRAM IN ITS TEST YEAR COST
3 OF SERVICE?

4 A. No. We are not requesting rate recovery of the following elements of the Total
5 Rewards Program:

- 6 • Annual Incentive Program (AIP) compensation above target level;
- 7 • AIP exceeding capped levels; and
- 8 • Long-term incentive (LTI) compensation related to relative Total
9 Shareholder Return (TSR)

10

11 Q. HOW HAS THE COMPANY LIMITED ITS REQUEST TO RECOVER THE COST OF THE
12 ANNUAL INCENTIVE PROGRAM (AIP)?

13 A. We have limited our request for AIP cost recovery in two ways. First, consistent
14 with past practice, we are requesting recovery of only the target-level incentive
15 amount, subject to capping mechanisms. So, if our employees perform beyond
16 their specific goal targets and the Company performs better than the established
17 operational goals, our customers receive this added benefit at no extra cost to
18 ratepayers. Please see the Direct Testimony of Mr. Halama for a description of
19 this AIP adjustment.

20

21 Second, we are requesting rate recovery of these incentive compensation costs
22 subject to a cap of 20 percent of aggregate base pay. This would represent an
23 increase in the cap amount from the current cap of 15 percent of aggregate base
24 pay. A 20 percent cap continues to implement the Commission's original intent
25 in capping AIP by excluding recovery of part of the cost of providing incentive
26 compensation to executives, while allowing recovery of AIP expenses related to

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1 non-executive employees,¹ as discussed in the Commission’s initial order
2 establishing a cap in the Company’s 1992 Rate Cases, Docket Nos. E002/GR-
3 92-1185 and G002/GR-92-1186. I will discuss this request for a slight increase
4 in the AIP cap in greater detail later in my testimony.

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

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

10
11 Q. ARE YOU SEEKING RECOVERY OF ANY COSTS FOR LONG-TERM INCENTIVE (LTI)
12 COMPENSATION?

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

20

¹ The term “executive” will be used throughout my testimony to describe employees in the jobs who are Business Unit Vice Presidents through the Chief Executive Officer. The term “non-executive” will be used throughout my testimony to describe employees in senior management jobs below the Business Unit Vice President-level.

² In Direct Testimony, Mr. Halama discusses the approximately \$11.7 million adjustment to the cost of service related to LTI costs for Relative Total Shareholder Return.

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

2 A. The Company is limiting its request in an effort to reduce the number of
3 contested issues in this case.

4

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

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

17

18 **III. BUSINESS MODEL CHANGES AND WORKFORCE NEEDS**

19

20 **A. Changes in the Company's Business Model**

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

22 A. Customers are already expecting more than just reliable and affordable electric
23 service. They expect a broad array of energy-related products and services that
24 meet their specific needs and the ability to communicate and interact with the
25 Company through a variety of methods. To meet these expectations, over the
26 next decade we expect significant changes across all aspects of our business.
27 We will continue to shift our power generation mix away from fossil fuels

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1 toward carbon-free options. We will continue to shift our power grid to include
2 more distributed generation with two-way power flow and implement programs
3 to serve communities' electric vehicle needs. Each of these changes will impact
4 our workforce.

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

8 A. Our employees will need to develop new skill sets. For example, the Company
9 will collect, analyze, and make decisions based upon increasingly larger sets of
10 data. Accordingly, we will need to hire specialized data scientists and fully train
11 our employees to manage automated processes since we expect many of our
12 professional positions will use automated processes to complete certain
13 repetitive tasks to focus on higher-value, more consultative work.

14
15 As another example, where we once had a labor-intensive power plant
16 footprint, we are transitioning to lower-maintenance wind and solar farms.
17 Where employees were accustomed to fixing things with their hands,
18 technology will now be more prominent in managing our generation assets.
19 Our customer service agents will continue to answer phones and solve problems
20 and will also need to be equipped to offer more products and services and
21 engage with customers in new ways. We will still need field workers that do
22 construction, maintenance, storm restoration, and the like. But, all of our
23 employees will need to adapt to perform their jobs in a rapidly changing
24 environment.

25
26 Q. AS THE COMPANY IS UNDERGOING THIS CHANGE, WHAT EFFORTS ARE YOU
27 UNDERTAKING AROUND INCLUSION, DIVERSITY, AND EQUITY?

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1 A. As a leading business in Minnesota, we are committed to the principles of
2 greater inclusion, diversity, and equity in our company and community. The
3 recent unrest and protests around the nation and in our own communities have
4 only strengthened our resolve to find ways we can do more to help our
5 employees and communities heal, recover, and grow. Our Chief Executive
6 Officer (CEO), Ben Fowke, joined more than 50 Minnesota executive leaders
7 in co-signing a letter released by Children’s Minnesota stating their commitment
8 to “stand united against acts of racism.”³ The Xcel Energy leadership team is
9 working to have direct conversations with employees and stakeholders about
10 these issues and solutions on which we can act. We remain committed to
11 continued support and development of a diverse workforce that reflects the
12 communities and customers we serve by reviewing our current processes to
13 ensure we are meeting those commitments.

14
15 Q. WHAT STEPS IS THE COMPANY TAKING TO ADDRESS THESE ISSUES IN ITS
16 WORKFORCE?

17 A. The Company has several internal initiatives to create and maintain focus on
18 addressing these issues, as well as programs to provide a voice for employees to
19 address issues in our community and workforce, such as:

- 20 • Promoting a variety of business resource groups that support diversity
21 within the Company, including: Growth and Retention of Women in
22 Non-Traditional Roles (GROW); Women’s Interests Network (WIN);
23 Women in Nuclear; General Counsel’s Employee Excellence and
24 Equality Committee (GC EEE); Military Ombudsmen for Veterans and

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

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1 Employees (MOVE); Pride Alliance, an inclusive group supporting
2 LGBTQ+ employees; Strategic Organization Utilizing Resources for
3 Career Enhancement (SOURCE); Tribal Wind, an inclusive group
4 supporting Native American employees; and XCELENTE, Xcel
5 Energy’s Latino Business Resource Group.

- 6 • Partnering with organizations like the Center for Energy Workforce
7 Development, and working with our business resource groups, to
8 ensure that our workforce continues to diversify the same way our
9 communities are diversifying.
- 10 • Reviewing our talent processes, from recruiting, to performance
11 management, to succession planning with a focus on eliminating bias.
- 12 • Educating our employees about micro-inequities and unconscious bias.
13 As an organization that signed onto the CEO Action for Inclusion and
14 Diversity,⁴ we know this is one of the key tenets to helping continue to
15 drive an inclusive culture.
- 16 • Using our employee engagement survey process to solicit feedback
17 from our employees.

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

21
22 **B. Labor Market Competition**

23 Q. PLEASE DESCRIBE AT A HIGH LEVEL THE CURRENT COMPETITION IN THE
24 UTILITY LABOR MARKET.

⁴ See CEO Action Pledge here: <https://www.ceoaction.com/pledge/ceo-pledge/>

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

9
10 Q. PLEASE DESCRIBE THE LABOR MARKET IN MINNESOTA.

11 A. Among the 30 largest metropolitan areas across the country, the Twin Cities
12 ranks first in number of Fortune 500 firms per capita, according to the
13 Minnesota Department of Employment and Economic Development.⁵ The 16
14 Fortune 500 companies in the state include some of the world's most
15 recognized brands and firms, such as 3M, Best Buy, General Mills, and
16 UnitedHealth Group, with whom we compete for engineers, IT, marketing, and
17 other skilled employees.

18
19 The Company also competes for talent with many other large employers that
20 have a significant presence in Minnesota but are no longer headquartered in
21 Minnesota or are privately held and therefore not included on the Fortune 500
22 list, such as Medtronic, Mortenson Construction, and Cargill.

23

⁵ See <https://mn.gov/deed/ed/why-mn/mn-companies/> (accessed on Aug. 10, 2020).

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1 In addition, there are three other investor-owned electric utilities that serve
2 Minnesota, as well as more than 40 cooperatives and more than 20 municipal
3 providers who directly compete with the Company for utility industry talent.⁶
4

5 Q. WHAT IMPACT HAS THE REGIONAL AND NATIONAL LABOR MARKET HAD ON THE
6 COMPANY?

7 A. Minnesota had a 2.9 percent unemployment rate as recently as March 2020,
8 below the national average of 4.4 percent, according to the U.S. Bureau of Labor
9 Statistics.⁷ The current economic conditions have not significantly impacted
10 the labor pool in the utility market, where the June 2020 unemployment rate
11 was 3.6 percent, nationally.⁸ Utility services are considered essential services,
12 and utility workers are committed to serving the developing needs of customers
13 and their work from home and distance learning challenges, as well as repairs
14 following storm outages. It is crucial that the Company is able to provide a
15 market-competitive compensation and benefits package that allows us to
16 compete for the talent necessary to provide safe and reliable electric service to
17 customers.
18

19 Q. HAS THE COMPANY EXPERIENCED ANY REDUCTIONS IN THE LABOR FORCE
20 RELATED TO THE COVID-19 PANDEMIC?

21 A. No. At this time, the Company has maintained a stable workforce to ensure
22 our customers continue to receive safe and reliable electric service since the
23 outbreak occurred in March 2020.
24

⁶ See <https://mn.gov/puc/consumers/help/utility/> (accessed on Aug. 10, 2020).

⁷ See <https://data.bls.gov/timeseries/LNS14000000> (accessed on Sep. 1, 2020).

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

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IV. TOTAL COMPENSATION

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

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

- Base pay;
- AIP;
- LTI compensation; and
- Recognition awards.

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

Q. WHY DO THE COMPENSATION COMPONENTS VARY BY EMPLOYEE?

A. The eligibility for particular components of compensation varies depending on whether a given non-bargaining employee is considered “non-exempt” or “exempt” under the Fair Labor Standards Act (FLSA). The FLSA defines non-exempt employees as those paid on an hourly basis who may receive overtime. Non-exempt employees are generally eligible for base pay, overtime, and recognition awards. The FLSA defines exempt employees as those who receive a salary. In our compensation program design, exempt employees are eligible for base pay and various types of incentive compensation depending on his or her job in the Company.

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1 Q. ARE THE TOTAL COMPENSATION PACKAGES STRUCTURED THE SAME FOR ALL
2 NON-BARGAINING EMPLOYEES?

3 A. No. Non-exempt employees, as described above, receive their total
4 compensation through base pay. Exempt employees receive a portion of their
5 market-based level of total compensation as incentive. All non-bargaining,
6 exempt employees are eligible to receive AIP, and a subset of exempt employees
7 are also eligible to receive LTI in order to reach their market-based level of total
8 compensation.

9
10 The Company's competitive market-based compensation program design is
11 similar to that of other employers the Company competes with for employees.
12 This design reflects an intentional decision to align compensation opportunities
13 with an employee's level of responsibility and influence on the Company's
14 operations and results.

15
16 The compensation structure for all non-bargaining employees is designed to
17 provide a total compensation package based on the market-competitive
18 compensation levels and types necessary to attract, retain, and motivate
19 employees at varying levels.

20
21 Q. HOW ARE BARGAINING EMPLOYEES COMPENSATED?

22 A. Bargaining employees are compensated according to their union contracts
23 negotiated with the Company.

24

25 Q. WHAT COSTS FOR COMPENSATION HAS THE COMPANY INCLUDED IN THE 2021
26 TEST YEAR AND 2022 AND 2023 PLAN YEARS?

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

6

7 **A. Base Pay**

8 Q. HOW ARE BASE PAY AMOUNTS ESTABLISHED FOR NON-BARGAINING
9 EMPLOYEES?

10 A. Base pay is one component of total compensation. The Company undertakes
11 a comprehensive evaluation process for each non-bargaining position using
12 external market data obtained from independent third-party compensation
13 surveys to ensure its non-bargaining employee compensation levels are
14 comparable to the market. To develop an apples-to-apples comparison, the
15 Company must first match the job responsibilities of the Company's positions
16 to the job responsibilities of the positions within other companies that compete
17 with the Company for employees. After that, the Company considers data from
18 a variety of surveys, including data for both utility and non-utility companies.⁹
19 The 50th percentile (that is, the median) is then used to determine the
20 appropriate pay range for a position. After an appropriate pay range is
21 determined, the components of the total compensation package are broken up
22 among base pay, AIP, and LTI. As I discussed previously, non-exempt non-
23 bargaining employees receive all of their compensation through base pay (with
24 the exception of certain recognition programs, which I discuss below). Exempt
25 non-bargaining employees will have a portion of their compensation delivered

⁹ If the Xcel Energy position is unique to the utility industry, Xcel Energy may restrict its comparison to only the utility-specific data in the surveys.

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1 through base pay, with the remainder of their compensation provided as
2 incentive. The proportion of base pay to total compensation, therefore, largely
3 depends on the individual non-bargaining employee's position in the Company.
4

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

7 A. Managers determine the annual base pay increase to award based on an
8 employee's performance, position in the pay range (an indicator of market), and
9 comparisons to other employees in the same or similar jobs. These
10 determinations reflect the Company's philosophies of providing market-
11 competitive compensation and paying for performance.
12

13 Because annual base pay increases are based on these factors, some employees
14 may earn less than the budgeted increase or no increase at all, while some
15 employees may earn more than the budgeted increase percentage. This process
16 allows the Company flexibility to make determinations about particular jobs and
17 employees while remaining within the budget limits. However, on average, the
18 Company tends to increase overall compensation levels consistent with the
19 amount budgeted, making it reasonable for the Commission to set rates utilizing
20 these forecasts.
21

22 Q. HOW DOES THE COMPANY DETERMINE THE ANNUAL BUDGET FOR BASE PAY
23 INCREASES?

24 A. For non-bargaining employees, we initially budget for annual base pay increases
25 on a five-year, forward-looking basis. Each year, we refine the budget using our
26 current workforce information (including attrition and attraction estimates) and
27 each employee's base pay at that time. We then calculate the budgeted annual

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1 base pay increase for the following five years using target percentage values that
2 are based on several factors, including:

- 3 • Review of external market surveys regarding base pay increases;
- 4 • Comparison of compensation of non-bargaining employees to potential
5 or negotiated wage increases for our bargaining employees;
- 6 • Economic conditions; and
- 7 • Company performance.

8
9 By balancing these considerations, we develop a budgeted annual base pay
10 increase that allows us to meet our hiring and retention challenges while being
11 fair and reasonable to our employees and customers.

12
13 For bargaining unit employees, the general wage increases are part of the
14 negotiation process and are included in the collective bargaining agreements.

15
16 Q. DOES THE BUDGET INCLUDE PTO?

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

20
21 Q. WHAT IS INCLUDED IN THE 2021 TEST YEAR AND 2022 AND 2023 PLAN YEAR
22 BUDGETS FOR BASE PAY INCREASES FOR NON-BARGAINING EMPLOYEES?

23 A. We included the costs budgeted for providing non-bargaining employees with
24 2021 annual base pay increases equal to a 3.0 percent increase in base pay. Based
25 on recent trends, we anticipate base pay will continue to rise at approximately
26 3.0 percent in 2022 and 2023, as well.

27

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1 Q. HOW WAS THE BUDGET CALCULATED FOR THE 2021 TEST YEAR AND 2022 AND
2 2023 PLAN YEARS?

3 A. We used the headcount and base pay in effect as of May 2020 and applied a 3.0
4 percent increase to those values for each respective year.

