

**BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION**

**IN THE MATTER OF SOUTHWESTERN )  
PUBLIC SERVICE COMPANY'S )  
APPLICATION FOR: (1) REVISION OF )  
ITS RETAIL RATES UNDER ADVICE )  
NOTICE NO. 292; (2) AUTHORIZATION ) CASE NO. 20-00238-UT  
AND APPROVAL TO ABANDON ITS )  
PLANT X UNIT 3 GENERATING )  
STATION; AND (3) OTHER )  
ASSOCIATED RELIEF, )  
)  
SOUTHWESTERN PUBLIC SERVICE )  
COMPANY, )  
)  
APPLICANT. )  
)  
)**

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**DIRECT TESTIMONY**

*of*

**MICHAEL T. KNOLL**

*on behalf of*

**SOUTHWESTERN PUBLIC SERVICE COMPANY**

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

<b><u>Acronym/Defined Term</u></b>	<b><u>Meaning</u></b>
AIP	Annual Incentive Program
Base Period	October 1, 2019 through September 30, 2020
CBA	Collective Bargaining Agreement
Commission	New Mexico Public Regulation Commission
DART	Days Away, Restricted or Transferred
FLSA	Fair Labor Standards Act
FMCP	Family Medical Care Plan
HDHP	High Deductible Health Plan
HSA	Health Savings Account
IBEW	International Brotherhood of Electrical Workers
KPI	Key Performance Indicator
Local 602	IBEW Local Union 602
LTI	Long-Term Incentive
Operating Companies	Northern States Power Company, a Minnesota corporation; Northern States Power Company, a Wisconsin corporation; Public Service Company of Colorado, a Colorado corporation; and SPS

<b><u>Acronym/Defined Term</u></b>	<b><u>Meaning</u></b>
SAIDI	System Average Interruption Duration Index
SIP	Wholesale Energy Marketing and Trading Supplemental Incentive Program
SPS	Southwestern Public Service Company, a New Mexico corporation
Test Year	Historical Test Year Period consisting of the Base Period and further incorporating all proper adjustments and capital additions
Total Company	Total SPS (before jurisdictional allocation)
Total Rewards Program	All of the components of compensation and benefits that Xcel Energy offers SPS and XES employees
TSR	Total Shareholder Return
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.

## LIST OF ATTACHMENTS

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

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of  
Michael T. Knoll

1           **I. WITNESS IDENTIFICATION AND QUALIFICATIONS**

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

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

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

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

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

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

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

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

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1 resources management team, I am also responsible for supporting our regulatory  
2 process related to human resource matters for rate cases.

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

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

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

11 A. I have worked for domestic companies where my primary focus has been  
12 compensation administration in the retail and business process services industries  
13 for over 17 years. I held two other positions (Manager of Compensation and  
14 Principal Executive Compensation Consultant) at XES prior to becoming Director  
15 of Compensation in 2018. Prior to joining XES, I worked as the Senior Manager  
16 of Compensation for Supervalu Corporation, a wholesale and retail grocery  
17 company located in various regions throughout the United States.

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

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

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

7 A. Yes. I am a member of the WorldatWork Total Rewards Association and the Twin  
8 Cities Compensation Network.

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

10 A. Yes. I have provided pre-filed direct testimony in Public Service Company of  
11 Colorado electric and gas rate cases before the Colorado Public Utilities  
12 Commission. Additionally, I filed testimony before the New Mexico Public  
13 Regulation Commission (“Commission”) in Case No. 19-00170-UT<sup>1</sup> and also  
14 before the Public Utility Commission of Texas in Docket No. 49831<sup>2</sup>.

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<sup>1</sup> *In the Matter of Southwestern Public Service Company’s Application for: (1) Revision of Its Retail Rates Under Advice Notice No. 282; (2) Authorization and Approval to Shorten the Service Life of and Abandon Its Tolk Generating Station Units; and (3) Other Related Relief, Case No. 19-00170-UT, Direct Testimony of Jarred J. Cooley (July 1, 2019).*

<sup>2</sup> *Application of Southwestern Public Service Company for Authority to Change Rates, Docket No. 49831, Direct Testimony of Jarred C. Cooley (Aug. 8, 2019).*



1                   **II. ASSIGNMENT AND SUMMARY OF TESTIMONY AND**  
2                   **RECOMMENDATIONS**

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

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

- The base pay costs incurred during the Test Year<sup>3</sup>; how the base pay costs were calculated; and why these costs are reasonable and necessary;
- The structure of Xcel Energy’s Annual Incentive Program (“AIP”) and the reasonableness and necessity of related costs for the Test Year;
- The structure of Xcel Energy’s Long-Term Incentive (“LTI”) Program for executive and non-executive employees and the reasonableness and necessity of related costs for the Test Year;
- The structure of Xcel Energy’s Wholesale Marketing and Trading Supplemental Incentive Program (“SIP”) and the reasonableness and necessity of related costs for the Test Year;
- The structure of Xcel Energy’s Recognition Program and the reasonableness and necessity of related costs for the Test Year; and
- The non-cash benefits offered to Xcel Energy employees, such as retirement benefits, the initiatives undertaken by Xcel Energy to

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<sup>3</sup> The Test Year is the Historical Test Year Period consisting of the Base Period (October 1, 2019 through September 30, 2020) and further incorporating all proper adjustments and capital additions.

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1 mitigate increases in these costs, and how the benefits costs are  
2 reasonable and necessary.