5

6 Q. WHY IS A THREE PERCENT BASE PAY INCREASE FOR NON-BARGAINING
7 EMPLOYEES APPROPRIATE?

8 A. The Company regularly compares its total cash compensation levels, base pay
9 increases and programs to those of other companies, including other utilities
10 and non-utilities. Surveys demonstrate that a three percent increase in base pay
11 is comparable to what the market has been projecting recently. In particular,
12 five different survey sources¹⁰ projected 2020 base pay increases to fall within
13 the following ranges:

- 14 • 3.1 - 3.7 percent for all utilities on a national basis; and
15 • 3.0 - 3.6 percent for all companies on a national basis.

16

17 These independent surveys include a comprehensive representation of many
18 companies, both in the utility and general industry. The number of companies
19 participating in the surveys ranges from 229 to 6,090. Using numerous salary
20 increase survey sources provides us with reliable data on the salary increase
21 trends in the market.

22

¹⁰ WorldatWork “2019-2020 Salary Budget Survey”; The Conference Board “2020 Salary Increase Budget Survey Results; Willis Towers Watson, “2019 General Industry Salary Budget Survey”; Mercer “2019/2020 US Compensation Planning Survey Report”; and Aon Hewitt “U.S. Salary Increase Survey 2019-2020.”

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1 Q. WHAT WOULD BE THE OUTCOME IF YOUR BASE PAY INCREASES ARE NOT
2 CONSISTENT WITH THOSE OF OTHER UTILITIES?

3 A. Xcel Energy's exempt, non-bargaining base pay already lags the market by 1.4
4 percent when compared to the utility market median, according to the Willis
5 Towers Watson compensation study described in more detail later in my
6 testimony. If the Company does not maintain a yearly increase as part of a
7 market-competitive program, the gap between the Company's base pay level
8 and market-based base pay level will continue to grow. That gap would further
9 impair our ability to attract and retain the employees needed to provide safe and
10 reliable electricity to our customers.

11

12 Q. WHAT IS INCLUDED IN THE 2021 TEST YEAR BUDGET FOR BASE WAGE
13 INCREASES FOR BARGAINING EMPLOYEES?

14 A. Future base wage increases of 2.5 percent are scheduled for January 1, 2021 and
15 2022.

16

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

20 A. No. As stated above, the Company's base pay amounts alone lag the market
21 slightly when compared to base pay. If base pay alone were compared to total
22 compensation levels, it would lag significantly. It is only with incentive
23 compensation that the Company's compensation levels reach a competitive
24 market rate needed to keep and attract this group of incentive eligible
25 employees.

26

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

4
5 **B. AIP**

6 Q. PLEASE DESCRIBE THE COMPANY'S ANNUAL INCENTIVE PROGRAM.

7 A. The Company's AIP is a form of incentive compensation offered to exempt,
8 non-bargaining employees. Please see Exhibit___(RKL-1), Schedule 4 for AIP
9 documents for 2018, 2019, and 2020.

10
11 Q. PLEASE EXPLAIN THE ROLE OF INCENTIVE COMPENSATION COMPONENTS IN A
12 WELL-DESIGNED TOTAL COMPENSATION DESIGN.

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

24
25 Q. IS IT COMMON FOR LARGE COMPANIES SUCH AS UTILITIES TO USE ANNUAL
26 INCENTIVE COMPENSATION AS PART OF THEIR COMPENSATION PACKAGES?

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1 A. Yes. The use of incentive compensation by employers is a standard practice
2 throughout the United States. According to the 2019 Willis Towers Watson
3 Compensation Study of investor-owned utility companies, provided as
4 Exhibit____(RKL-1), Schedule 2, 100 percent of companies in both the national
5 sample and the revenue-based sample maintain an annual incentive plan.

6

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

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

11

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

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

21

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

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

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

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

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

6 A. The use of incentive compensation reduces labor costs by lowering the base pay
7 amount to which annual escalation rates are applied. For example, if a non-
8 bargaining employee's total compensation were \$50,000 in year one and all of
9 the compensation were in the form of base pay, a 3.0 percent base pay increase
10 would lead to a base pay increase of \$1,500 in year two and a new base pay of
11 \$51,500.

12
13 In contrast, customers benefit if total compensation is structured with base pay
14 and 20 percent incentive compensation opportunity (variable pay) to reach total
15 compensation. In this example, a base pay of \$41,670 with a target-level payout
16 of 20 percent would reach the market-based total compensation of \$50,000.
17 The difference to total compensation would need to be re-earned annually
18 through AIP. Additionally, unlike the fixed cost described above when total
19 compensation is delivered in base pay, the 3.0 percent base pay increase would
20 lead to an increase of \$1,250 in year two ($\$41,670 + 3.0\% = \$1,250$) and a new
21 base pay of \$42,920. Thus, by moving a portion of each employee's pay from
22 base pay to incentive pay, the Company reduces overall fixed labor costs (base
23 pay) by avoiding the compounding effect of annual base pay increases on the
24 higher base pay amount, as noted in Figure 1 below.

25

Figure 1

Example Fixed Cost and Variable Pay

	Total Compensation Base Pay Only	Total Compensation Base Pay and AIP
Competitive Market Total Compensation Median	\$50,000	
Fixed Cost - Base Pay	\$50,000	\$41,670
Incentive Target Opportunity	0%	20%
Variable Pay at Target	\$0	\$8,334
Total Compensation	\$50,000	\$50,004
Base Pay Increase (3.0%)	\$1,500	\$1,250
Fixed Cost - Post Increase	\$51,500	\$42,920

Furthermore, fixed costs associated with base pay affect a variety of benefit-related expenses, such as 401(k) match, life insurance premiums, long-term disability premiums, and short-term disability expenses. If total compensation were provided through base pay at 100 percent, the additional fixed costs would correspondingly increase benefit-related expenses. In contrast, variable pay expenses associated with incentive compensation do not affect all benefit expenses, and variable pay may fluctuate from year to year. These factors, along with prorated awards and eligibility requirements for payout, also contribute to incentive design savings.

In summary, by utilizing base pay and incentive components in the compensation program, the Company reduces costs for our customers, while offering employees market-based, target-level total cash compensation.

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1 Q. DO YOU BELIEVE IT IS APPROPRIATE TO RECOVER AIP COSTS IN RATES?

2 A. Yes. AIP is an essential component of total compensation for our exempt, non-
3 bargaining employees. First, if we were to rely on current base pay alone,
4 excluding the value of AIP, the Company's compensation levels would be well
5 below market levels of total compensation. This would negatively impact the
6 Company's ability to attract, retain, and motivate these employees. Second,
7 raising employee base pay to make up the difference to market-based total
8 compensation creates an immediate impact on fixed costs and additional
9 expense related to associated benefits, as described above. This would increase
10 rates by solidifying higher fixed costs impacting compensation of several
11 benefits that are calculated using base pay. Finally, including the AIP
12 component in compensation design is a market competitive best practice for
13 companies to reach total cash compensation levels for employees.

14

15 1. *AIP Expense*

16 Q. WHAT IS THE AIP EXPENSE IN THE 2021 TEST YEAR, AND 2022 AND 2023 PLAN
17 YEARS?

18 A. For the State of Minnesota, Electric Jurisdiction, the AIP costs included in the
19 stated years are as follows: 2021 test year, \$24.0 million; 2022 plan year, \$24.7
20 million; and 2023 plan year, \$25.5 million.

21

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

25 A. When payout levels are greater than 100 percent, it indicates that the Company
26 employees have achieved higher than expected performance results. However,
27 the Company limits its requested recovery to the target level (*i.e.*, 100 percent).

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1 Ratepayers continue to receive the benefit of exceptional service and employees
2 performing at levels higher than the established goal targets. This has been the
3 case in each of the last 3 years, as shown in Table 2 below.

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

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

10
11 **Table 2**
12 **Total Company Budgeted versus Actual AIP**

13

Year	100% Target (Budget) AIP (\$000s)	Actual AIP (\$000s)
2017	\$29,613	\$29,850
2018	\$30,436	\$32,420
2019	\$30,418	\$31,982
2020 Bridge Year	\$28,426	TBD
2021 Test Year	\$29,068	TBD
2022 Plan Year	\$30,019	TBD
2023 Plan Year	\$30,991	TBD

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

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2. *Structure of the Company's AIP*

Q. WHICH EMPLOYEES ARE ELIGIBLE TO PARTICIPATE IN THE ANNUAL INCENTIVE PROGRAM?

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

Q. IS THE AIP AN EMPLOYEE "BONUS?"

A. No. This is a misconception. If the goals are achieved and AIP is paid at target, the employee's compensation for that year is *just then* meeting market levels. Anything less than 100 percent of the full AIP amount (target payout) generally puts the employee at a compensation level below what other companies and utilities are paying, as detailed elsewhere in my testimony. The Company's AIP is a market-based incentive program with written goals and measurements related to the payout. It is a crucial component of the Company's market-based compensation system, not a giveaway of funds.

Q. PLEASE DESCRIBE HOW THE EMPLOYEE EARNS AIP.

A. Each eligible employee has a targeted annual incentive opportunity expressed as a percentage of base pay. The employee receives the incentive for

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

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1 achievement related to pre-determined individual performance goals and for the
2 Company's achievement of Corporate Key Performance Indicators (KPIs).

3
4 The percentage of base pay (AIP target percentage) is determined by third-party
5 market data and the employee's position within the organization. When AIP is
6 combined with the employee's base pay, the sum of these delivers a market-
7 competitive level of total cash compensation. If an individual employee has
8 failed to meet the employee's agreed-upon goals for the year, he or she may not
9 receive an incentive award, regardless of corporate performance.

10
11 Employees are also eligible to earn an award through the "I Deliver" and
12 "Innovator" programs, which are addressed later in my testimony.

13
14 Q. PLEASE DESCRIBE THE CORPORATE KPI COMPONENTS OF THE 2020 AIP.

15 A. Each year, Xcel Energy develops a Corporate scorecard that identifies certain
16 priorities for the year. In 2020, for example, the Corporate KPIs are focused
17 on three priorities: (1) enhancing the customer experience; (2) keeping bills low;
18 and (3) promoting safety and reliability. As shown in Table 3, those three
19 priorities resulted in five Corporate KPIs for the year:

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**Table 3
2020 Corporate Scorecard**

Priority	KPI	Threshold (50%)	Target (100%)	Maximum (150%)	KPI Weight
Enhance the Customer Experience	Customer Satisfaction (Residential)	729	741	753	20%
	Wind Deployment*	2.0%	0.0%	(2.0%)	20%
Keep Bills Low	Employee Safety	Declining	Steady/ Improving	Significant Improvement	20%
	Public Safety	90%	95%	99%	20%
Safety and Reliability	Electric System Reliability (SAIDI)	99	92	85	20%

*Percentage represents capital variance.

Q. WHAT DO THESE 2020 CORPORATE GOALS MEASURE?

A. The Customer Satisfaction goal measures the satisfaction of residential customers, using the Company’s year-over-year results from the J.D. Power Customer Satisfaction Survey. The Wind Deployment goal measures delivery of a number of major wind projects on budget. The Public Safety goal measures how quickly the Company responds to situations to reduce hazards and maintain service reliability. The SAIDI (System Average Interruption Duration Index) goal measures the reliability of the power the Company provides to customers. Finally, the Employee Safety goal focuses on maintaining a safe-work mentality and injury-free work environment, as measured by DART (Days Away, Restricted, or Transferred).

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1 Q. IS THE AIP CORPORATE SCORECARD FOR 2020 REPRESENTATIVE OF THE
2 SCORECARDS XCEL ENERGY EXPECTS TO USE ON A PROSPECTIVE BASIS?

3 A. Yes. The Company will continue to be customer-focused by driving operational
4 and cost efficiencies to deliver safe and reliable electric service to our customers.
5 Although the specific KPIs and measures may change to reflect specific
6 objectives from year to year, the safety of the communities we serve and our
7 employees, and the provision of reliable service with outstanding customer
8 service, will always be high priorities.

9

10 Q. HOW DOES THE ACHIEVEMENT OF A KPI LEAD TO AN AIP AWARD?

11 A. An employee can receive a portion of their AIP based on the year-end
12 measurement on each of the Corporate KPIs, calculated on the employee's
13 specific breakdown of corporate versus individual goal achievement. For
14 example, if the corporate portion of the AIP is 30 percent of the overall target
15 amount for an employee, each target met at 100 percent would equate to 6
16 percent of the overall total payout for this employee, as each KPI is weighted
17 at 20 percent.

18

19 Q. PLEASE TURN NOW TO THE INDIVIDUAL COMPONENT OF THE AIP AND EXPLAIN
20 HOW THAT IS EVALUATED.

21 A. The purpose of the individual component is to focus an employee on individual
22 goals and to reward that employee for his or her achievement of those goals.
23 Including an individual component allows managers to recognize and reward
24 employees based on their levels of contribution and performance, consistent
25 with Xcel Energy's pay-for-performance philosophy. Each manager has
26 discretion to determine the year-end individual component award within a range

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1 of 0 to 150 percent based on the employee’s contributions and performance
2 during the year, while remaining within their budget.

3
4 Q. HOW DOES THE AIP DESIGN REFLECT THE COMPANY’S PAY-FOR-
5 PERFORMANCE PHILOSOPHY?

6 A. The Company’s long-standing pay-for-performance philosophy further
7 correlates rewards with work expectations, behaviors and performance, creating
8 an even greater distinction between typical and exceptional work.
9 Consequently, those employees who are performing at levels less than
10 satisfactory will receive a lower AIP payout or no payout. This philosophy
11 serves to motivate higher performance, set clearer expectations, and recognize
12 and drive continuous improvement. We believe practicing greater pay
13 differentiation and spending our compensation resources strategically will help
14 motivate employees and raise performance levels.

15
16 Q. DOES THE COMPANY MONITOR ITS AIP DESIGN TO DETERMINE WHETHER IT
17 SHOULD MAKE IMPROVEMENTS?

18 A. Yes. The Company regularly examines its compensation programs to determine
19 whether the programs are effectively motivating employees and meeting
20 competitive levels of compensation, including the AIP component.

21
22 Q. HAS THE COMPANY MADE ANY DESIGN CHANGES TO THE COMPENSATION
23 PORTION OF THE TOTAL REWARDS PROGRAM SINCE ITS 2015 RATE CASE?¹³

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

¹³ Docket No. E002/GR-15-826.

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1 Q. IN WHAT WAYS HAS THE COMPANY CHANGED THE AIP DESIGN?

2 A. Prior to 2017, AIP compensation was based upon performance in three areas:
3 Corporate, Business Area, and Individual. In 2017, Xcel Energy redesigned the
4 program by assigning more weight to the Individual performance area and
5 eliminating the Business Area component. As a result, the Individual
6 performance component is the most consequential for most employees eligible
7 for AIP. This change created a clearer “line of sight” between an employee’s
8 individual performance and the employee’s AIP compensation. This means
9 most employees earn the majority of their incentive compensation based on the
10 successful completion of individual goals that are written with the Corporate
11 KPIs as their focal point. Furthermore, the addition of the I Deliver and
12 Innovator programs, which I discuss below, allow leaders to reward employees
13 during the program year, rather than only at the end of the year. This design
14 change allowed more flexibility without increasing the expense of the program.