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

4 A. Xcel Energy's objective is to provide comprehensive, market-competitive  
5 compensation and benefits, which make up an employee's total rewards, that are  
6 designed and valued to attract, retain, and motivate the skilled workforce SPS needs  
7 to provide safe and reliable electric service to its customers. The pay and benefit  
8 levels are comparable to the market median, which indicates they are at or near the  
9 middle of pay and benefit offerings of similarly situated utility companies. The  
10 term "Total Rewards Program" refers collectively to all of the components of  
11 compensation and benefits that Xcel Energy offers SPS and XES employees. The  
12 components of the Total Rewards Program are regularly evaluated to ensure  
13 competitiveness with the market, as well as innovative design features to maximize  
14 employee engagement. The incentive pay components have limits regarding  
15 minimum performance levels and maximum payout levels. There are also strict  
16 eligibility requirements built into the programs to eliminate excessive or  
17 unnecessary expenses. Further, the Total Rewards Program is administered to  
18 ensure customers are the focal point of all employee actions and decisions. In all,  
19 the Total Rewards Program follows the best practices in the marketplace, reflects a

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1 reasonable level of costs to operate a large, national utility company, and is  
2 necessary to attract and retain a qualified, skilled workforce. For these reasons, I  
3 recommend that the Commission approve the amounts of the compensation and  
4 recognition programs as well as benefits costs included in the cost of service study  
5 for the Test Year with known and measurable adjustments as set forth in Table  
6 MTK-1 below:

7  
**Table MTK-1**  
**Total Rewards Expenses**

<b>Compensation Type</b>	<b>New Mexico Retail</b>	<b>Total Company</b>
Bargaining wages	\$8,547,606	\$28,334,130
Non-Bargaining base pay	\$25,131,373	\$83,679,032
Annual incentive 2021 year-end target (adjusted)	\$2,071,161	\$6,897,501
Long-term incentive compensation	\$1,069,971	\$3,559,170

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

10 **A.** Yes. Two other SPS witnesses address compensation and benefit issues in their  
11 direct testimonies:

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- 1                   • Richard R. Schrubbe supports SPS’s request for active health and  
2 welfare expense, pension and other post-employment benefit expense,  
3 workers’ compensation expense, and other benefit-related costs; and
- 4                   • Stehanie N. Niemi supports the cost of service study including the  
5 known and measurable adjustments for bargaining employee wages,  
6 non-bargaining employee base pay, the AIP, the SIP, the LTI program,  
7 and Recognition Awards. The study also includes current pension and  
8 benefit-related expense, and it reflects the prepaid pension asset and  
9 prepaid retiree medical asset amounts that SPS seeks to include in rate  
10 base.

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

13 A. Throughout this testimony, I quantify the expense and asset amounts on a New  
14 Mexico retail basis based upon the jurisdictional allocation percentages Ms. Niemi  
15 uses to develop the New Mexico retail revenue requirement in her Attachment  
16 SNN-6. Ms. Niemi is responsible for calculating jurisdictional allocation  
17 percentages that apply to the various costs components in the cost of service. My  
18 staff and I conferred with Ms. Niemi and her staff to determine these New Mexico  
19 retail jurisdictional amounts presented in my testimony and attachment. If the  
20 percentages used to allocate amounts to the New Mexico retail jurisdiction change,  
21 those new allocation percentages will need to be applied to the Total Company  
22 numbers to derive updated New Mexico retail amounts. Attachment MTK-1

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1 contains the Total Company numbers and the jurisdictional percentages used to  
2 derive the New Mexico retail amounts in my testimony.

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

5 A. Yes.

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**III. TOTAL REWARDS PROGRAM**

**Q. What is the Xcel Energy Total Rewards Program?**

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

- Compensation in the form of:
  - Base pay;
  - Annual incentive compensation;
  - Supplemental incentive compensation for Wholesale Energy Marketing and Trading employees;
  - Long-term incentive compensation; and
  - Recognition awards;
- Retirement benefits in the form of:
  - Qualified pension benefits;
  - Non-qualified pension benefits; and
  - Retiree medical benefits;
- Active health care benefits;
- Workers' compensation benefits;
- Long-term disability benefits;
- 401(k) matches; and
- Other miscellaneous benefits.

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

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

8 **Q. What are the Total Rewards Program's goals?**

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

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

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

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

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

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

- 16
- Annual incentive compensation;

17

  - Supplemental incentive compensation for Wholesale Energy Marketing  
18 and Trading employees;

19

  - Long-term incentive compensation; and



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- 1                   • Recognition awards.

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

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

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

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

3 A. No. As shown in Chart MTK-1<sup>4</sup> (next page), the combinations and values of each  
4 component of compensation (base pay, annual incentive compensation, and  
5 long-term incentive compensation) differ by job and individual employee. For  
6 example, Chart MTK-1 shows that executive and non-executive management  
7 receive a greater percentage of their compensation in the form of incentive  
8 compensation than non-management exempt employees do. This is similar to how  
9 other employers with whom SPS competes for employees structure their  
10 compensation components.

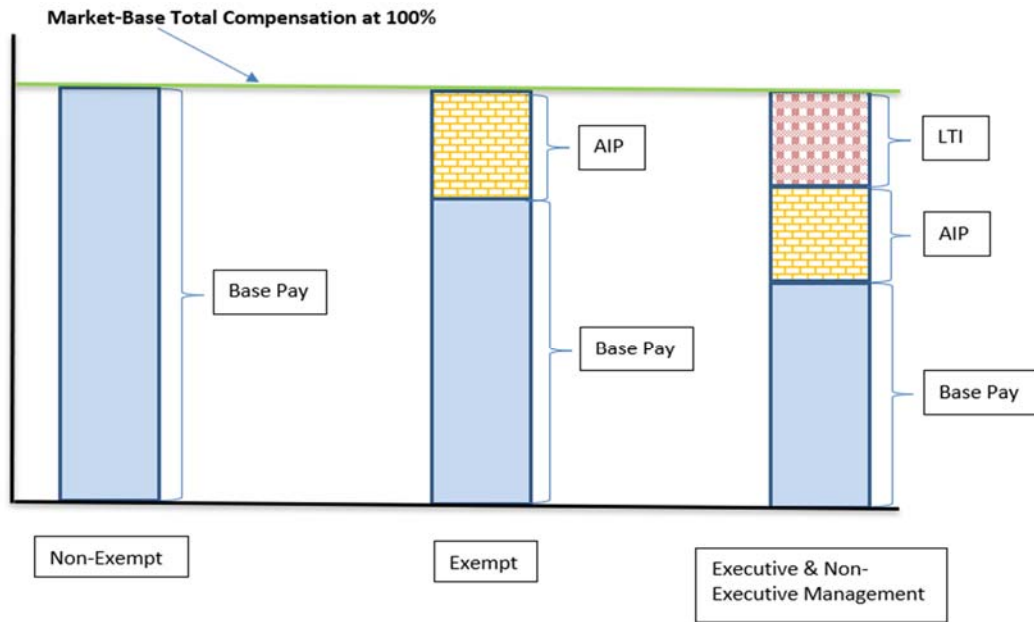
11 The compensation structure for all non-bargaining employees is designed  
12 to provide a total compensation package based on the market-competitive  
13 compensation levels and types necessary to attract, retain, and motivate employees  
14 at varying levels.