15
16 Q. PLEASE EXPLAIN THE I DELIVER AND INNOVATOR PROGRAMS.

17 A. The Company added the “I Deliver” and “Innovator” awards to the AIP in the
18 2017 performance year. An employee can earn one or more of these awards by
19 delivering greater than expected results for a team or a department, or by
20 implementing innovative, high-impact solutions or processes that deliver
21 significant benefits Company wide.

22
23 These awards give leaders a mechanism to reward employees who generate
24 positive outcomes for customers and Xcel Energy at a time when it would be
25 most meaningful to the employee rather than waiting for the year-end payout.
26 These award options within the construct of the AIP were designed to address

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1 our changing workforce and their expectation for real-time recognition of their
2 accomplishments.

3
4 Payments from these two elements of the AIP are separate from the year-end
5 incentive compensation payouts, but do not result in additional AIP expenses
6 because they are included in the overall market-based AIP budget. Xcel Energy
7 sets a portion of this budget aside to allow for these real-time awards.

8
9 Q. IS AN EMPLOYEE’S ANNUAL INCENTIVE COMPENSATION TARGET OPPORTUNITY
10 STILL EXPRESSED AS A PERCENTAGE OF BASE PAY?

11 A. Yes. The employee’s incentive target opportunity continues to be a percentage
12 of base pay.

13
14 Q. DID THE TARGET-LEVEL AIP COSTS CHANGE IN LIGHT OF THE 2017 AIP
15 DESIGN CHANGES?

16 A. No. As described previously, the target-level AIP costs continue to be
17 calculated using the individual target opportunity levels of incentive pay in the
18 market.

19
20 *3. AIP Recovery Cap*

21 Q. WHY IS THE COMPANY PROPOSING TO CHANGE THE AIP RECOVERY CAP FROM
22 THE 15 PERCENT THAT HAS BEEN IN PLACE FOR MANY YEARS TO 20 PERCENT IN
23 THIS RATE CASE?

24 A. The Company is proposing to raise the cap on AIP cost recovery from 15
25 percent to 20 percent to correct under-recovery of a portion of the Company’s
26 market-based total cash compensation. In its last litigated rate case, Docket No.
27 E002/GR-15-826, (the 2015 Rate Case), the Company agreed to cap AIP cost

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1 recovery at 15 percent of aggregate base pay in order to limit disputed issues.
2 Capping AIP recovery at that level, though, has created a situation in which we
3 are continually materially under-recovering expenses. This under-recovery does
4 not align with our obligation to attract, retain, and motivate employees to
5 provide safe and reliable electrical service to our customers. This situation is
6 not sustainable.

7
8 Currently, the 15 percent cap impacts the Company’s recovery of compensation
9 costs for nearly 250 non-executive employees and individual contributors. The
10 market-based incentive pay component of total cash compensation for these
11 jobs is 20-30 percent. The current cap of 15 percent removes over 25 percent
12 of the AIP target opportunity dollars from the Company’s recovery request for
13 this non-executive group of employees. The total AIP target opportunity and
14 associated expense is necessary to attract and retain these employees in our
15 competitive job market and, therefore, it is necessary to recover a greater
16 portion of these target-level expenses going forward.

17
18 Q. ARE YOU AWARE OF OTHER EXAMPLES OF MINNESOTA UTILITIES RECOVERING
19 SHORT-TERM INCENTIVE AT LEVELS OVER 15 PERCENT?

20 A. Yes. In Minnesota Power’s last rate case,¹⁴ the Commission approved that
21 company’s proposed short-term incentive capped at 20 percent of base salaries.
22 As the Commission noted, “[p]articularly important is the fact that, without
23 AIP, Minnesota Power’s total cash compensation for eligible employees would
24 be below the market rate.” As detailed further below, that is precisely the
25 Company’s situation at this time.

¹⁴ Docket No. E015/GR-16-664

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2 Past levels of Commission-approved short-term incentive compensation have
3 been even higher. For example, in 2016, the Commission allowed CenterPoint
4 Energy to recover short-term incentive compensation capped at 25 percent of
5 base pay.^{15, 16} As recently as 2010, the Company received 25 percent AIP in
6 rate recovery.¹⁷

7

8 Q. WHY SHOULD THE COMMISSION APPROVE THE COMPANY'S REQUEST TO
9 INCREASE THE AIP RECOVERY CAP TO 20 PERCENT?

10 A. The Company should be permitted to recover its reasonable costs associated
11 with providing electrical service. As discussed above, the Company has been
12 under-recovering its compensation expense for a number of years as a result, in
13 part, of the 15 percent cap on AIP.

14

15 The vast majority of companies, both in the utility sector and in other sectors,
16 provide some form of short-term incentive as a component of their total
17 compensation. The Company's provision of AIP is market-based and is a
18 critical component of our market-based total compensation program.

19

20 Just as job types, responsibilities, and technology have changed in the past 30
21 years, so have the compensation design structures used to pay a wide variety of
22 employees. Since the early 1990s, compensation design models have shifted from
23 base-pay-centric compensation to designs including an increasing percentage of

¹⁵ Docket No. G008/GR-15-424

¹⁶ The recent trend towards setting a 15 percent cap on AIP has largely been the result of settlement, rather than fully-litigated rate cases.

¹⁷ 2010 Compliance Filing dated May 31, 2011

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1 incentive pay. In the early 1990s, the Company’s incentive targets were 8 percent
2 for exempt, non-management, non-bargaining employees to 13 percent for
3 exempt management, non-bargaining employees. Today, market-based incentive
4 targets can reach 35 percent for non-executive jobs. The key consideration here
5 is that, although the percentage of compensation composed of incentive
6 compensation has increased, the Company’s total cash compensation remains
7 targeted at the market median. The use of incentives reflects today’s competitive
8 job market, based on a variety of robust third-party compensation surveys and
9 external consultation.

10
11 In summary, recovery of short-term incentive costs capped at 20 percent of
12 base pay moves the Company towards a more reasonable level of recovery for
13 non-executive employees, although it is still not the full amount necessary to
14 cover the Company’s market-competitive AIP compensation expenses for all
15 employees. This request represents a reasonable adjustment to reflect changing
16 compensation models and is in line with past Commission reasoning on this
17 issue.

18
19 *4. AIP Compliance Filing*

20 Q. WHAT IS THE COMPANY PROPOSING WITH REGARDS TO THE YEARLY AIP
21 COMPLIANCE FILING?

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

26

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1 Q. WHY IS THE COMPANY PROPOSING THE ELIMINATION OF THE ANNUAL AIP
2 COMPLIANCE FILING?

3 A. The annual AIP compliance filing was directed by the Commission in the early
4 1990s. The Commission Order issued in 1992¹⁸ that established the filing and its
5 underlying rationale have not been revisited over the years, but compensation
6 practices and the Company itself have evolved and experienced considerable
7 amounts of change. As I have discussed, AIP is not a bonus; it is a component
8 of our market-based compensation system. It is a crucial component in delivering
9 our employees the appropriate level of compensation needed to attract and retain
10 those employees. For that reason, AIP should be treated as any other reasonable,
11 recoverable cost of operating an electric utility.

12

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

14 A. The AIP compliance filing stems from the 1992 Order described above that was
15 designed to limit the incentive executives receive. Times have changed since the
16 original Order directing the Company to submit the yearly AIP compliance filing.
17 The circumstances supporting this requirement are not reflective of the
18 Company's current approach to AIP rate recovery, as the Company limits
19 recovery to the AIP target opportunity level. There have been significant
20 structural changes to the AIP based on compensation changes in the competitive
21 market place.

22

23 Q. HAS THE COMPANY REPORTED AVERAGE COMPENSATION LEVELS ABOVE 105
24 PERCENT IN ANY YEAR SINCE THE INCEPTION OF THE YEARLY AIP COMPLIANCE
25 FILING?

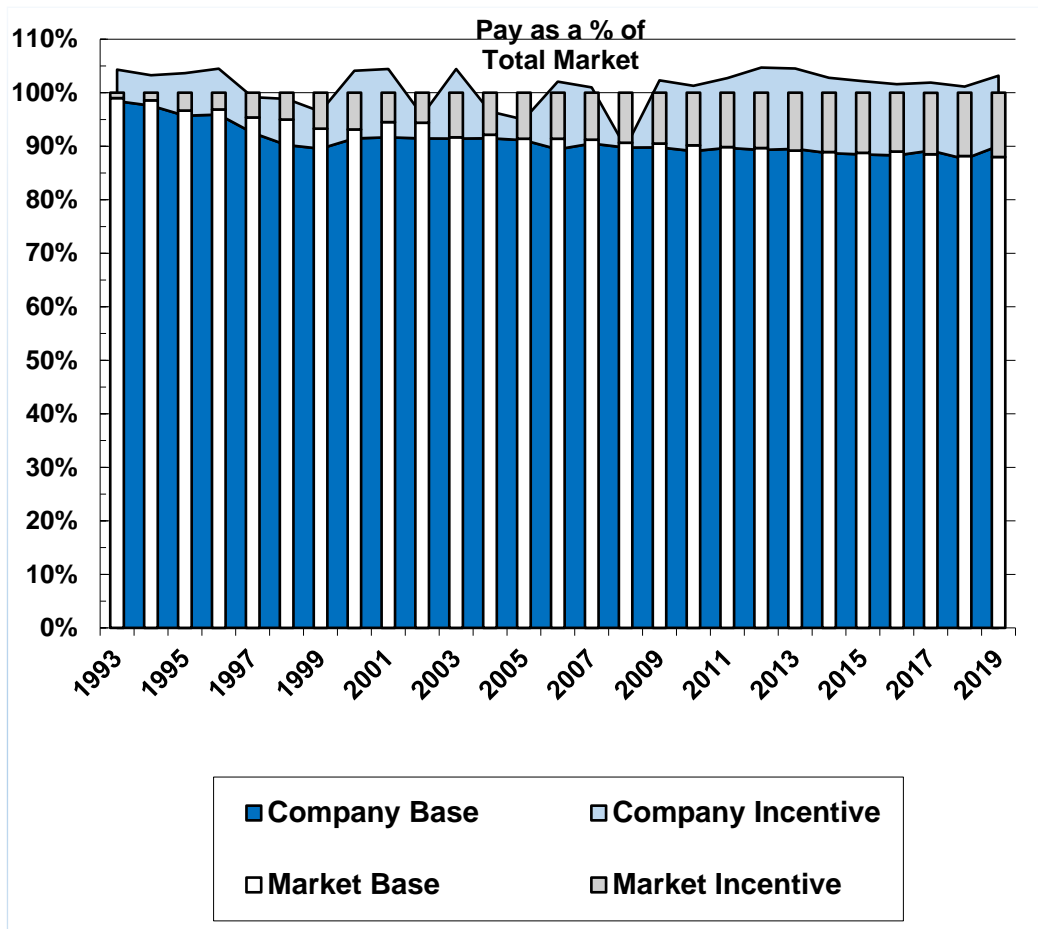
¹⁸ Docket No. E-002/GR-92-1185 Order (Sep 29, 1993) and Order After Reconsideration (Jan 14, 1994)

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- 1 A. No. Figure 2, below, shows the data from the Company’s 2020 compliance filing,
2 which compares the sum of employee base pay plus target AIP opportunity to
3 the base pay and incentive targets found in the job market.
4

Figure 2

Xcel Energy Cash Compensation vs Market



20 Q. REGARDING THE AMOUNTS OVER 100 PERCENT FOUND IN FIGURE 2 ABOVE,
21 ARE CUSTOMERS RESPONSIBLE FOR THOSE AMOUNTS?

22 A. No. Customers are only responsible for compensation amounts up to the 100
23 percent (target level). Any incentive amounts above the budgeted target level
24 would be incurred by shareholders.

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1 Q. SHOULD THE COMMISSION BE CONCERNED THAT THE METHOD BY WHICH THE
2 COMPANY CALCULATES ITS AIP EXPENSES WILL LEAD TO AN OVER-RECOVERY
3 OF THOSE EXPENSES?

4 A. No. The Company uses the most current estimations available based on the
5 number of eligible employees, anticipated known and measurable increases and
6 target-level (100 percent) performance achievement to estimate AIP expenses.
7 As shown above in Table 2, the Company has historically paid out more than it
8 has recovered. The Company's budgeting process, coupled with the proposed
9 20 percent cap, will function to avoid over-recovery.

10

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

12 A. Yes. The compliance filing requirement that payout be compared to each
13 employee's individual AIP target upon payout puts an additional constraint on
14 the Company, over and above the approved AIP cap. This constraint requires
15 a secondary reduction in recovery, as the Company administers its performance-
16 based incentive, as individual employees may perform above or below their
17 target-levels. This factor has contributed to the Company's continued under-
18 recovery of this critical compensation expense.

19

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

21 A. The original Order directed the Company to make changes to its compensation
22 practices in the early 1990s. The Company has since consistently followed the
23 market-based compensation practice targeting the market median, as noted
24 above and through over 25 years of compliance filings. While certain aspects
25 of the compensation program have changed, the overall level of compensation
26 has not changed, nor has the related impact to customers changed, as the
27 Company is only requesting recovery of target-level expenses. The standard the

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1 Company has set regarding its compensation program’s development and
2 execution have made this exercise obsolete, as it relates to rate making.

3
4 The compliance filing process involved in determining the authorized expense
5 treats each performance-based payment as an individual expense, rather than a
6 consolidated program expense. The Company’s AIP expense should be treated
7 in a manner similar to other program and project expenses. While there may
8 be slight variation from the amount identified in the rate case, the Company has
9 shown that its estimates of AIP for the test and plan years are reasonable. Other
10 mechanisms (the limit to target levels and the cap) assure that over-recovery will
11 not occur. AIP is a reasonable and appropriate component of total
12 compensation and should be treated as such in rate proceedings.

13
14 **C. LTI**

15 Q. PLEASE DESCRIBE THE COMPANY’S LONG-TERM INCENTIVE PROGRAM.

16 A. The Company offers a long-term incentive program with grants based on: (1)
17 Total Shareholder Return (relative to our peer group); (2) retention, known as
18 “Time-Based;” and (3) environmental activities, which I refer to as the
19 “environmental LTI.” Executives receive LTI based on all three types, while
20 non-executives receive only time-based LTI.

21
22 Like the base pay and AIP, the LTI program is intended to attract, retain, and
23 motivate employees, and it is necessary to ensure compensation levels and mix
24 are competitive with the external market.

25
26 Long-term incentive differs from AIP and other types of compensation as it is
27 generally granted to a limited group of employees, including executives and non-

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1 executive employees. However, like base pay and AIP, LTI is an essential
2 market-based component of compensation design necessary to achieve a
3 competitive level of pay for this group of employees.

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

14
15 Q. ARE LONG-TERM INCENTIVE PROGRAMS COMMONLY USED IN THE UTILITY
16 INDUSTRY?

17 A. Yes. Long-term incentive programs are widely used compensation vehicles for
18 both executives and non-executive employees, according to the 2019 Willis
19 Towers Watson study that I discuss in greater detail later in my testimony.
20 Ninety-eight percent of the companies in the Willis Towers Watson study
21 provided LTI as a component of pay for their executives, and nearly 80 percent
22 provided LTI to non-executives. These types of programs create an incentive
23 for eligible employees to engage in high-level innovation, planning, and
24 execution that will lead to customer and environmental benefits over the long
25 term. It also encourages those employees to remain with the Company to
26 follow through on longer-term initiatives and projects to receive this portion of
27 their total compensation.

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Like the necessary and reasonable target-level recovery of AIP for these employees, target-level recovery of time-based LTI supports a competitive market-based compensation program to attract, retain, and motivate this group of employees. Without the inclusion of LTI, this group of employees falls far short of meeting competitive market compensation levels. As shown by the market-based information provided above, and, similar to AIP, LTI is not compensation in addition to market-based compensation levels, it is a component of compensation that is used to reach market-based compensation levels for executive and non-executive leaders.

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

A. No. The Company is not seeking expense recovery for the relative TSR LTI in this proceeding, which equates to 54 percent of the LTI grant value in 2020.¹⁹ The Company is requesting recovery of only the environmental and time-based LTI.

Q. PLEASE GENERALLY DESCRIBE THE ENVIRONMENTAL LTI.

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

¹⁹ More than \$11.7 million from the bridge year cost of service related to LTI costs for relative Total Shareholder Return have been removed.

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This compensation component recognizes our commitment to reduced carbon emissions in line with state policy goals. The state has established the goal of reducing statewide greenhouse gas emissions from 2005 levels by 15 percent by 2015, by 30 percent by 2025, and 80 percent by 2050.²⁰ The Company is a significant contributor to these efforts.

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

- Q. IS IT REASONABLE TO GRANT RATE RECOVERY OF LTI COSTS RELATED TO ENVIRONMENTAL LTI?
- A. Yes. The Company has set aggressive carbon reduction goals and is an industry leader. The achievement of the environmental goal directly benefits customers and the broader public through prudently reducing carbon emissions and their impact on the environment. Establishing and paying environmental LTI aligns the long-term incentives of our leadership with these goals and incents our efforts toward carbon emission reductions.

²⁰ Minn. Stat. § 216H.02, subd. 1.

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

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

9

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

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

13

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

16 A. LTI expense occurs ratably over a three-year period and, therefore, reflects LTI
17 plans in effect during each of the three years. Therefore, costs for the 2019,
18 2020 and 2021 LTI years are included in the cost of service for the 2021 test
19 year.

20

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

23 A. Yes. The non-executive time-based LTI payout is based on the end-of-year
24 Company performance. The actual award earned and paid is increased or
25 decreased from the target amount based on a performance goal, which is total
26 shareholder return relative to a peer group for each individual vesting year. All

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1 non-executives receive the same increase or decrease. Time-based LTI
2 provided to executives does not include this performance element.

3
4 Q. WHAT AMOUNTS FOR THE LTI PROGRAM ARE INCLUDED IN THE 2021 TEST
5 YEAR AND 2022 AND 2023 PLAN YEARS?

6 A. The respective accrual amounts are as follows in Table 4:

7
8 **Table 4**

9 **State of MN, Electric Environmental & Time-based LTI (\$000s)**

10

11 Year	Environmental	Time-Based	Combined Total
12 2017 Actual	\$3,477	\$5,791	\$9,268
13 2018 Actual	\$4,480	\$5,378	\$9,857
14 2019 Actual	\$3,641	\$6,150	\$9,791
15 2020 Bridge Year	\$3,569	\$5,847	\$9,416
16 2021 Test Year	\$2,450	\$7,534	\$9,983
17 2022 Plan Year	\$2,536	\$8,614	\$11,151
18 2023 Plan Year	\$2,546	\$9,188	\$11,733

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

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

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1 practices regarding compensation plan design, and the Company would be at a
2 great risk of not being able to attract or retain employees in these positions.

3
4 Offering 100 percent of compensation to employees at this level through base
5 pay would result in higher fixed costs for the Company and a negative impact
6 on customer rates, as base pay is a fixed expense. Conversely, incentive pay
7 (represented by AIP and LTI) is variable, based on several employee eligibility
8 requirements and performance measures. If the Company removes these
9 variable elements, we would also lose the motivational tool that incentive pay
10 provides, and would not have the ability to vary employee compensation based
11 on performance of the Company or the employee.

12
13 **D. Impact of COVID-19 Pandemic on Total Rewards Programs**

14 Q. HAS THE COMPANY MADE ANY REDUCTIONS TO EMPLOYEE PAY AS A RESULT OF
15 THE COVID-19 PANDEMIC?

16 A. No. The timing of the outbreak in March 2020 and the uncertainty of its impact
17 related to our ongoing operations and the need to attract, retain, and motivate
18 our employees to meet critical infrastructure and service needs has not changed
19 our approach to compensation. While we are continuously monitoring our
20 operations and workforce, there are no anticipated changes to the base pay of
21 our employees.

22
23 Q. DOES THE COMPANY ANTICIPATE MAKING AIP PAYMENTS RELATED TO THE
24 2020 AIP YEAR?

25 A. Yes. At this time, many of our employees are performing above and beyond
26 their normal job duties as they work through a variety of state-mandated
27 constraints and safety measures. The greater majority of our AIP-eligible

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1 employees have been working remotely or have modified work environments
2 that required them to be more agile and detail-oriented as they continue to
3 operate, lead, and manage others to provide safe and reliable electric service to
4 our customers. Providing AIP opportunity and payments through this
5 challenging COVID-19 pandemic timeframe will ensure we can attract, retain,
6 and motivate these employees and meet our commitment to market-based total
7 cash compensation.

8
9 Q. DOES THE COMPANY ANTICIPATE MAKING LTI CHANGES AS A RESULT OF THE
10 COVID-19 PANDEMIC?

11 A. No. Any changes to the LTI program would be a reflection of the competitive
12 market for this form of incentive compensation. At this time, the Company
13 does not anticipate any changes to LTI compensation.

14
15 **E. Recognition Program**

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

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

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Q. WHAT AMOUNTS FOR THE RECOGNITION PROGRAM ARE INCLUDED IN THE 2021 TEST YEAR AND 2022 AND 2023 PLAN YEARS?

A. The program amounts are as follows in Table 5:

**Table 5
Recognition Expense**

NSPM State of MN Electric O&M	
Year	Recognition Total
2017 Actual	\$711,249
2018 Actual	\$1,010,462
2019 Actual	\$1,539,221
2020 Bridge Year	\$976,262
2021 Test Year	\$1,020,042

F. Compensation Study

Q. HOW DOES THE COMPANY ESTABLISH THAT ITS COMPENSATION PROGRAMS ARE NECESSARY AND REASONABLE?

A. The Company uses industry-wide third-party compensation studies to benchmark against companies with whom we compete for talent. I have already referenced the independent Willis Towers Watson Compensation Study in my testimony with respect to AIP and LTI.

Q. DOES THE WILLIS TOWERS WATSON STUDY DEMONSTRATE THAT THE COMPANY’S TOTAL REWARDS PROGRAM IS CONSISTENT WITH MARKET VALUES?

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1 A. Yes, the independent Willis Towers Watson Compensation Study demonstrates
2 the reasonableness of the Company's total compensation given the labor
3 market. I provide the 2019 study as Exhibit____(RKL-1), Schedule 2.

4

5 Q. PLEASE DESCRIBE THE SPECIFIC ELEMENTS OF THE 2019 WILLIS TOWERS
6 WATSON COMPENSATION STUDY.

7 A. The 2019 Willis Towers Watson Compensation Study analyzed the following
8 elements:

9 • Xcel Energy's base salary compared to competitive market total cash
10 compensation levels;

11 • Xcel Energy's total cash compensation (base salary + target annual
12 incentive) compared to competitive market target total cash
13 compensation;

14 • Xcel Energy's total direct compensation (base salary + target annual
15 incentive + long-term incentive) compared to competitive market target
16 total direct compensation.

17 • Xcel Energy's annual incentive targets compared to market annual
18 incentive targets;

19 • Xcel Energy's long-term incentive targets compared to market long-term
20 incentive targets; and

21 • Xcel Energy's level of compensation compared to the median and
22 average levels of compensation paid by the comparison groups.

23

24 Q. WHAT COMPARISON GROUPS DID THE 2019 WILLIS TOWERS WATSON
25 COMPENSATION STUDY USE?

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1 A. There were two comparison groups. The first group was composed of a large
2 number of investor-owned utilities across the nation, including utilities both
3 smaller and larger than Xcel Energy. The second group was composed of
4 investor-owned utilities similar in revenue to Xcel Energy (50 companies
5 responded to this survey at the management and professional job levels and 54
6 companies responded at the executive level).

7

8 Q. ON WHAT INFORMATION IS THE WILLIS TOWERS WATSON COMPENSATION
9 STUDY BASED?

10 A. Willis Towers Watson conducts surveys from March through May of each year
11 to gather information about base pay and incentive compensation. The
12 Company submitted information in effect as of March 2019, in accordance with
13 the survey's request.

14

15 Q. WHAT WAS THE PERCENTAGE INCREASE REFLECTED IN THE COMPANY'S
16 SALARY INFORMATION SUBMITTED TO WILLIS TOWERS WATSON AS COMPARED
17 TO THE PREVIOUS YEAR'S STUDY?

18 A. We provided Willis Towers Watson the pay rates that were in effect as of March
19 16, 2019, which reflected a 3.0 percent average increase over the pay rates
20 effective March 2018.

21

22 Q. WHAT WERE THE RESULTS OF THE 2019 WILLIS TOWERS WATSON
23 COMPENSATION STUDY?

24 A. As shown on Table 6, the 2019 Willis Towers Watson Compensation Study
25 finds that with the inclusion of AIP, the Company's median total cash
26 compensation levels are generally in line with other utilities. Without the target-
27 level AIP, however, the median total cash compensation provided would be

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1 well below the overall utility market and would put the Company at a material
2 disadvantage in the competition for employees.

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

9 **Table 6**
10 **Compensation Study Comparison**

Components of Xcel Energy Compensation	Compared to Base Salaries and Incentives of Utilities with Similar Revenues (Revenue Sample)*	Compared to Base Salaries and Incentives of Utilities Across the Nation (National Sample)
Base Salary Only (excludes Target AIP)	Below Market by 15.1%	Below Market by 13.4%
Target Total Cash Compensation (Base Salary + Target AIP)	Below Market by 5.7%	Below Market by 3.8%
Target Total Direct Compensation (Base Salary + Target AIP + Target LTI)	Below Market by 3.2%	Below Market by 2.8%

21 * Primary comparison group using median pay components

22
23 Q. WHAT DO YOU CONCLUDE FROM THE 2019 WILLIS TOWERS WATSON
24 COMPENSATION STUDY?

25 A. The 2019 Willis Towers Watson Compensation Study illustrates that Xcel
26 Energy’s compensation structure provides a market level of compensation,
27 which confirms that the Company’s requested compensation expense in the test

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

4
5 Without the AIP, however, the Company's total cash compensation would lag
6 its market peers (*i.e.*, large utilities) by 15.1 percent on average, which would put
7 the Company at a material disadvantage when competing for skilled employees.

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

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

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

26

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

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

11

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

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

16

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

21 A. Yes.

22

23 Q. BASED ON THE RECOVERY REQUEST TO LIMIT PORTIONS OF INCENTIVE
24 COMPENSATION EXPENSES, AIP CAPPED AT 20 PERCENT, AND LTI EXCLUDING
25 THE RELATIVE TSR EXPENSES, WOULD IT BE REASONABLE TO CONCLUDE
26 CUSTOMERS ARE NOT BEARING THE FULL BURDEN OF NECESSARY AND
27 REASONABLE EMPLOYEE COMPENSATION EXPENSES?

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1 A. Yes.

2

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

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

11

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

22

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

25 A. The Company's request is just and reasonable. The Company must incur the
26 costs of the Total Rewards Program to attract, retain, and motivate the
27 employees needed to provide safe, reliable and increasingly carbon-free electric

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

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

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

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

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

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

26

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

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

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

6

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

9 A. The Company offers employees one medical plan option, the High Deductible
10 Health Plan (HDHP) with a Health Savings Account (HSA), along with
11 pharmacy coverage. All plan participants are subject to an annual deductible
12 for either single or family coverage. After a plan participant satisfies that
13 deductible, the Plan begins to share any additional costs.

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

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

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1 a monthly premium for this HDHP, and a combination of their out-of-pocket
2 expenses and premiums covers 25 percent of the total cost for bargaining
3 employees and their dependents. Non-bargaining employees have a
4 combination of 25 percent of the total cost per employee, and 30 percent of the
5 total cost for non-bargaining dependents.

6
7 Q. ARE THERE ADVANTAGES TO THE MEMBERS OF AN HDHP?

8 A. Yes. The HSA is a tax-advantaged medical savings account that the Company
9 offers to employees to provide a vehicle for them to save for their out-of-pocket
10 costs under the Plan.

11
12 Q. PLEASE DESCRIBE BRIEFLY THE NATURE AND STRUCTURE OF THE OTHER
13 HEALTHCARE BENEFITS OFFERED TO EMPLOYEES AND THEIR FAMILIES.

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

16
17 Q. WHAT IS THE REQUESTED LEVEL OF ACTIVE HEALTH COSTS IN THE 2021 TEST
18 YEAR AND 2022 AND 2023 PLAN YEARS?

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

21
22 Q. DO YOU BELIEVE THE COMPANY'S BUDGET FOR ACTIVE HEALTH AND WELFARE
23 COSTS IS REASONABLE?

24 A. Yes. Our health and welfare costs are increasing due to the challenges discussed
25 below and for the reasons discussed in Mr. Schrubbe's Direct Testimony, but
26 the Company has implemented several design changes and wellness programs
27 that I discuss below to help mitigate cost increases associated with our health

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1 and welfare program. Our efforts have kept our health and welfare program
2 costs consistent with the experiences of other private sector businesses.

3
4 Q. ARE CUSTOMERS BEARING THE ENTIRE COST OF ACTIVE EMPLOYEE
5 HEALTHCARE?

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

12
13 Q. WHY IS IT IMPORTANT FOR XCEL ENERGY TO OFFER HEALTH AND WELFARE
14 BENEFITS FOR EMPLOYEES AND THEIR FAMILIES?

15 A. The active health and welfare benefits that the Company offers to its employees
16 are important elements of the Total Rewards Program. Without health and
17 welfare benefits that are comparable to those offered by other utilities and other
18 companies against which we compete for employees, it would be very difficult
19 for the Company to attract, retain, and motivate qualified employees, including
20 current employees with many years of training whose expertise benefits the
21 Company and its customers. Therefore, the Company and its customers share
22 an interest in ensuring that the Company is able to offer a competitive package
23 of health and welfare benefits.

24
25 Q. WHY IS IT REASONABLE FOR CUSTOMERS TO BEAR PART OF THE COSTS FOR
26 ACTIVE HEALTH AND WELFARE BENEFITS FOR EMPLOYEES AND THEIR
27 FAMILIES?

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1 A. Large companies, like Xcel Energy, are required by the Patient Protection and
2 Affordable Care Act to offer full-time employees health insurance. Even before
3 the passage of this Act, however, the vast majority of large employers offered
4 their employees health insurance as a standard and expected part of any
5 employment package. By providing these types of benefits, the Company is
6 providing a competitive package to attract, retain, and motivate the current and
7 future employees the Company will need to provide safe, reliable electric service
8 to customers.

9
10 Q. PLEASE DESCRIBE PROGRAM DESIGN CHANGES THE COMPANY HAS
11 IMPLEMENTED SINCE THE COMPANY'S 2015 RATE CASE TO MANAGE THE COSTS
12 OF THE HEALTH AND WELFARE BENEFITS.