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<sup>4</sup> Chart MTK-1 is for illustrative purposes only and does not represent a specific job or individual employee.

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1 **Chart MTK-1: Illustration of Non-Bargaining Compensation Components**



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

4 A. No. As I will explain in more detail later in my testimony, SPS has not included  
5 the executive LTI costs associated with relative total shareholder return (relative  
6 “TSR”) as a part of its requested compensation expense in this electric rate case. In  
7 addition, SPS is limiting its requested recovery of AIP costs to “target” levels of an

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1 employee's base pay based on 2020 budgeted levels.<sup>5</sup> Thus, in this rate case, SPS  
2 is seeking recovery of the compensation costs related to base pay, the AIP at target,  
3 the SIP, the environmental and time-based LTI compensation,<sup>6</sup> and the Recognition  
4 Program. All of the expenses of SPS's Total Rewards Program, however, are  
5 necessary and reasonable costs of attracting, retaining, and motivating the  
6 employees needed to provide safe and reliable electric service. For this reason, SPS  
7 reserves the right to request full AIP and LTI program expense recovery in future  
8 base rate cases.

9 **Q. Has the COVID-19 pandemic had any effects on the Xcel Energy's Total**  
10 **Rewards Program?**

11 A. No. There have been no changes to date.

12 **Q. More specifically, has SPS experienced any reductions in the labor force**  
13 **related to the COVID-19 pandemic?**

14 A. No. At this time, SPS has maintained a stable workforce to ensure our customers  
15 continue to receive safe and reliable electric service since the outbreak of  
16 COVID-19 occurred in March 2020.

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<sup>5</sup> I explain in the next section of my testimony what is meant by a "target" level of incentive compensation.

<sup>6</sup> Time-based LTI compensation includes both executive time-based LTI compensation and non-executive management time-based LTI compensation with modifier.

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1 **Q. Has SPS made any reductions to employee base pay as a result of the**  
2 **COVID-19 pandemic?**

3 A. No. The timing of the outbreak in March 2020, the uncertainty of its impact on our  
4 ongoing operations, and the need to attract, retain, and motivate our employees to  
5 meet critical infrastructure and service needs led SPS to not change our approach  
6 to compensation. While we are continuously monitoring our operations and  
7 workforce, there are no anticipated changes to the base pay of our employees.

8 **Q. Does SPS anticipate making annual incentive compensation payments for the**  
9 **2020 AIP year despite the pandemic?**

10 A. Yes. As discussed later in my testimony in more detail, the 2020 AIP focused on  
11 three priorities (1) enhancing the customer experience, (2) keeping bills low, and  
12 (3) promoting safety and reliability. This year especially, annual incentive  
13 compensation will reward our employees for maintaining this focus while  
14 performing above and beyond their normal job duties as they work through a variety  
15 of state-mandated constraints and safety measures. The greater majority of our  
16 AIP-eligible employees have been working remotely or have modified work  
17 environments that require them to be more agile and detail-oriented as they  
18 continue to operate, lead, and manage others to provide safe and reliable electric

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1 service to our customers. Providing AIP opportunity and payments through this  
2 challenging time will ensure we can attract, retain, and motivate these employees  
3 and meet our commitment to market-based total cash compensation.

4 **Q. Does SPS anticipate making any LTI program changes as a result of the**  
5 **COVID-19 pandemic?**

6 A. No. Any changes to the LTI program would be a reflection of the competitive  
7 market for this form of incentive compensation. At this time, SPS does not  
8 anticipate any changes to LTI compensation.

**IV. COMPENSATION COMPONENTS**

1       **A. Base Wages and Base Pay**

2               *1. Bargaining Employee Base Wages*

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

4       A. Bargaining employee base wage amounts, including the hourly wage increases, are  
5       based on the collective bargaining agreement (“CBA”) between SPS and Local  
6       602.

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

8       A. The current CBA is effective through October 31, 2022. Under that agreement,  
9       SPS bargaining employees received a base wage increase of 2.5% effective  
10       November 1, 2019 and another base wage increase of 2.5% effective November 1,  
11       2020. Costs for these increases are included in the Test Year.

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

14       A. Table MTK-2 (next page) shows the base wage increases for bargaining employees  
15       in recent years under the CBA through October 31, 2020.

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1

**Table MTK-2**

**Recent Base Wage Increases for SPS Bargaining Employees**

<b>Year</b>	<b>Base Wage Increase</b>
2015	2.50%
2016	2.50%
2017	2.50%
2018	2.50%
2019	2.50%
2020	2.50%

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

4 A. SPS asks the Commission to approve a New Mexico retail amount of \$8,547,606  
5 (\$28,334,130 Total Company) for base wages for bargaining employees.

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

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

9 **Q. Has the Commission previously approved SPS's request to recover base**  
10 **wages, including increases, through base rates?**

11 A. Yes.



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1                   2.     *Non-Bargaining Employee Base Pay*

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

3     A.     On behalf of SPS and its other Operating Companies, Xcel Energy undertakes a  
4           comprehensive evaluation process for each non-bargaining position using external  
5           market data obtained from independent third-party compensation surveys to ensure  
6           its non-bargaining employee compensation levels are comparable to the market. To  
7           develop an apples-to-apples comparison, Xcel Energy must first match the job  
8           responsibilities of SPS positions to the job responsibilities provided in third-party  
9           compensation surveys. Human resources professionals from other companies  
10          provide compensation data to the third-party compensation companies based on  
11          their jobs that match the descriptors in the surveys. Xcel Energy then considers  
12          data from a variety of surveys, including data for both utility and non-utility  
13          companies.<sup>7</sup> The 50th percentile or median is then used to determine the  
14          appropriate pay range for a position. After an appropriate pay range is determined,  
15          the components of the compensation package are divided among base pay, annual  
16          incentive compensation, supplemental incentive compensation, and long-term  
17          incentive compensation, as applicable. By approaching compensation in this

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<sup>7</sup> If SPS's position is unique to the utility industry, Xcel Energy may restrict its comparison to only the utility-specific data in the surveys.