13 A. Examples of program design changes include the following:

- 14 • Xcel Energy offers a HDHP medical plan to encourage participating
15 employees to make (1) healthier lifestyle choices; and (2) informed
16 consumer choices when utilizing healthcare providers;
- 17 • To help mitigate pharmacy costs, Xcel Energy's pharmacy coverage
18 mandates that employees fill prescriptions with generic drugs when
19 available, unless there is medical need to use a brand name;
- 20 • Effective January 2018, Xcel Energy introduced a monthly surcharge for
21 non-bargaining employees and spouses and domestic partners who are
22 enrolled in the medical plan and are tobacco users; and
- 23 • Effective January 2017, Xcel Energy introduced a monthly surcharge for
24 non-bargaining employees for coverage of a spouse or domestic partner
25 when that spouse or partner's employer offers medical coverage.

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1 Q. WHAT HAS BEEN THE EFFECT OF THESE CHANGES?

2 A. These changes have allowed the Company to better manage overall healthcare
3 costs and the rate at which our costs increase. These changes have helped keep
4 overall employee contributions to health and welfare benefits low, and the ways
5 in which our employees access healthcare and consume healthcare services have
6 improved. For example, we have seen improved use of urgent care facilities as
7 opposed to hospital emergency room visits for acute injuries and illness, and we
8 also have a very high rate of generic prescription drug use. This change in
9 behavior has the potential to mitigate healthcare cost increases for the Company
10 as well as our employees.

11

12 Although it is difficult to identify direct savings from these changes, the intent
13 of the plan modifications was to mitigate cost increases on a long-term basis, in
14 part by motivating employees to be more cost-conscious consumers of medical
15 and dental care, and also to live healthier lifestyles. We also know that it can
16 take time to see cost impacts resulting from program design changes and that
17 healthcare reform presents us with some unknown impacts to our costs. Based
18 upon the cost trends discussed in Mr. Schrubbe's Direct Testimony, it appears
19 that our efforts to slow the pace of healthcare cost increases are succeeding.

20

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

23 A. Yes. The Company is always working to control costs without increasing costs
24 to employees. In the last two years:

- 25 • We renegotiated contracts with our medical plan administrator and
26 pharmacy administrator. These negotiations focus on reducing
27 administrative fees, obtaining better performance guarantees and rebates,

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1 and increasing discounts on provider networks. All of these measures
2 help mitigate the increasing healthcare costs and benefit administration
3 costs charged by third parties.

- 4 • We examined emerging benefit designs that would continue to drive our
5 employees and their covered family members to high quality, cost-
6 efficient healthcare providers. We also continuously assess programs that
7 will provide more cost-effective opportunities for employees and help
8 drive healthy behaviors. For example, we offer a telemedicine or virtual
9 visit option for routine medical visits, a personalized diabetes
10 management program, and an online program to help employees manage
11 stress. These non-traditional visits with a trained physician or other
12 provider are convenient and provide a less expensive option for
13 employees and the Company. In addition, the plan provides lower levels
14 of benefits coverage for using out-of-network medical providers in order
15 to encourage members to use in-network providers when possible.
- 16 • We have increased communications about programs we offer to control
17 our costs by improving the overall health and welfare of our employees,
18 including counseling and coaching for plan members who are seeking
19 treatment for a condition, engaging plan members proactively to help
20 modify behaviors and health risks, and providing education materials to
21 help plan members make informed decisions.

22
23 **VI. EMPLOYEE RETIREMENT PROGRAMS**

24
25 Q. WHAT RETIREMENT BENEFITS DOES XCEL ENERGY OFFER ITS EMPLOYEES?

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

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- 1 • A defined benefit pension plan, which is also referred to as a “qualified”
2 pension plan;
3 • A 401(k) defined contribution plan;
4 • A non-qualified benefits plan; and
5 • Retiree medical benefits for certain employees who retired before 2000.

6 We summarize changes made to the retirement plan in Exhibit____(RKL-1),
7 Schedule 3.

8

9 Q. IS THE COMPANY SEEKING RECOVERY OF COSTS ASSOCIATED WITH ALL OF THE
10 RETIREMENT BENEFITS THAT IT OFFERS?

11 A. No. Although the Company believes that it is appropriate and reasonable to
12 incur these costs as part of operating an electric utility, the Company is not
13 seeking recovery of costs associated with its non-qualified benefits plan in an
14 effort to reduce the number of contested issues in this case. Because the
15 Company is not seeking recovery of these costs, I will not provide additional
16 detail about this plan in my testimony.

17

18 **A. Defined Benefit Plan**

19 Q. PLEASE DESCRIBE THE COMPANY’S DEFINED BENEFIT PLAN.

20 A. We offer newly-hired employees a 5 Percent Cash Balance formula, under which
21 the Company contributes five percent of the employee’s eligible annual pay into
22 a notional account. This account has interest credited to it annually based on
23 the 30-year Treasury rates. This plan is similar to a savings account or a 401(k)
24 plan, so employees easily understand the plan value. Non-bargaining employees
25 hired prior to January 1, 2012 and bargaining employees hired prior to January
26 1, 2011 are eligible for the 10 percent Pension Equity Plan (PEP) formula, which

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1 results in employees receiving 10 percent of their highest 48 months of
2 consecutive earnings per year of service.

3
4 Q. IS IT COMMON IN THE UTILITY INDUSTRY TO HAVE A DEFINED BENEFIT PLAN?

5 A. Yes. Of the 40 utilities in the Fortune 1000, 90 percent continue to provide
6 defined benefit pension benefits to employees.

7
8 Q. WOULD IT BE REASONABLE TO ELIMINATE THE DEFINED BENEFIT PENSION
9 PLAN AND RELY ENTIRELY ON A DEFINED CONTRIBUTION PLAN?

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

- 12 • The defined benefit pension plan, along with our defined contribution
13 plan, aligns with our Total Rewards Program strategy to provide a shared
14 responsibility between employee and employer to accumulate retirement
15 assets.
- 16 • By providing a pension plan in which the employee can count on a
17 defined amount of retirement benefits, we are able to manage an orderly
18 transition of employees into retirement. This provides Xcel Energy an
19 opportunity to effectively manage our workforce at the end of the
20 employees' careers, appropriately prepare for knowledge transfer, and
21 manage our training and succession planning.
- 22 • Given the same benefit levels, pension plans can be a less expensive
23 vehicle for delivering retirement benefits than a defined contribution
24 plan, in both the short-term and the long-term. That is because the
25 Company is able to utilize investment earnings to fund future benefit
26 obligations, which reduces future cash flow requirements. In a defined

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1 contribution plan, those earnings on the Company's contributions
2 belong to the employee.

3 • Studies show more employees, including younger employees, value the
4 security of retirement benefits.²¹

5

6 **B. Defined Contribution Plan**

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

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

13

14 **C. Retiree Medical Expense**

15 Q. PLEASE DESCRIBE THE COMPANY'S RETIREE MEDICAL BENEFIT.

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

22

²¹ <https://www.willistowerswatson.com/-/media/WTW/Insights/2017/11/2017-global-benefits-attitudes-survey.pdf> (accessed on July 19, 2019).

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1 Q. WHY IS IT REASONABLE FOR RETIREE MEDICAL EXPENSE TO BE INCLUDED IN
2 RATES?

3 A. Our retirees contributed greatly to the success and reliability of our Company
4 and to the products, services, and infrastructure that our customers use today.
5 The current expense for retiree medical benefits is a legacy from prior programs.
6 But even though there are no new entrants into the plan, current employees
7 who were hired prior to the termination date are still eligible for this benefit.
8 The Company continues to pursue aggressive benefit designs that manage or
9 reduce our retiree expenses while fulfilling our obligations to them for their past
10 service with the Company and to our customers.

11

12 Q. WHAT DO YOU CONCLUDE REGARDING THE COMPANY'S RETIREMENT
13 PROGRAM?

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

20

21

VII. CONCLUSION

22

23 Q. PLEASE SUMMARIZE YOUR TESTIMONY AND RECOMMENDATIONS.

24 A. The Company offers a conservative, yet comprehensive, Total Rewards package
25 to employees with the goal of providing market competitive levels of
26 compensation and benefits. The Company follows industry best practices
27 related to the design and maintenance of its compensation programs. Base pay

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1 and incentives are rooted at the market median pay level, indicating they are
2 reasonable expenses, which are necessary to attract, retain and motivate our
3 employees.

4
5 Similarly, the Company's health and welfare programs provide our employees
6 with health coverage and retirement options that are comparable in our
7 industry. These programs support our employees through a variety of life's
8 stages and situations, which are expected by employees of their employer.

9
10 Finally, I recommend the Commission approve the Total Rewards expenses
11 outlined in Table 1 to support the Company in providing customers with the
12 safe, reliable service and energy they deserve and expect from our Company.

13
14 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

15 A. Yes, it does.

Statement of Qualifications
Ruth K. Lowenthal
Vice President, Total Rewards

I received my Bachelor of Arts degree in Government and Politics from the University of Maryland and my Juris Doctor degree from the University of Maryland School of Law. I also have Certified Compensation Professional and Certified Benefits Professional designations from WorldatWork.

My current position with Xcel Energy Services is Vice President, Total Rewards. In my current role, I have responsibility for Employee Benefits for Retirement and Health and Well-Being, Compensation, Payroll, and HR Operations. I provide leadership and have strategic responsibility for designing, developing, and implementing a Total Rewards Program that aligns with other employers with whom the Company competes for employees, and enhances Xcel Energy's ability to attract, motivate, and retain talent at all levels through the organization.

In addition, I am responsible for ensuring that our HR programs and services are administered accurately, cost-effectively, and efficiently. I have been employed by Xcel Energy with growing responsibility since 2011.

Before coming to Xcel Energy Services, I was employed by Target Corporation for twenty years with various positions including Director of Human Resources, Analytics, and Business Intelligence; Director of Human Resources, Strategy; Director of Benefits; and Director of Executive Compensation. Before serving in Target Corporation's Human Resources Department, I was an attorney at Target Corporation. Among other things, I was responsible for directing a team that provided legal counsel to management on a wide range of benefits, compensation, and other business matters including FMLA, ERISA, HIPAA, ADA.

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NOT PUBLIC DATA HAS BEEN EXCISED**

**Schedule 2 – Willis Towers Watson Study on Competitive Annual
Incentive and Total Cash Compensation Analysis Including Nuclear
Positions**

The Company has designated Schedule 2 as Not Public information in its entirety as defined by Minn. Stat. § 13.37, subd. 1(b). Because it derives independent economic value from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, Xcel Energy maintains this information as a trade secret pursuant to Minn. Rule 7829.0500, subp 3. Pursuant to Minn. R. 7829.0500, subp. 3, the Company provides the following description of the excised material:

1. **Nature of the Material:** Schedule 2 is a compensation and benefits study prepared by an external consultant.
2. **Authors:** The data was prepared by Willis Towers Watson, an external consulting firm.
3. **Importance:** Schedule 2 is a compensation and benefits study prepared by an external consultant. The information contained in this schedule is not the work product of Xcel Energy, and we are only able to allow its release under the condition that it be protected as trade secret and will not be publicly released.
4. **Date the Information was Prepared:** The information was prepared and given to Xcel Energy in December 2019.

[PROTECTED DATA BEGINS

PROTECTED DATA ENDS]

Retirement Program Summary

Dates	Defined Benefit Plan (Pension)	Defined Contribution Plan (401(k))
Pre-1999	Traditional formula for non-bargaining and bargaining employees	100% match on the first \$900 of employee deferrals
1999/2000	Non-bargaining and bargaining employees had choice between Pension Equity and Traditional formulas Access to retiree medical only. Retirement Spending Account (RSA) and Social Security Supplement (SSS) added as components to pension plan Pension Equity formula for all newly hired non-bargaining and bargaining employees	100% match on the first \$900 (currently \$1,400) if under Traditional formula 100% match on the first 3% of employee deferrals plus 50% match on the next 2% of employee deferrals (4% employer contribution based on employee contribution of 5%) if under Pension Equity formula
2007	No change in plan	50% match on first 8% of employee deferrals (4% employer contribution based on employee contribution of 8%)
2008 to 2010	Newly hired bargaining employees had choice between Pension Equity and Traditional formulas	No change in plan
2011	Newly hired/rehired and employees transferring into a bargaining position go into the 5% Cash Balance formula	No change in plan
2012	Newly hired/rehired and employees transferring into a non-bargaining position go into the 5% Cash Balance formula	No change in plan
2018	Elimination of Retirement Spending Account for non-bargaining employees Elimination of Social Security Supplement for non-bargaining employees not meeting retirement eligibility by December 31, 2022	No change in plan



RESPONSIBLE BY NATURE™

XCEL ENERGY NON-BARGAINING, EXEMPT EMPLOYEE ANNUAL INCENTIVE PROGRAM

Program Year: January 1 – December 31, 2018

CONTENTS

Introduction and Purpose of the Annual Incentive Program 2
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Program Components 5
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INTRODUCTION

Xcel Energy Inc. (individually and collectively with its affiliates and subsidiaries, “Xcel Energy” or “the Company”) offers a market-based total cash compensation package. Your total cash compensation includes your base salary and the opportunity to earn an annual incentive when the Company achieves its goals.

- Base salary is the fixed component of your total cash compensation. Generally it does not change unless you have a change in your job (such as a promotion), change in your status (such as full time to part time), or have a change in pay (such as an earned base pay increase).
- Xcel Energy’s Annual Incentive Program (the “Program”) is the variable component of your total cash compensation.
- Variable compensation is not guaranteed pay as it is subject to achievement of goals, including your own performance, and your contribution to team or company results.

The Program will be in effect from January 1 to December 31, 2018 (the “Program Year”), unless amended to end at an earlier date or terminated. In order for the Program to pay out year-end incentive awards in the Program Year, Xcel Energy must meet certain operating goals and a financial based affordability objective. Your incentive award is primarily based on corporate goal achievement and discretionary based on your individual contributions and performance.

The purpose of this document is to provide a high-level overview of the annual incentive program components and to outline the eligibility and administrative framework of the program. More detailed information regarding the program components can be found in XpressNET under Benefits/Pay/Incentives/Annual Incentive.

PURPOSE OF THE PROGRAM

Incentive Programs are a variable portion of employee total cash compensation and are directly aligned with the achievement of certain corporate KPIs in addition to your individual contributions and performance.

Xcel Energy uses the Program to align employees’ goals with corporate and business goals, and to recognize and reward employees for results that contribute to the achievement of Xcel Energy’s key performance indicators (or KPIs), including those focused on reliability, our customers and our employees. It is also used to motivate employees to enhance the customer experience, innovate and drive continuous improvement.

The Program also supports the Company’s position as an employer of choice by:

- Offering a market-competitive total cash compensation package;
- Fostering the growth and development of employees; and
- Enabling the Company to attract, retain, motivate and reward employees whose performance and contribution meets or exceeds Company expectations.

PARTICIPATION

The Program applies to regular, full and part-time status employees who are exempt, non-bargaining employees.

Newly hired or rehired employees must be actively employed by and working for Xcel Energy prior to October 1 of the Program Year to be eligible to participate in the year-end award portion of the Program for that Program Year.

Participants must also be actively employed by Xcel Energy on the day Program award payments are made in order to receive an incentive award under the program.