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1 manner, Xcel Energy is able to ensure that its total compensation levels are  
2 comparable to the market and, thus, that those costs are set at a reasonable level.

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

4 A. Yes. Although base pay is considered to be a fixed component of cash  
5 compensation, managers are allowed to award base pay increases based on  
6 employees' performance, their position in the pay range (an indicator of relative  
7 market position), and internal equity between employees. Base pay increases tend  
8 to be higher for employees who have high levels of performance and who are  
9 currently at the low end of the pay range. On the other hand, average performers  
10 who are at the higher end of the pay range for their job classification may only  
11 receive a small base pay increase, and a poor performer generally receives no base  
12 pay increase. Base pay increases are generally effective in March each year.

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

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

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

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

- 4 • A review of external market surveys regarding base pay increases;
- 5 • Economic conditions;
- 6 • Xcel Energy performance; and
- 7 • A comparison to potential or negotiated wage increases for bargaining  
8 employees.

9 **Q. What base pay increase did non-bargaining employees earn in 2020?**

10 A. Effective March 2020, eligible non-bargaining employees earned, on average, a  
11 3.0% base pay increase. To earn a base pay increase, a non-bargaining employee  
12 had to be eligible based on job performance and had to be employed by SPS on the  
13 effective date of the base pay increase.

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

16 A. Use of independent third-party compensation surveys is a best practice for  
17 determining compensation across industries. SPS relies on independent third-party  
18 compensation surveys because the survey vendors use rigorous methodologies to  
19 collect and aggregate compensation information from a wide array of companies.

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1 Those surveys are compiled in compliance with Department of Justice and Federal  
2 Trade Commission Antitrust Safety Zone guidelines, which specify who can  
3 administer surveys and define parameters such as the minimum number of  
4 participants in the survey, the percentage of data a single survey participant can  
5 represent in weighted results, and the age of the data. In addition, the results of the  
6 surveys are available only to authorized users, which motivates companies to share  
7 competitive information they would not release publicly.

8 **Q. Was the 3.0% base pay increase earned by non-bargaining employees in 2020**  
9 **reasonable?**

10 A. Yes. The independent third-party surveys that I described above demonstrate that  
11 for 2020, the 3.0% base pay increase for non-bargaining employees was  
12 competitive with the market as a whole. In particular, five different survey sources  
13 reported the following base pay increase ranges:

- 14 • 3.1% to 3.7% for all utilities on a national basis; and
- 15 • 3.0% to 3.6% for all companies on a national basis.<sup>8</sup>

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<sup>8</sup> WorldatWork “2020-2021 Salary Budget Survey;” The Conference Board “2020 Salary Increase Budget Survey Results;” Willis Towers Watson “2020 General Industry Salary Budget Survey;” Mercer “2020/2021 US Compensation Planning Survey Report;” and Aon Hewitt “2020 Salary Increase and Turnover Study-United States.”

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1 As these independent surveys show, the 3.0% base pay increase for SPS's  
2 non-bargaining employees was reasonable, and perhaps even conservative, when  
3 compared to the market in 2020.

4 **Q. Is a 3.0% base pay increase consistent with long-term trends for base pay**  
5 **increases for non-bargaining employees?**

6 A. Yes. Table MTK-3 identifies the survey results for projected and actual  
7 non-bargaining base pay increase percentages available from 2015 through the  
8 2021 projected increase:

9

**Table MTK-3**  
**Non-Bargaining Base Pay Projections & Actual Increases**

<b>Year</b>	<b>Survey Data: Projected Increase</b>	<b>Survey Data: Actual Increase</b>
2015	2.8% - 3.1%	2.8% - 3.0%
2016	2.9% - 3.0%	2.7% - 3.0%
2017	2.9% - 3.2%	2.8% - 3.0%
2018	2.9% - 3.1%	2.9% - 3.3%
2019	3.0% - 3.3%	3.0% - 3.5%
2020	3.1% - 3.7%	2.6% - 3.5%
2021	2.6% - 3.5%	Pending

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

4 A. The 2020 base pay increases for non-bargaining employees are reasonable and  
5 should be included in the cost of service in this case. Accordingly, SPS requests  
6 that the Commission approve recovery of \$25,131,373 on a New Mexico retail  
7 basis for non-bargaining base pay (\$83,679,032 Total Company).

8 **Q. Has the Commission previously approved SPS’s request to recover base pay,**  
9 **including increases, through rates?**

10 A. Yes.

11 **B. Annual Incentive Compensation**

12 **Q. What do you address in this subsection of your testimony?**

13 A. In this section, I discuss SPS’s Annual Incentive Program, which is sometimes  
14 referred to by the acronym “AIP.” First, I explain that the use of incentive  
15 compensation benefits customers, as compared to a compensation system that  
16 would provide all of a non-bargaining employee’s compensation through base pay  
17 only. Second, I describe the structure of the AIP and quantify the amount of  
18 incentive compensation that SPS asks the Commission to approve.

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1                    *I.        Benefits of Annual Incentive Compensation*

2    **Q.    Why does Xcel Energy include annual incentive compensation as part of its**  
3    **Total Rewards Program?**

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

13   **Q.    Please explain how offering incentive compensation promotes superior**  
14   **employee performance.**

15   A.    A well-designed incentive compensation plan motivates employees to focus on  
16    activities that benefit customers, such as improving customer service response  
17    times, enhancing reliability, and achieving environmental goals. In addition, a  
18    compensation structure that includes incentive compensation strengthens the link  
19    between pay and performance because the employee must meet the performance

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1 standards to earn the full compensation amount. Using base pay alone to offer an  
2 employee compensation consistent with the 50<sup>th</sup> percentile of the market would  
3 allow an employee to receive all compensation regardless of performance. Thus,  
4 the use of incentive compensation helps Xcel Energy motivate and reward its  
5 employees for delivering superior performance.

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

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

12 In contrast, customers benefit if total cash compensation is structured with  
13 base pay and 20% incentive compensation opportunity (variable pay) to reach total  
14 compensation. In this example, a base pay of \$41,670 with a target-level payout of  
15 20% would reach the market-based total cash compensation of \$50,000. The  
16 difference to total cash compensation would need to be re-earned annually through  
17 the AIP. Additionally, unlike the fixed cost described above when total cash  
18 compensation is delivered in base pay, the 3.0% base pay increase would lead to an



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1 increase of \$1,250 in year two ( $\$41,670 + 3.0\% = \$1,250$ ) and a new base pay of  
2 \$42,920. Thus, by moving a portion of each employee’s pay from base pay to  
3 incentive pay, SPS reduces overall fixed labor costs (base pay) by avoiding the  
4 compounding effect of annual base pay increases on the higher base pay amount,  
5 as noted in Example 1 below.

**Example 1**  
**Fixed Cost and Variable Pay**

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

6 Furthermore, fixed costs associated with base pay affect a variety of benefit-  
7 related expenses, such as 401(k) match, life insurance premiums, long-term  
8 disability premiums, and short-term disability expenses. If total cash compensation

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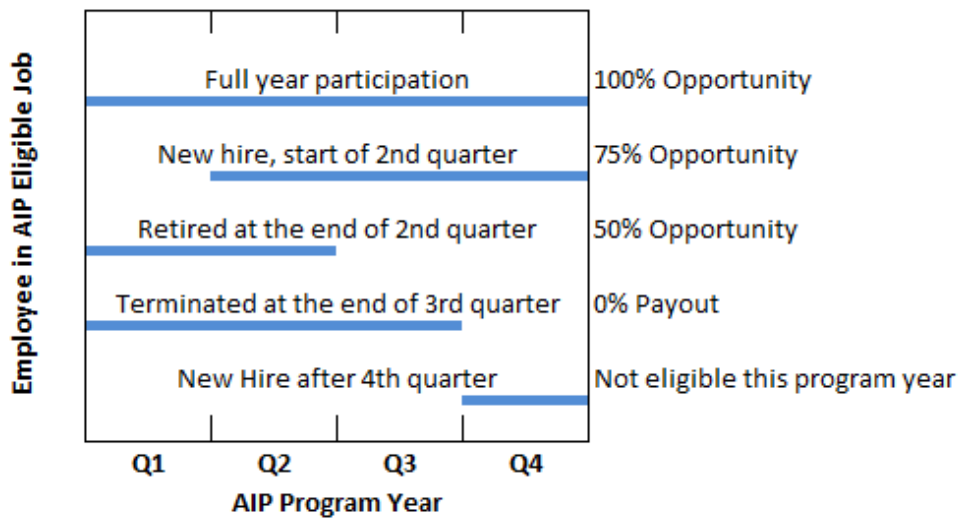
1           were provided through base pay at 100%, the additional fixed costs would  
2           correspondingly increase benefit-related expenses. In contrast, variable pay  
3           expenses associated with incentive compensation do not affect all benefit expenses,  
4           and variable pay may fluctuate from year to year. These factors, along with  
5           prorated awards and eligibility requirements for payout, also contribute to incentive  
6           design savings. In summary, by utilizing base pay and incentive components in the  
7           Total Rewards Program, SPS reduces costs for our customers, while offering  
8           employees market-based, target-level total cash compensation.

9           Finally, incentive compensation is paid only to those employed at the time  
10          of payout in most circumstances. An example of an exception to this circumstance  
11          would be eligible employees who retire during the AIP performance year. The  
12          incentive compensation calculation also prorates the payout of incentive  
13          compensation to new or transferring participants based on the dates those  
14          employees were in an eligible position during the program year. By avoiding  
15          payouts to departing employees and prorating payouts of arriving employees, SPS  
16          pays less in incentive compensation than it would have paid those employees if all  
17          of their compensation had been in the form of base pay.

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1           Chart MTK-2 illustrates a few simple examples of how and when  
2 employees in AIP-eligible jobs may or may not have full or pro-rated AIP  
3 opportunities in relation to the year-end AIP award.

4           **Chart MTK-2: Annual Incentive Program Eligibility**



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

7   **A.** Yes. The use of incentive compensation by employers is a prevalent practice  
8 throughout the United States. According to the 2020 Willis Towers Watson  
9 Compensation Study, 100% of energy companies in the national sample maintain  
10 an annual incentive plan, and 100% of energy companies comparable to Xcel  
11 Energy in terms of revenue maintain an annual incentive plan.

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1                   2.       *Structure of Xcel Energy's Annual Incentive Program*

2   **Q.    Please summarize Xcel Energy's AIP.**

3    A.    The AIP is the mechanism through which Xcel Energy and SPS tie part of an  
4           eligible employee's cash compensation to the achievement of defined performance  
5           objectives called Key Performance Indicators ("KPIs"). SPS uses the AIP to align  
6           employees' goals with Xcel Energy's corporate and business goals and to recognize  
7           and reward employees for results that contribute to the achievement of reliability,  
8           customer satisfaction, and safety goals. When combined with base pay, the AIP  
9           compensation component is designed to produce a market-competitive total cash  
10          compensation package.

11 **Q.    What performance objectives were reflected in the 2020 AIP?**

12   A.    Performance goals in the AIP are set at the Individual and Corporate levels as  
13          follows in Table MTK-4 (next page):

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**Table MTK-4**  
**2020 AIP Performance Goals**

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

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

3 A. The AIP applies to exempt, non-bargaining employees. An eligible employee must  
4 be employed by October 1 of a particular year to be eligible for a prorated year-end  
5 portion of the AIP compensation for that program year. With limited exceptions, a  
6 person must also be actively employed by Xcel Energy on the date that the year-  
7 end award payments are made in order to receive an incentive award.<sup>9</sup>

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<sup>9</sup> The exceptions are involuntary termination with severance, retirement, death, disability, or qualified leave of absence.

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

4 A. Yes. In addition to the year-end portion of their AIP, which is based on  
5 achievement of Corporate KPIs and Individual performance results, employees are  
6 eligible to earn a portion of their Individual component throughout the course of  
7 the year. The AIP provides leaders with the opportunity to recognize employees  
8 and reinforce positive behavior in a timely manner. This portion of the AIP can be  
9 received during the program’s prescribed intervals (monthly or quarterly) during  
10 the performance year.