- Exceptions to active employment on the date awards are paid include: Involuntary Termination (with severance); Retirement; Death; Disability; or Qualified Leave of Absence.

For additional information regarding participation in the Program, see “Program Administration” beginning on page 7.

PERFORMANCE COMPONENTS

The Program for 2018 is based on two performance components, Corporate and Individual:

Level	Component	Timing of Opportunity
Corporate	Corporate Scorecard KPIs include Reliability, Customer and Employee goals. Specific goals are listed on XpressNet at http://xpressnet/Our Company/Planning and Performance/High Level Scorecards	Year-end
Individual	a) Year-end award individual contributions and performance that can be aligned to your performance goals as determined with your manager*	Year-end
	b) I Deliver Award	Time Relevant
	c) Innovator Award	Time Relevant

*The year-end Individual opportunity represents the largest portion of an eligible employee’s Individual Component.

INCENTIVE TARGETS

Incentive targets are based on salary grade and correspond to varying weights or percentages for the corporate and individual performance components, as shown below.

Salary Plans and Grades ¹			Incentive Target	Components Weights ²	
Exempt	Engineer	Trader		Corporate	Individual
N, O	--	--	[PROTECTED DATA BEGINS	10%	90%
--	A, B	--			
P, Q	C	001		20%	80%
--	D, E	--		30%	70%
R, S, T	--	002-006			
U, V	--	--		40%	60%
W	--	--			
X	--	--	PROTECTED DATA ENDS]		

¹ Does not represent all salary plans. Other grades will be mapped accordingly. Eligibility for each participant is determined by salary plan or grade as tracked in the Human Resources information systems and not based on job title.
² Generally no award will be paid to an employee who was or is on a Performance Improvement Plan (PIP) or was or is part of any other performance improvement or disciplinary process during or after the Program Year. However, managers will have the discretion to provide awards to these employees in situations where the employee has demonstrated sufficient improvement in performance.

The year-end incentive is subject to proration based on an employee’s eligible position(s) during the Program Year. For additional information on prorated awards, see page 9.

For an employee on a Developmental (or Rotational) Assignment, his or her annual incentive target percentage is based on the salary grade of the job held prior to accepting the Developmental (or Rotational) Assignment position.

The payout range for achievement of year-end incentive award goals (unless otherwise noted on the scorecard) can be anywhere from zero percent (0%) to one hundred fifty percent (150%), as noted on the following page. In no circumstance will the year-end incentive paid exceed 150% of the employee’s year-end incentive opportunity.

There is no maximum payout restriction for the I Deliver and Innovator awards. That could result in an employee earning a total annual incentive payout greater than 150% of their incentive target by earning one or more of these awards based on superior contributions and performance.

PROGRAM COMPONENTS

Corporate Scorecard – KPI

The 2018 corporate scorecard goals focus on three priorities: Customer, Reliability, and Employee.

Priority	Key Performance Indicator	Threshold (50%)	Target (100%)	Maximum (150%)	KPI Weight
Enhance Customer Experience	Customer Satisfaction (Residential)	1.3% Improvement	3.0% Improvement	4.7% Improvement	20%
Keep Bills Low	O&M Growth (Over 2017)	1.5%	0%	(1.5%)	20%
Safety and Reliability	Employee Safety (DART)	0.68	0.50	0.45	20%
	Public Safety (Gas Emergency Response)	80%	84%	86%	20%
	Electric System Reliability (SAIDI)	98	91	84	20%

**If during the year, an event resulting in an employee fatality occurs in the course of business and the Company has achieved greater than threshold performance for the Days Award, Restricted or Transferred (DART) Recordable Incident Rate, the DART Recordable Incident Rate will be decreased to threshold for purposes of calculating the corporate KPI goal result. If during the year, an event resulting in an employee fatality does not occur and the Company experiences all of the following three conditions:

- 1) No employee has direct personal contact with an energized primary electric system that results in a DART Recordable injury
- 2) No employee experiences an unplanned natural gas ignition while working on company owned equipment that results in a DART Recordable injury
- 3) The Company has achieved greater than threshold performance for the DART Recordable Incident Rate

Then, the DART Recordable Incident Rate will be increased to Maximum for purposes of calculating the corporate KPI goal result.

Results are calculated in this manner:

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

Results will be rounded to the second decimal.

The Individual Component

The purpose of the Individual Component is to focus and reward employees for their individual performance and contribution to team or company results during the Program Year and to motivate them to enhance the customer experience, innovate and drive continuous improvement. The Individual Component is comprised of three separate opportunities: Year-End Award, I Deliver Award and the Innovator Award.

Year-End Award: Your manager has discretion to determine your year-end individual component award from within a range of 0% to 150% of your year-end individual opportunity based on your contributions and performance over the Program Year.

Having an individual award range allows management to recognize and differentiate employees based on their level of contribution and performance, consistent with the Company's pay-for-performance philosophy. Differentiation occurs at all levels based on relative contribution and performance as well as the AIP budget available to the business area.

The Year-End Award represents the largest portion of an eligible employee's individual component opportunity.

I Deliver Award: Eligible employees or teams can be nominated for an I Deliver award. These awards allow management to provide timely rewards to eligible employees and teams who deliver greater than expected results that have an impact at a team or department level and are linked to supporting the company strategy. The exceptional work should stand out compared to what is expected from the individual in the course of performing his or her job and link to a benefit for our customers. Nominations are reviewed and approved by a designated group of management on a monthly basis.

Innovator Award: Eligible employees or teams can be nominated for an Innovator award. These awards provide timely rewards to eligible employees or teams who implement innovative, high-impact solutions or processes that result in measurable savings or significant customer benefits at a company-wide level. All Innovator Award nominations are reviewed and approved by a designated group of management on a quarterly basis.

FUNDING THE PROGRAM

A prudent element of the Program is making sure the Company has the ability to pay for the annual incentives. Before the year-end award component of the Program will pay, an affordability trigger must be met as described below.

Earnings Per Share Determines Affordability

An affordability trigger, based on EPS at \$2.37, must be achieved before any year-end award can be paid. The 2018 EPS is based on continuing operations and shall be adjusted to exclude the positive or negative earnings impacts for any one-time, unusual events if the impact of the event exceeds \$20 million on an after-tax basis.

The funding allocated to the I Deliver and Innovator awards are not subject to an affordability trigger.

The Corporate Scorecard results can be multiplied by a funding factor based on EPS. The funding factor is selected by the CEO from an assessment of results and is within the following funding guidelines:

- 50% - 100% for \$2.37 to \$2.42
- 100% - 150% for \$2.43+

In no case will a year-end award payment be greater than 150% of the year-end incentive opportunity. However, an employee could earn a total annual incentive payout greater than 150% of their incentive target if they are nominated and earn one or more I Deliver or Innovator awards during the course of the plan year.

PROGRAM ADMINISTRATION

Effective date of Program The Annual Incentive Program covers a performance period of January 1 to December 31, 2018 and becomes effective at the start of that performance period (January 1). This is defined as the Program Year. The scorecard goals, as defined by the KPIs, are communicated to employee participants at or near the start of the performance period.

Approval and Timing of Payment After the 2018 financial statements are released, the Governance, Compensation & Nominating Committee of the Xcel Energy Inc. Board of Directors will review financial and corporate results. Actual year-end award payments will be made no later than two and a half months following the end of the relevant Program Year.

I Deliver and Innovator awards are reviewed and approved by Company management on a periodic basis. Award payments will be made as soon as administratively feasible after awards have been approved.

Form of Payment Annual incentive awards are paid in cash and payment will be made separately from the normal payment of wages. No deferrals can be made to the 401(k) Retirement Savings Program from annual incentive awards. Eligible employees may defer all or a portion of their year-end awards into the Xcel Energy Deferred Compensation Plan (“DCP,” see descriptions for details on eligibility). In addition, the Company, at its discretion, may allow deductions to be made from year-end incentive payments to Health Savings Accounts (HSA) as allowable under IRS regulations. The Company will deduct all legally required withholdings on cash payments, DCP deferral elections and/or HSA deduction.

Eligibility

You must be considered a regular, non-bargaining exempt (full- or part-time) employee of Xcel Energy at any point during the Program Year.

Non-Exempt employees are not eligible for the Year-End and I Deliver awards but are eligible to receive an Innovator Award. Funding for Innovator Awards for non-exempt employees will come from sources outside of the Program.

Bargaining Unit employees, employees considered “temporary” and/or are interns, and independent contractors are not eligible to participate in the Program.

Status Changes. If an employee’s status changes from temporary to regular status prior to October 1st of the Program Year, the year-end portion of the incentive will be prorated based on the number of days worked after becoming a regular status employee. If the status changes from temporary to regular status after October 1st, the employee will not be eligible to participate in the year-end portion of the incentive for that Program Year.

If an employee’s status changes from non-bargaining to bargaining or vice versa, the year-end incentive will be prorated based on the number of days worked in an eligible non-bargaining status.

Hired or Rehired During Program Year. New employees hired or rehired during the Program Year must be hired or rehired and actively employed by and working for Xcel Energy prior to October 1 of the Program Year to be eligible to participate in the year-end portion of the incentive for that year.

It is recommended that an employee has completed at least one quarter of employment before being nominated for an I Deliver or Innovator award.

Employed on Last Day of Program Year and Date of Payment. You must be an active employee of Xcel Energy on December 31, 2018, and you must have continuous service through the day the year-end incentive award is paid, unless one of the following applies:

- Retirement, death, long-term disability (LTD), Qualified Leave of Absence (unpaid military leave and personal leave), involuntary termination with severance – Eligible for a prorated year-end incentive award based on individual performance during the length of qualifying active service (number of calendar days of service divided by number of calendar days in the Program Year) during the Program Year. Final year-end awards will be calculated and paid at the same time year-end awards are paid to active participants. Deferral and payment elections become null and void.

Employed on Date of Payment. You must have continuous service through the date of I Deliver and Innovator awards are paid, unless one of the following applies:

- Retirement, death, long-term disability (LTD), Qualified Leave of Absence (unpaid military leave and personal leave), involuntary termination with severance. I Deliver and Innovator awards will be paid at the same time these awards are paid to active participants.

If you are terminated for any other reason (e.g., voluntary resignation or involuntary termination for cause) during the Program Year, you lose all rights to any incentive through the date of your termination and will receive no award.

Generally no award will be paid to an employee who was or is on a Performance Improvement Plan (PIP) or was or is part of any other performance improvement or disciplinary process during or after the Program Year. However, managers will have the discretion to provide awards to these employees in situations where the employee has demonstrated sufficient improvement in performance.

If you participate in any other Xcel Energy incentive or commission program, or any incentive program established specifically as an alternative to this Program, you are not eligible to participate in the Xcel Energy Non-bargaining Exempt Employee Annual Incentive Program without prior approval. Additionally, I Deliver and Innovator Awards cannot be used to reward employees for actions covered under another type of program or agreement. The SVP of HR and Employee Services or his/her designee will resolve any disputes related to Program participation and administration.

Calendar Days All references in this Program booklet to number of calendar days will be based on 365 days in the year (including leap years).

Award Proration

This list contains the most common proration scenarios. As additional situations arise that impact award proration they will be administered consistent with the scenarios outlined below and program administration practices.

Year-end incentive awards for the Program Year are prorated as follows:

- An eligible employee who is hired or who is transferred to/from /between an eligible position(s) during the Program Year is eligible for a year-end award based on the number of calendar days employed in a qualifying position. Award basis (incentive target and salary grade) is described on page 4.
- An eligible employee who retires, dies, qualifies for long-term disability (LTD), takes a leave of absence or is involuntarily terminated with severance is eligible for a year-end award based on the number of calendar days actively employed by Xcel Energy in an AIP eligible position.

- An eligible employee who changes from full-time to part-time status, or vice versa, is eligible for a year-end award based on the period of time within each status. An award range attributable to the full-time service period will be calculated in the same manner as awards are calculated for other full-time employees. In addition, an award range for the part-time service will be calculated in the same manner as other part-time employees. The results of these calculations will be added together and paid as one incentive award.
- An eligible employee who changes salary plans, incentive targets or has an annual salary change will receive a year-end award calculated for each period. The results of these calculations will be added together and paid as one incentive award.
- An employee who voluntarily resigns from Xcel Energy during the Program Year but is rehired and actively working prior to October 1st of the Program Year, forfeits any year-end incentive through the date the employee resigned. However, the employee is eligible for a prorated year-end award based on the number of days worked from the rehire date through the end of the Program Year, as long as the employee remains continuously employed through the date the year-end incentive payment is made.

INCENTIVE AWARD PROGRAM RELATED INFORMATION

Chief Executive Officer The Chief Executive Officer (or designee) will have full discretion and final authority to adopt, amend, alter or rescind the Program without advance notice for any reason at his/her sole discretion based upon financial or operating conditions or otherwise.

No Right to Continued Employment No individual shall have any claim or right to be granted an award under the Program, and the granting of an award shall not be construed as giving the participant the right of continued employment with Xcel Energy.



RESPONSIBLE BY NATURE™

XCEL ENERGY NON-BARGAINING, EXEMPT EMPLOYEE ANNUAL INCENTIVE PROGRAM

Program Year: January 1 – December 31, 2019

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INTRODUCTION

Xcel Energy Inc. (individually and collectively with its affiliates and subsidiaries, “Xcel Energy” or “the Company”) offers a market-based total cash compensation package. Your total cash compensation includes your base salary and the opportunity to earn an annual incentive when the Company achieves its goals.

- Base salary is the fixed component of your total cash compensation. Generally it does not change unless you have a change in your job (such as a promotion), change in your status (such as full time to part time), or have a change in pay (such as an earned base pay increase).
- Xcel Energy’s Annual Incentive Program (the “Program”) is the variable component of your total cash compensation.
- Variable compensation is not guaranteed pay as it is subject to achievement of goals, including your own performance, and your contribution to team or company results.

The Program will be in effect from January 1 to December 31, 2019 (the “Program Year”), unless amended to end at an earlier date or terminated. In order for the Program to pay out year-end incentive awards in the Program Year, Xcel Energy must meet certain operating goals and a financial based affordability objective. Your incentive award is primarily based on corporate goal achievement and discretionary based on your individual contributions and performance.

The purpose of this document is to provide a high-level overview of the annual incentive program components and to outline the eligibility and administrative framework of the program. More detailed information regarding the program components can be found in XpressNET under Benefits/Pay/Incentives/Annual Incentive.

PURPOSE OF THE PROGRAM

Incentive Programs are a variable portion of employee total cash compensation and are directly aligned with the achievement of certain corporate KPIs in addition to your individual contributions and performance.

Xcel Energy uses the Program to align employees’ goals with corporate and business goals, and to recognize and reward employees for results that contribute to the achievement of Xcel Energy’s key performance indicators (or KPIs), including those focused on reliability, our customers and our employees. It is also used to motivate employees to enhance the customer experience, innovate and drive continuous improvement.

The Program also supports the Company’s position as an employer of choice by:

- Offering a market-competitive total cash compensation package;
- Fostering the growth and development of employees; and
- Enabling the Company to attract, retain, motivate and reward employees whose performance and contribution meets or exceeds Company expectations.

PARTICIPATION

The Program applies to regular, full and part-time status employees who are exempt, non-bargaining employees.

Newly hired or rehired employees must be actively employed by and working for Xcel Energy prior to October 1 of the Program Year to be eligible to participate in the year-end award portion of the Program for that Program Year.

Participants must also be actively employed by Xcel Energy on the day Program award payments are made in order to receive an incentive award under the program.

- Exceptions to active employment on the date awards are paid include: Involuntary Termination (with severance); Retirement; Death; Disability; or Qualified Leave of Absence.

For additional information regarding participation in the Program, see “Program Administration” beginning on page 7.

PERFORMANCE COMPONENTS

The Program for 2019 is based on two performance components, Corporate and Individual:

Level	Component	Timing of Opportunity
Corporate	Corporate Scorecard KPIs include Reliability, Customer and Employee goals. Specific goals are listed on XpressNet at http://xpressnet/Our Company/Planning and Performance/High Level Scorecards	Year-end
Individual	a) Year-end award individual contributions and performance that can be aligned to your performance goals as determined with your manager*	Year-end
	b) I Deliver Award	Time Relevant
	c) Innovator Award	Time Relevant

*The year-end Individual opportunity represents the largest portion of an eligible employee’s Individual Component.

INCENTIVE TARGETS

Incentive targets are based on salary grade and correspond to varying weights or percentages for the corporate and individual performance components, as shown below.

Salary Plans and Grades ¹			Incentive Target	Components Weights ²	
Exempt	Engineer	Trader		Corporate	Individual
N, O	--	--	[PROTECTED DATA BEGINS	10%	90%
--	A, B	--			
P, Q	C	001		20%	80%
--	D, E	--		30%	70%
R, S, T	--	002-006			
U, V	--	--		40%	60%
W	--	--			
X	--	--	PROTECTED DATA ENDS]		

¹ Does not represent all salary plans. Other grades will be mapped accordingly. Eligibility for each participant is determined by salary plan or grade as tracked in the Human Resources information systems and not based on job title.
² Generally no award will be paid to an employee who was or is on a Performance Improvement Plan (PIP) or was or is part of any other performance improvement or disciplinary process during or after the Program Year. However, managers will have the discretion to provide awards to these employees in situations where the employee has demonstrated sufficient improvement in performance.

The year-end incentive is subject to proration based on an employee’s eligible position(s) during the Program Year. For additional information on prorated awards, see page 9.

For an employee on a Developmental (or Rotational) Assignment, his or her annual incentive target percentage is based on the salary grade of the job held prior to accepting the Developmental (or Rotational) Assignment position.

The payout range for achievement of year-end incentive award goals (unless otherwise noted on the scorecard) can be anywhere from zero percent (0%) to one hundred fifty percent (150%), as noted on the following page. In no circumstance will the year-end incentive paid exceed 150% of the employee’s year-end incentive opportunity.

There is no maximum payout restriction for the I Deliver and Innovator awards. That could result in an employee earning a total annual incentive payout greater than 150% of their incentive target by earning one or more of these awards based on superior contributions and performance.

PROGRAM COMPONENTS

Corporate Scorecard – KPI

The 2019 corporate scorecard goals focus on three priorities: Customer, Reliability, and Employee.

Priority	Key Performance Indicator	Threshold (50%)	Target (100%)	Maximum (150%)	KPI Weight
Enhance Customer Experience	Customer Satisfaction (residential raw score)	726	737	759	20%
Keep Bills Low	O&M Growth (over 2017)	2.0%	0%	(1.0%)	20%
Safety and Reliability	Employee Safety (DART)	0.61	0.49	0.45	20%
	Public Safety (gas emergency response)	85%	89%	94%	20%
	Electric System Reliability (SAIDI)	100	92	84	20%

**If during the year, an event resulting in an employee fatality occurs in the course of business and the Company has achieved greater than threshold performance for the Days Award, Restricted or Transferred (DART) Recordable Incident Rate, the DART Recordable Incident Rate will be decreased to threshold for purposes of calculating the corporate KPI goal result. If during the year, an event resulting in an employee fatality does not occur and the Company experiences all of the following three conditions:

- 1) No employee has direct personal contact with an energized primary electric system that results in a DART Recordable injury
- 2) No employee experiences an unplanned natural gas ignition while working on company owned equipment that results in a DART Recordable injury
- 3) The Company has achieved greater than threshold performance for the DART Recordable Incident Rate

Then, the DART Recordable Incident Rate will be increased to Maximum for purposes of calculating the corporate KPI goal result.

Results are calculated in this manner:

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

Results will be rounded to the second decimal.

The Individual Component

The purpose of the Individual Component is to focus and reward employees for their individual performance and contribution to team or company results during the Program Year and to motivate them to enhance the customer experience, innovate and drive continuous improvement. The Individual Component is comprised of three separate opportunities: Year-End Award, I Deliver Award and the Innovator Award.

Year-End Award: Your manager has discretion to determine your year-end individual component award from within a range of 0% to 150% of your year-end individual opportunity based on your contributions and performance over the Program Year.

Having an individual award range allows management to recognize and differentiate employees based on their level of contribution and performance, consistent with the Company's pay-for-performance philosophy. Differentiation occurs at all levels based on relative contribution and performance as well as the AIP budget available to the business area.

The Year-End Award represents the largest portion of an eligible employee's individual component opportunity.

I Deliver Award: Eligible employees or teams can be nominated for an I Deliver award. These awards allow management to provide timely rewards to eligible employees and teams who deliver greater than expected results that have an impact at a team or department level and are linked to supporting the company strategy. The exceptional work should stand out compared to what is expected from the individual in the course of performing his or her job and link to a benefit for our customers. Nominations are reviewed and approved by a designated group of management on a monthly basis.

Innovator Award: Eligible employees or teams can be nominated for an Innovator award. These awards provide timely rewards to eligible employees or teams who implement innovative, high-impact solutions or processes that result in measurable savings or significant customer benefits at a company-wide level. All Innovator Award nominations are reviewed and approved by a designated group of management on a quarterly basis.

FUNDING THE PROGRAM

A prudent element of the Program is making sure the Company has the ability to pay for the annual incentives. Before the year-end award component of the Program will pay, an affordability trigger must be met as described below.

Earnings Per Share Determines Affordability

An affordability trigger, based on EPS at \$2.55, must be achieved before any year-end award can be paid. The 2019 EPS is based on continuing operations and shall be adjusted to exclude the positive or negative earnings impacts for any one-time, unusual events if the impact of the event exceeds \$20 million on an after-tax basis.

The funding allocated to the I Deliver and Innovator awards are not subject to an affordability trigger.

The Corporate Scorecard results can be multiplied by a funding factor based on EPS. The funding factor is selected by the CEO from an assessment of results and is within the following funding guidelines:

- 50% - 100% for \$2.55 to \$2.60
- 100% - 150% for \$2.61+

In no case will a year-end award payment be greater than 150% of the year-end incentive opportunity. However, an employee could earn a total annual incentive payout greater than 150% of their incentive target if they are nominated and earn one or more I Deliver or Innovator awards during the course of the plan year.

PROGRAM ADMINISTRATION

Effective date of Program The Annual Incentive Program covers a performance period of January 1 to December 31, 2019 and becomes effective at the start of that performance period (January 1). This is defined as the Program Year. The scorecard goals, as defined by the KPIs, are communicated to employee participants at or near the start of the performance period.

Approval and Timing of Payment After the 2019 financial statements are released, the Governance, Compensation & Nominating Committee of the Xcel Energy Inc. Board of Directors will review financial and corporate results. Actual year-end award payments will be made no later than two and a half months following the end of the relevant Program Year.

I Deliver and Innovator awards are reviewed and approved by Company management on a periodic basis. Award payments will be made as soon as administratively feasible after awards have been approved.

Form of Payment Annual incentive awards are paid in cash and payment will be made separately from the normal payment of wages. No deferrals can be made to the 401(k) Retirement Savings Program from annual incentive awards. Eligible employees may defer all or a portion of their year-end awards into the Xcel Energy Deferred Compensation Plan (“DCP,” see descriptions for details on eligibility). In addition, the Company, at its discretion, may allow deductions to be made from year-end incentive payments to Health Savings Accounts (HSA) as allowable under IRS regulations. The Company will deduct all legally required withholdings on cash payments, DCP deferral elections and/or HSA deduction.

Eligibility

You must be considered a regular, non-bargaining exempt (full- or part-time) employee of Xcel Energy at any point during the Program Year.

Non-Exempt employees are not eligible for the Year-End and I Deliver awards but are eligible to receive an Innovator Award. Funding for Innovator Awards for non-exempt employees will come from sources outside of the Program.

Bargaining Unit employees, employees considered “temporary” and/or are interns, and independent contractors are not eligible to participate in the Program.

Status Changes. If an employee’s status changes from temporary to regular status prior to October 1st of the Program Year, the year-end portion of the incentive will be prorated based on the number of days worked after becoming a regular status employee. If the status changes from temporary to regular status after October 1st, the employee will not be eligible to participate in the year-end portion of the incentive for that Program Year.

If an employee’s status changes from non-bargaining to bargaining or vice versa, the year-end incentive will be prorated based on the number of days worked in an eligible non-bargaining status.

Hired or Rehired During Program Year. New employees hired or rehired during the Program Year must be hired or rehired and actively employed by and working for Xcel Energy prior to October 1 of the Program Year to be eligible to participate in the year-end portion of the incentive for that year.

It is recommended that an employee has completed at least one quarter of employment before being nominated for an I Deliver or Innovator award.

Employed on Last Day of Program Year and Date of Payment. You must be an active employee of Xcel Energy on December 31, 2019, and you must have continuous service through the day the year-end incentive award is paid, unless one of the following applies:

- Retirement, death, long-term disability (LTD), Qualified Leave of Absence (unpaid military leave and personal leave), involuntary termination with severance – Eligible for a prorated year-end incentive award based on individual performance during the length of qualifying active service (number of calendar days of service divided by number of calendar days in the Program Year) during the Program Year. Final year-end awards will be calculated and paid at the same time year-end awards are paid to active participants. Deferral and payment elections become null and void.

Employed on Date of Payment. You must have continuous service through the date of I Deliver and Innovator awards are paid, unless one of the following applies:

- Retirement, death, long-term disability (LTD), Qualified Leave of Absence (unpaid military leave and personal leave), involuntary termination with severance. I Deliver and Innovator awards will be paid at the same time these awards are paid to active participants.

If you are terminated for any other reason (e.g., voluntary resignation or involuntary termination for cause) during the Program Year, you lose all rights to any incentive through the date of your termination and will receive no award.

Generally no award will be paid to an employee who was or is on a Performance Improvement Plan (PIP) or was or is part of any other performance improvement or disciplinary process during or after the Program Year. However, managers will have the discretion to provide awards to these employees in situations where the employee has demonstrated sufficient improvement in performance.

If you participate in any other Xcel Energy incentive or commission program, or any incentive program established specifically as an alternative to this Program, you are not eligible to participate in the Xcel Energy Non-bargaining Exempt Employee Annual Incentive Program without prior approval. Additionally, I Deliver and Innovator Awards cannot be used to reward employees for actions covered under another type of program or agreement. The SVP of HR and Employee Services or his/her designee will resolve any disputes related to Program participation and administration.

Calendar Days All references in this Program booklet to number of calendar days will be based on 365 days in the year (including leap years).

Award Proration

This list contains the most common proration scenarios. As additional situations arise that impact award proration they will be administered consistent with the scenarios outlined below and program administration practices.

Year-end incentive awards for the Program Year are prorated as follows:

- An eligible employee who is hired or who is transferred to/from /between an eligible position(s) during the Program Year is eligible for a year-end award based on the number of calendar days employed in a qualifying position. Award basis (incentive target and salary grade) is described on page 4.
- An eligible employee who retires, dies, qualifies for long-term disability (LTD), takes a leave of absence or is involuntarily terminated with severance is eligible for a year-end award based on the number of calendar days actively employed by Xcel Energy in an AIP eligible position.

- An eligible employee who changes from full-time to part-time status, or vice versa, is eligible for a year-end award based on the period of time within each status. An award range attributable to the full-time service period will be calculated in the same manner as awards are calculated for other full-time employees. In addition, an award range for the part-time service will be calculated in the same manner as other part-time employees. The results of these calculations will be added together and paid as one incentive award.
- An eligible employee who changes salary plans, incentive targets or has an annual salary change will receive a year-end award calculated for each period. The results of these calculations will be added together and paid as one incentive award.
- An employee who voluntarily resigns from Xcel Energy during the Program Year but is rehired and actively working prior to October 1st of the Program Year, forfeits any year-end incentive through the date the employee resigned. However, the employee is eligible for a prorated year-end award based on the number of days worked from the rehire date through the end of the Program Year, as long as the employee remains continuously employed through the date the year-end incentive payment is made.

INCENTIVE AWARD PROGRAM RELATED INFORMATION

Chief Executive Officer The Chief Executive Officer (or designee) will have full discretion and final authority to adopt, amend, alter or rescind the Program without advance notice for any reason at his/her sole discretion based upon financial or operating conditions or otherwise.

No Right to Continued Employment No individual shall have any claim or right to be granted an award under the Program, and the granting of an award shall not be construed as giving the participant the right of continued employment with Xcel Energy.



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XCEL ENERGY NON-BARGAINING, EXEMPT EMPLOYEE ANNUAL INCENTIVE PROGRAM

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INTRODUCTION

Xcel Energy Inc. (individually and collectively with its affiliates and subsidiaries, “Xcel Energy” or “the Company”) offers a market-based total cash compensation package. Your total cash compensation includes your base salary and the opportunity to earn an annual incentive when the Company achieves its goals.

- Base salary is the fixed component of your total cash compensation. Generally, it does not change unless you have a change in your job (such as a promotion), change in your status (such as full time to part time), or have a change in pay (such as an earned base pay increase).
- Xcel Energy’s Annual Incentive Program (the “Program”) is the variable component of your total cash compensation.
- Variable compensation is not guaranteed pay as it is subject to achievement of goals, including your own performance, and your contribution to team or company results.

The Program will be in effect from January 1 to December 31, 2020 (the “Program Year”), unless amended to end at an earlier date or terminated. In order for the Program to pay out year-end incentive awards in the Program Year, Xcel Energy must meet certain operating goals and an affordability objective. Your incentive award is primarily based on corporate goal achievement and discretionary based on your individual contributions and performance.

The purpose of this document is to provide a high-level overview of the annual incentive program components and to outline the eligibility and administrative framework of the program. More detailed information regarding the program components can be found in XpressNET under Benefits/Pay/Incentives/Annual Incentive.

PURPOSE OF THE PROGRAM

Incentive Programs are a variable portion of employee total cash compensation and are directly aligned with the achievement of certain corporate KPIs in addition to your individual contributions and performance.

Xcel Energy uses the Program to align employees’ goals with corporate and business area objectives, and to recognize and reward employees for results that contribute to the achievement of Xcel Energy’s key performance indicators (or KPIs), including those focused on reliability, our customers and our employees. It is also used to motivate employees to enhance the customer experience, innovate and drive continuous improvement.

The Program also supports the Company’s position as an employer of choice by:

- Offering a market-competitive total cash compensation package;
- Fostering the growth and development of employees; and
- Enabling the Company to attract, retain, motivate and reward employees whose performance and contribution meets or exceeds Company expectations.

PARTICIPATION

The Program applies to regular, full and part-time status employees who are exempt, non-bargaining employees.