11 **Q. In connection with the year-end AIP awards, you referred to Corporate KPIs**  
12 **and Individual performance results. Please describe the Corporate KPIs.**

13 A. Each year, Xcel Energy develops a Corporate Scorecard that identifies certain  
14 priorities for the year. In 2020, for example, the Corporate KPIs were focused on  
15 three priorities: (1) enhancing the customer experience, (2) keeping bills low, and  
16 (3) promoting safety and reliability. As shown in Table MTK-5 (next page), those  
17 three priorities resulted in five Corporate KPIs for the year:

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**Table MTK-5**  
**2020 Corporate Scorecard**

<b>Priority</b>	<b>KPI</b>	<b>Threshold (50%)</b>	<b>Target (100%)</b>	<b>Maximum (150%)</b>	<b>KPI Weight</b>
<b>Enhance Customer Experience</b>	<b>Customer Satisfaction (Residential)</b>	729	741	753	20%
<b>Keep Bills Low</b>	<b>Wind Development</b>	2.0%	0.0%	-2.0%	20%
<b>Safety and Reliability</b>	<b>Employee Safety<sup>10</sup></b>	Declining	Steady/ Improving	Significant Improvement	20%
	<b>Public safety</b>	90%	95%	99%	20%
	<b>Electric system reliability (SAIDI)</b>	99	92	85	20%

2  
3  
4  
5  
6  
7

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

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<sup>10</sup> Calculated using the DART (Days Away, Restricted or Transferred) rate.

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

3 A. Yes. As shown in the table, Xcel Energy establishes quantitative measures to  
4 evaluate whether the Corporate Scorecard KPIs have been met. The “threshold”  
5 amount represents the minimum level of performance that must be achieved before  
6 an incentive payment can be earned for the particular KPI (50%). Performance  
7 below the threshold results in no incentive being earned for that KPI. The “target”  
8 represents the level of performance that must be achieved to receive a target payout  
9 for that KPI (100% payout). The “maximum” represents the level of performance  
10 that must be achieved to receive the maximum payout possible for a particular KPI  
11 (150%) of results for purposes of establishing the maximum amount of incentive  
12 compensation for that Corporate KPI. As shown in Table MTK-6 (next page), the  
13 amount of incentive compensation an employee is eligible to receive under the  
14 Corporate Scorecard depends on the degree of success that the corporation as a  
15 whole achieves for the Corporate KPIs:



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**Table MTK-6**  
**Corporate Scorecard Scoring**

<b>Corporate Goal Achievement</b>	<b>Payout</b>
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%

2

\* mathematical calculation used to estimate values between two points

3

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

4

A. Yes. Xcel Energy relies on market studies to determine the payout ranges for its AIP, and uses a conservative 150% maximum payout opportunity. This maximum is lower than the incentive compensation opportunity offered by other companies. Based on a study from WorldatWork and Deloitte Consulting in 2018, 64% of incentive programs had a maximum payout of 200% or greater. And while there is an incentive payout opportunity of up to a 150% maximum, SPS is only requesting the target-level (100%) AIP expense in rate recovery and shareholders are responsible for AIP incentive expense amounts beyond target-level.

10

11

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1 **Q. Do the 2020 Corporate Scorecard goals benefit customers?**

2 A. Yes. The Customer Satisfaction goal measures the satisfaction of residential  
3 customers, using Xcel Energy's year-over-year results from the J.D. Power  
4 Customer Satisfaction Survey. The Public Safety goal measures how quickly Xcel  
5 Energy responds to situations to reduce hazards and maintain service reliability.  
6 The Wind Deployment goal measures delivery of a number of major wind projects  
7 on budget. The System Average Interruption Duration Index ("SAIDI") goal  
8 measures the reliability of the power Xcel Energy provides to customers. Finally,  
9 Employee Safety is a key priority of Xcel Energy and is part of the 2020 Corporate  
10 Scorecard. Employee Safety focuses on maintaining a safe-work mentality and  
11 injury-free work environment, as measured by DART (Days Away, Restricted, or  
12 Transferred).

13 **Q. Is the AIP Corporate Scorecard for 2020 representative of the scorecards Xcel  
14 Energy expects to use on a prospective basis?**

15 A. Yes. Xcel Energy will continue to be customer focused by driving operational and  
16 cost efficiencies to deliver safe and reliable service to our customers. Although the  
17 specific KPIs and measures may change slightly to reflect specific objectives from  
18 year to year, our commitment to our customers and the safety of the communities  
19 SPS serves and our employees will always be high priorities.

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1 **Q. Do you consider all Corporate KPIs to be operational goals?**

2 A. Yes. The 2020 Corporate Scorecard shown above in Table MTK-6 contains 100%  
3 operational goals designed to focus employee performance on positive outcomes  
4 for customers. Each of the goals is designed to influence employee activity, and  
5 each goal has some type of cost element, whether through labor hours to complete  
6 the work or equipment and material needs to safely and effectively complete the  
7 job. Operating in a safe, reliable, cost-efficient manner benefits customers  
8 receiving utility service, while delivering environmentally conscious energy to  
9 customers.

10 **Q. Please turn now to the Individual component and explain how that is**  
11 **evaluated.**

12 A. The purpose of the Individual component is to focus an employee on individual  
13 goals and to reward that employee for his or her achievement of those goals.  
14 Including an Individual component allows managers to recognize and reward  
15 employees based on their levels of contribution and performance, consistent with  
16 Xcel Energy's pay-for-performance philosophy.

17 **Q. Who establishes an employee's individual goals?**

18 A. The Individual component is based on the individual performance results of specific  
19 goals identified by the employee and his or her manager. Goals are tied specifically

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1 to the employee's job functions and competencies and are developed in alignment  
2 with business area and corporate objectives. Each manager has discretion to  
3 determine the year-end Individual component award within a range of 0 to 150%  
4 based on the employee's contributions and performance during the year.<sup>11</sup> Note,  
5 however, that the budget for overall payouts for all employees is based on 100% of  
6 all employees' target opportunities. This means that for every employee who  
7 receives a payout above the target level, another employee's payout must be below  
8 target level.

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

11 A. No. The importance of the Corporate KPIs for year-end AIP payout varies based  
12 upon the employee's position and level of responsibility. The weightings of  
13 Corporate versus Individual KPIs are designed such that an employee's goals are  
14 more strongly linked to objectives that he or she has the greatest potential to affect  
15 line of sight. For example, the weighting for employees with a greater focus on  
16 day-to-day activities and responsibilities tied to customer satisfaction, safety, and

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<sup>11</sup> The Individual component also includes the "I Deliver Award" and "Innovator Award." These awards, however, are not part of the year-end evaluation of whether an employee achieved his or her Individual KPIs during that year.