Newly hired or rehired employees must be actively employed by and working for Xcel Energy prior to October 1 of the Program Year to be eligible to participate in the Year-End Award portion of the Program for that Program Year.

Participants must also be actively employed by Xcel Energy on the day Program award payments are made in order to receive an incentive award under the program.

- Exceptions to active employment on the date awards are paid include: Involuntary Termination (with severance); Retirement; Death; Disability; or Qualified Leave of Absence.

For additional information regarding participation in the Program, see “Program Administration” beginning on page 7.

PERFORMANCE COMPONENTS

The Program for 2020 is based on two performance components, Corporate and Individual:

Level	Component	Timing of Opportunity
Corporate	Corporate Scorecard KPIs align to the priorities of Enhancing the Customer Experience, Keeping Bills Low, Safety and Reliability. Specific goals are listed on XpressNet at http://xpressnet/Our Company/Planning and Performance/High Level Scorecards	Year-end
Individual	a) Year-End Award individual contributions and performance that can be aligned to your performance goals as determined with your manager	Year-end
	b) I Deliver Award	Time Relevant
	c) Innovator Award	Time Relevant

INCENTIVE TARGETS

Incentive targets are based on salary grade and correspond to varying weights or percentages for the corporate and individual performance components, as shown below.

Salary Plans and Grades ¹			Incentive Target	Components Weights ²	
Exempt	Engineer	Trader		Corporate	Individual
N, O	--	--	[PROTECTED DATA BEGINS]	10%	90%
--	A, B	--			
P, Q	C	001		20%	80%
--	D, E	--		30%	70%
R, S, T	--	002-006			
U, V	--	--		40%	60%
W	--	--			
X	--	--	[PROTECTED DATA ENDS]		

¹ Does not represent all salary plans. Other grades and salary structures will be mapped accordingly. Eligibility for each participant is determined by salary plan or grade as tracked in the Human Resources information systems and not based on job title.

² Generally no award will be paid to an employee who was or is on a Performance Improvement Plan (PIP) or was or is part of any other performance improvement or disciplinary process during or after the Program Year. However, managers will have the discretion to provide awards to these employees in situations where the employee has demonstrated sufficient improvement in performance.

The year-end incentive is subject to proration based on an employee’s eligible position(s) during the Program Year. For additional information on prorated awards, see page 9.

For an employee on a Developmental (or Rotational) Assignment, his or her annual incentive target percentage is based on the salary grade of the job held prior to accepting the Developmental (or Rotational) Assignment position.

The payout range for achievement of year-end incentive award goals (unless otherwise noted on the scorecard) can be anywhere from zero percent (0%) to one hundred fifty percent (150%), as noted on the following page. In no circumstance will the year-end incentive paid exceed 150% of the employee’s year-end incentive opportunity.

There is no maximum payout restriction for the I Deliver and Innovator awards. That could result in an employee earning a total annual incentive payout greater than 150% of their incentive target by earning one or more of these awards based on superior contributions and performance.

PROGRAM COMPONENTS

Corporate Scorecard – KPI

The 2020 corporate scorecard goals focus on three priorities: Enhancing the Customer Experience, Keeping Bills Low, Safety, and Reliability.

Priority	Key Performance Indicator	Threshold (50%)	Target (100%)	Maximum (150%)	KPI Weight
Enhance Customer Experience	Customer Satisfaction <i>(JD Power residential survey)</i>	729	741	753	20%
	Wind Deployment <i>(Steel for Fuel)</i>	Capital Variance at +2%	Capital Variance at 0%	Capital Variance at -2%	20%
Keep Bills Low	Employee Safety¹ <i>(safety culture)</i>	Declining	Steady/Improving	Significant Improvement	20%
Safety and Reliability	Public Safety <i>(gas emergency response)</i>	90%	95%	99%	20%
	Electric System Reliability <i>(SAIDI)</i>	99	92	85	20%

¹ If, during the year, an event resulting in an employee fatality occurs in the course of business and the Company has achieved threshold or better performance, the KPI result’s contribution to the corporate scorecard performance will be decreased to threshold. If, during the year, an event resulting in an employee fatality does not occur and the Company experiences both of the following conditions:

- 1) No employee has direct personal contact with an energized primary electric system that results in a DART Recordable injury; and
- 2) No employee experiences an unplanned natural gas ignition while working on company owned equipment that results in a DART Recordable injury.

Then, if the Company has achieved target or better performance, the KPI result’s contribution to the corporate scorecard performance will be increased to maximum. If the Company has achieved results at threshold or better but below target, the KPI result’s contribution to the corporate scorecard performance will be increased to target.

Threshold = 82, Target = 86, Maximum = 89.

Results are calculated in this manner:

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

Results will be rounded to the second decimal.

The Individual Component

The purpose of the Individual Component is to focus and reward employees for their individual performance and contribution to team or company results during the Program Year and to motivate them to enhance the customer experience, innovate and drive continuous improvement. The Individual Component is comprised of three separate opportunities: Year-End Award, I Deliver Award and the Innovator Award.

Year-End Award: Your manager has discretion to determine your year-end individual component award from within a range of 0% to 150% of your year-end individual opportunity based on your contributions and performance over the Program Year.

Having an individual award range allows management to recognize and differentiate employees based on their level of contribution and performance, consistent with the Company's pay-for-performance philosophy. Differentiation occurs at all levels based on relative contribution and performance as well as the AIP budget available to the business area.

The Year-End Award represents the largest portion of an eligible employee's individual component opportunity.

I Deliver Award: Eligible employees or teams can be nominated for an I Deliver award. These awards allow management to provide timely rewards to eligible employees and teams who deliver greater than expected results that have an impact at a team or department level and are linked to supporting the company strategy. The exceptional work should stand out compared to what is expected from the individual in the course of performing his or her job and link to a benefit for our customers. Nominations are reviewed and approved by a designated group of management on a monthly basis.

Innovator Award: Eligible employees or teams can be nominated for an Innovator award. These awards provide timely rewards to eligible employees or teams who implement innovative, high-impact solutions or processes that result in measurable savings or significant customer benefits at a company-wide level. All Innovator Award nominations are reviewed and approved by a designated group of management on a quarterly basis.

FUNDING THE PROGRAM

A prudent element of the Program is making sure the Company has the ability to pay for the annual incentives. Before the Year-End Award component of the Program will pay, an affordability trigger must be met as described below.

Earnings Per Share Determines Affordability

An affordability trigger, based on EPS at \$2.73, must be achieved before any Year-End Award can be paid. The 2020 EPS is based on continuing operations and shall be adjusted to exclude the positive or negative earnings impacts for any one-time, unusual events if the impact of the event exceeds \$20 million on an after-tax basis.

The funding allocated to the I Deliver and Innovator awards are not subject to an affordability trigger.

The Corporate Scorecard results can be multiplied by a funding factor based on EPS. The funding factor is selected by the CEO from an assessment of results and is within the following funding guidelines:

- 50% - 100% for \$2.73 to \$2.78
- 100% - 150% for \$2.79+

In no case will a Year-End Award payment be greater than 150% of the year-end incentive opportunity. However, an employee could earn a total annual incentive payout greater than 150% of their incentive target if they are nominated and earn one or more I Deliver or Innovator awards during the course of the program year.

PROGRAM ADMINISTRATION

Effective date of Program	The Annual Incentive Program covers a performance period of January 1 to December 31, 2020 and becomes effective at the start of that performance period (January 1). This is defined as the Program Year. The scorecard goals, as defined by the KPIs, are communicated to employee participants at or near the start of the performance period.
Approval and Timing of Payment	<p>After the 2020 financial statements are released, the Governance, Compensation & Nominating Committee of the Xcel Energy Inc. Board of Directors will review financial and corporate results. Actual Year-End Award payments will be made no later than two and a half months following the end of the relevant Program Year.</p> <p>I Deliver and Innovator awards are reviewed and approved by Company management on a periodic basis. Award payments will be made as soon as administratively feasible after awards have been approved.</p>
Form of Payment	Annual incentive awards are paid in cash and payment will be made separately from the normal payment of wages. No deferrals can be made to the 401(k) Retirement Savings Program from annual incentive awards. Eligible employees may defer all or a portion of their Year-End Awards into the Xcel Energy Deferred Compensation Plan (“DCP,” see descriptions for details on eligibility). In addition, the Company, at its discretion, may allow deductions to be made from year-end incentive payments to Health Savings Accounts (HSA) as allowable under IRS regulations. The Company will deduct all legally required withholdings on cash payments, DCP deferral elections and/or HSA deduction.

Eligibility

You must be considered a regular, non-bargaining exempt (full- or part-time) employee of Xcel Energy at any point during the Program Year.

Non-Exempt employees are not eligible for the Year-End and I Deliver awards but are eligible to receive an Innovator Award. Funding for Innovator Awards for non-exempt employees will come from sources outside of the Program.

Bargaining Unit employees, employees considered “temporary” and/or are interns, and independent contractors are not eligible to participate in the Program.

Status Changes. If an employee’s status changes from:

- Temporary to regular status prior to October 1st of the Program Year, the year-end portion of the incentive will be prorated based on the number of days worked after becoming a regular status employee.
- Temporary to regular status after October 1st, the employee will not be eligible to participate in the year-end portion of the incentive for that Program Year.
- Non-bargaining to bargaining or vice versa, the year-end incentive will be prorated based on the number of days worked in an eligible non-bargaining status.

Hired or Rehired During Program Year. New employees, including independent contractors hired as employees, hired or rehired during the Program Year must be hired or rehired and actively employed by and working for Xcel Energy prior to October 1 of the Program Year to be eligible to participate in the year-end portion of the incentive for that year.

It is recommended that an employee has completed at least one quarter of employment before being nominated for an I Deliver or Innovator award.

Employed on Last Day of Program Year and Date of Payment. You must be an active employee of Xcel Energy on December 31, 2020, and you must have continuous service through the day the year-end incentive award is paid, unless one of the following applies:

- Retirement, death, long-term disability (LTD), Qualified Leave of Absence (unpaid military leave and personal leave), involuntary termination with severance – Eligible for a prorated year-end incentive award based on individual performance during the length of qualifying active service (number of calendar days of service divided by number of calendar days in the Program Year) during the Program Year. Final Year-End Awards will be calculated and paid at the same time Year-End Awards are paid to active participants. Deferral and payment elections become null and void.

Employed on Date of Payment. You must have continuous service through the date of I Deliver and Innovator awards are paid, unless one of the following applies:

- Retirement, death, long-term disability (LTD), Qualified Leave of Absence (unpaid military leave and personal leave), involuntary termination with severance. I Deliver and Innovator awards will be paid at the same time these awards are paid to active participants.

If you are terminated for any other reason (e.g., voluntary resignation or involuntary termination for cause) during the Program Year, you lose all rights to any incentive through the date of your termination and will receive no award.

Generally no award will be paid to an employee who was or is on a Performance Improvement Plan (PIP) or was or is part of any other performance improvement or disciplinary process during or after the Program Year. However, managers will have the discretion to provide awards to these employees in situations where the employee has demonstrated sufficient improvement in performance.

If you participate in any other Xcel Energy incentive or commission program, or any incentive program established specifically as an alternative to this Program, you are not eligible to participate in the Xcel Energy Non-bargaining Exempt Employee Annual Incentive Program without prior approval. Additionally, I Deliver and Innovator Awards cannot be used to reward employees for actions covered under another type of program or agreement. The Executive Vice President, Chief Human Resources Officer or his/her designee or successor will resolve any disputes related to Program participation and administration.

Calendar Days All references in this Program booklet to number of calendar days will be based on 365 days in the year (including leap years).

Award Proration

This list contains the most common proration scenarios. As additional situations arise that impact award proration they will be administered consistent with the scenarios outlined below and program administration practices.

Year-end incentive awards for the Program Year are prorated as follows:

- An eligible employee who is hired or who is transferred to/from /between an eligible position(s) during the Program Year is eligible for a Year-End Award based on the number of calendar days employed in a qualifying position. Award basis (incentive target and salary grade) is described on page 4.

- An eligible employee who retires, dies, qualifies for long-term disability (LTD), takes a leave of absence or is involuntarily terminated with severance is eligible for a Year-End Award based on the number of calendar days actively employed by Xcel Energy in an AIP eligible position.
- An eligible employee who changes from full-time to part-time status, or vice versa, is eligible for a Year-End Award based on the period of time within each status. An award range attributable to the full-time service period will be calculated in the same manner as awards are calculated for other full-time employees. In addition, an award range for the part-time service will be calculated in the same manner as other part-time employees. The results of these calculations will be added together and paid as one incentive award.
- An eligible employee who changes salary plans, incentive targets or has an annual salary change will receive a Year-End Award calculated for each period. The results of these calculations will be added together and paid as one incentive award.
- An employee who voluntarily resigns from Xcel Energy during the Program Year but is rehired and actively working prior to October 1st of the Program Year, forfeits any year-end incentive through the date the employee resigned. However, the employee is eligible for a prorated Year-End Award based on the number of days worked from the rehire date through the end of the Program Year, as long as the employee remains continuously employed through the date the year-end incentive payment is made.

INCENTIVE AWARD PROGRAM RELATED INFORMATION

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| Chief Executive Officer | The Chief Executive Officer (or designee) will have full discretion and final authority to adopt, amend, alter or rescind the Program without advance notice for any reason at his/her sole discretion based upon financial or operating conditions or otherwise. |
| No Right to Continued Employment | No individual shall have any claim or right to be granted an award under the Program, and the granting of an award shall not be construed as giving the participant the right of continued employment with Xcel Energy. |

Dental, Vision, Life insurance, and Disability Summary

Dental Plan – Bargaining employees are offered one dental plan option that includes orthodontia coverage. Non-Bargaining employees have the choice of two dental plans, one that includes orthodontia coverage and one that does not. All three plans use a common design with an upfront deductible (ranging from \$25 to \$150) and an annual benefit limit that caps the amount of coverage provided by the plan (ranging from \$1,000 to \$2,000). The additional orthodontia benefit (\$1,500 or \$2,500) is a lifetime amount, and the plans provide greater coverage for using in-network dental providers who participate in the Delta Dental network. Employees pay a monthly premium that represents 25 percent of the total cost for Bargaining or 30 percent of the total cost for Non-Bargaining.

Vision Plan – the vision plan for both bargaining and non-bargaining employees provides annual coverage allowances for eye exams, glasses or contact lenses, plus access to discounts on additional services through the Vision Services Plan (VSP) provider network. Employees pay a monthly premium that covers the full cost of this benefit.

Disability Benefits – Disability benefits for both bargaining and non-bargaining employees include both short-term and long-term disability income replacement programs for employees who are unable to work due to medical conditions. Both programs are administered by The Hartford. Short-term disability provides income replacement after a one-week elimination period is met. Weeks two through thirteen are supplemented at 100 percent, and weeks fourteen through twenty-six are supplemented at 70 percent. Long-term disability is for illness that extends beyond twenty-six weeks and provides 60 percent income replacement. Bargaining employees have the option to buy an additional 10 percent of income replacement. This is a fully insured plan.

Life Insurance – Life insurance for both bargaining and non-bargaining employees includes Company-provided coverage equal to one times base salary. Employees are given the option to purchase additional benefits at the full cost. These include higher levels of life insurance, accidental death and dismemberment insurance, as well as those coverages for their eligible dependents.