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1 reliability. Therefore, the AIP weightings are based more heavily at the individual  
2 level. In contrast, when an employee's position has the ability to affect Xcel Energy  
3 at a higher level, the weighting for those positions focuses on broader corporate  
4 goals, though it will continue to require accountability for individual performance.  
5 Table MTK-7 shows the weightings of these different categories for the 2020 AIP:

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

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

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

9 A. No. The weightings modify the mix of accomplishments needed for employees to  
10 achieve the target levels of AIP opportunity for the respective employee groupings,  
11 but they do not change the target opportunity levels for employees. A job with a

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1 market-based target opportunity of 10% would remain 10%, even if the mix of  
2 Corporate versus Individual weightings changes.

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

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

13 **Q. Is the amount of an employee's incentive compensation earned always at the**  
14 **incentive target amount?**

15 A. No. An employee receives his or her incentive target opportunity payout only if  
16 that employee achieves 100% of his or her Individual goals and the Corporate KPI  
17 results are at 100%. The actual incentive payment earned by an employee may  
18 exceed or fall below the incentive target amount, depending upon the actual

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1 performance of the weighted AIP components. The maximum year-end payout is  
2 150% of the incentive target amount based on exceptional performance for  
3 established Corporate KPIs and Individual goals. The year-end threshold for a  
4 minimum payout is 50% of the incentive target, which reflects meeting the  
5 minimum expected level of performance for a Corporate KPI. Performance below  
6 the 50% level for a Corporate KPI results in no incentive compensation for the  
7 associated goal. Overall, an employee's final year-end payout may range from 0 to  
8 150% of the Individual incentive target opportunity.

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

11 A. SPS is requesting recovery of AIP target-level expense, which is known and  
12 measurable, from New Mexico retail customers in the amount of \$2,071,161 NM  
13 retail (\$6,897,501-Total Company). This amount reflects 2020 year-end annual  
14 incentive compensation awarded at the budgeted 100% target level in the amount  
15 of \$1,909,452 (\$6,324,784 Total Company) and an additional known and  
16 measurable adjustment, which I discuss next. It does not include any amounts for  
17 payouts above the budget level. Thus, customers are not being asked to pay any  
18 amounts above what Xcel Energy has identified as the incentive target opportunity.

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1 **Q. What is the additional adjustment you refer to in your previous answer?**

2 A. SPS is requesting an additional known and measurable adjustment of \$161,709  
3 (NM retail) to the 2020 budgeted target-level AIP amount to reflect the requested  
4 known and measurable adjustment impacting AIP-eligible employees base pay in  
5 March 2021 (described in Section IV.A).

6 **Q. Is SPS's requested annual incentive compensation amount reasonable?**

7 A. Yes. This amount represents the 2020 year-end target-level payout expense (plus  
8 the additional known and measurable adjustment) allocated to New Mexico retail  
9 customers. This amount will provide market-level, cash compensation to eligible  
10 non-bargaining employees, administered through our pay-for-performance  
11 philosophy. The design of the AIP results in a lower expense request amount to  
12 rate payers than would be requested using a base pay program alone to achieve  
13 market competitive compensation necessary to attract, retain, and motivate our  
14 eligible non-bargaining employees. The entire SPS AIP expense is a reasonable  
15 and necessary component of overall cash compensation, and is based on  
16 achievement of KPIs and other goals.



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

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

5 **C. Supplemental Incentive Compensation**

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

7 A. The Xcel Energy Supplemental Incentive Program or SIP is designed to provide  
8 certain eligible employees who work in wholesale energy trading activities with  
9 compensation opportunities that are competitive with compensation practices in the  
10 wholesale energy trading sector. The SIP is designed to reward employees for  
11 achievement of wholesale energy trading profit margins. The program is a  
12 supplement to the AIP and is part of the total cash compensation offered only to  
13 Xcel Energy wholesale energy trading employees. Taken together, a wholesale  
14 energy trading employee's base pay, annual incentive compensation, and  
15 supplemental incentive compensation are designed to compensate an employee at  
16 the median of the market.

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

18 A. Yes. The incentive is designed to motivate trading employees to seek out  
19 cost-effective trades and to achieve the maximum possible margins, a large

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1 percentage of which are shared with customers through the fuel clause. Thus, the  
2 benefits for customers are immediate and flow directly from the employee activities  
3 that are rewarded under the SIP.

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

6 A. Yes.

7 **D. Long-Term Incentive Compensation**

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

9 A. Like the other Xcel Energy compensation programs, the LTI program is intended  
10 to attract, retain, and motivate employees. LTI compensation differs from annual  
11 incentive compensation and other types of compensation in that it is offered only  
12 to executives and non-executive leadership employees, as determined by market  
13 competitive compensation designs. Like all other compensation components, the  
14 LTI program is necessary to ensure that those employees' compensation levels and  
15 the mix of compensation are competitive.

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

17 A. Yes. Long-term incentive programs are widely used compensation vehicles for  
18 executives and certain non-executive employees, according to Willis Towers  
19 Watson. One hundred percent of the companies in the Willis Towers Watson study

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1 provided LTI compensation as a component of pay for their executives. These  
2 types of programs create an incentive for eligible employees to engage in high-level  
3 planning that will lead to benefits over the long-term. It also encourages those  
4 employees to remain with Xcel Energy and to follow through on longer-term  
5 decisions and projects, rather than only short-term windfalls.

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

8 A. No. SPS is not seeking recovery for the relative total shareholder return portion of  
9 executive LTI compensation.<sup>12</sup> SPS is, however, requesting recovery of the  
10 performance-based component of the LTI program related to Xcel Energy's  
11 environmental activities for executives, which I refer to as the "environmental LTI  
12 compensation." SPS also seeks recovery of the time-based LTI compensation  
13 related to executives and non-executive participants.

14 **Q. Please generally describe the environmental goal of the LTI program.**

15 A. Some of the performance-based shares granted to executives relate to the  
16 environmental goal, which ensures strong environmental stewardship. The  
17 measurement for the environmental portion of the performance shares is the three-

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<sup>12</sup> Ms. Niemi has removed more than \$6.2 million (Total Company) from the Test Year cost of service related to executive LTI program costs for relative TSR.

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1 year average percent reduction in carbon emissions. The types of activities that  
2 affect the results are implementing renewable energy resources, promoting energy  
3 efficiency programs, and improving plant operations to reduce carbon output,  
4 among others. Because the majority of Xcel Energy's LTI compensation for  
5 executives is performance-based, payout occurs only when pre-defined  
6 performance goals are achieved. The performance shares are granted in the first  
7 year, and the average performance is measured at the end of the third year to  
8 determine the level of achievement.

9 **Q. Is it reasonable to grant rate recovery of costs related to environmental LTI**  
10 **compensation?**

11 A. Yes. The achievement of the environmental goal directly benefits customers and  
12 the public through prudently reducing air emissions and their impact on the  
13 environment. Reducing carbon emissions is a reasonable and accepted practice. In  
14 addition, the Commission has recently approved renewable wind energy projects  
15 that enable Xcel Energy to achieve its long-term goals to reduce and eliminate  
16 carbon-based energy production. The alignment of Xcel Energy's compensation-  
17 related incentive with New Mexico policy goals is further demonstrated by the  
18 policy goals reflected in New Mexico's passage of the Energy Transition Act, as

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1 well as Governor Michelle Lujan Grisham’s Executive Order 2019-003,  
2 “Addressing Climate Change and Energy Waste Prevention.” For these reasons,  
3 the costs related to achievement of the environmental component of the LTI  
4 program are a reasonable and necessary cost of providing electric service to SPS’s  
5 customers.

6 **Q. Please generally describe the time-based LTI compensation for executives and**  
7 **non-executive leadership employees.**

8 A. Time-based LTI compensation is used to attract, retain, and motivate eligible  
9 employees for the reasons I discussed earlier—it ensures that those employees  
10 engage in long-term planning for the benefit of Xcel Energy and SPS and that the  
11 employees remain with Xcel Energy long enough to implement those long-term  
12 plans. Xcel Energy accomplishes that goal by requiring a three-year vesting period  
13 for the LTI payment. LTI program participation is market driven. While only a  
14 small percentage of non-bargaining employees are eligible for this form of  
15 compensation, the LTI program is an essential portion of their total compensation.  
16 Employees that are hired into higher-level leadership positions can be expensive  
17 and time consuming to fill, which can negatively impact departments and  
18 operational and support teams.

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1           Retaining these experienced employees is critical. This group of employees  
2           has a significant impact on the direction, leadership, and decision-making within  
3           Xcel Energy and SPS. Therefore, it is imperative that the compensation value and  
4           design for these employees are comparable to the options available in the market.  
5           The study conducted by Willis Towers Watson indicated 100% of the companies  
6           included in the results offered LTI compensation as a component of their total  
7           compensation design.

8   **Q. Is it reasonable to grant rate recovery of costs related to time-based LTI**  
9   **compensation for executive and non-executive employees?**

10   A. Yes. Time-based LTI compensation ensures that employees are making long-term  
11   plans that align with strategic priorities and embarking on multi-year projects that  
12   create stability for SPS's operations. Because payment of related LTI  
13   compensation is contingent on the employee remaining with Xcel Energy for an  
14   extended period of time, it requires employee commitment beyond a single year.  
15   While this piece of the employee's total compensation makes the employee whole  
16   each year, the actual compensation is not realized until after the three-year vesting  
17   period. The costs related to time-based LTI compensation are both reasonable and  
18   necessary costs of total employee compensation for providing electric service to  
19   SPS's customers.

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

3 A. Accrual of LTI expense occurs ratably over a three-year period and, therefore,  
4 reflects LTI program plans in effect during each of the three years. Because the  
5 majority (nine months) of the Test Year is in 2020, costs for the 2018, 2019, and  
6 2020 LTI years are included in the Test Year cost of service.

7 **Q. What amounts for the LTI program were accrued for the 2020 Test Year?**

8 A. The respective accrual amounts are as follows in Table MTK-8:

9 **Table MTK-8**  
**HTY LTI Program Expense**

<b>LTI Program</b>	<b>New Mexico Retail</b>	<b>Total Company</b>
Environmental	\$492,117	\$1,636,988
Time-based	\$577,854	\$1,922,182
<b>Total</b>	<b>\$1,069,971</b>	<b>\$3,559,170</b>

10 **Q. Although SPS is not requesting recovery for executive LTI expense associated**  
11 **with Relative TSR, please explain Relative TSR and the expense for the Test**  
12 **Year.**

13 A. Relative TSR is a measure of creating shareholder value compared to the utility  
14 industry peer group. This portion of the LTI program is 50% of the LTI

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1 compensation for executive leaders. The Total Company Test Year expense for  
2 this component was \$6,225,906 (\$1,869,497 NM retail). This amount has been  
3 excluded from the request for recovery in this case; however, this is a reasonable  
4 and necessary expense related to total employee compensation.

5 **E. Recognition Program**

6 **Q. Please summarize Xcel Energy's recognition program.**

7 A. Xcel Energy's recognition program include a years-of-contribution award, a  
8 corporate recognition award, and the Spot-On Award award. The years-of-  
9 contribution award recognizes employee loyalty and cumulative career effort every  
10 five years. The corporate recognition award provides thank-you cards, nominal gift  
11 cards, small gifts, or items with the Xcel Energy logo to recognize individuals and  
12 groups of employees for extraordinary performance. The Spot-On Award award  
13 was created as a tool for managers to reward outstanding performance for  
14 non-exempt, non-bargaining employees, who are generally not eligible to receive  
15 annual incentive compensation.

16 **Q. Are AIP-eligible employees also eligible for the Spot-On Award recognition?**

17 A. No. Employees eligible for the AIP are not eligible for recognition through Spot-  
18 On awards.



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1 **Q. Is SPS's requested recognition awards amount reasonable?**

2 A. Yes. The Recognition Program allows SPS to acknowledge employment longevity  
3 and performance for eligible employees and extraordinary performance of non-  
4 bargaining, non-exempt employees using an annually determined nominal budget  
5 amount. Awards are related to SPS service over an employee's tenure or service to  
6 customer related actions.

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

9 A. Yes.

10 **F. Reasonableness and Necessity of SPS's Compensation**  
11 **Programs Overall**

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

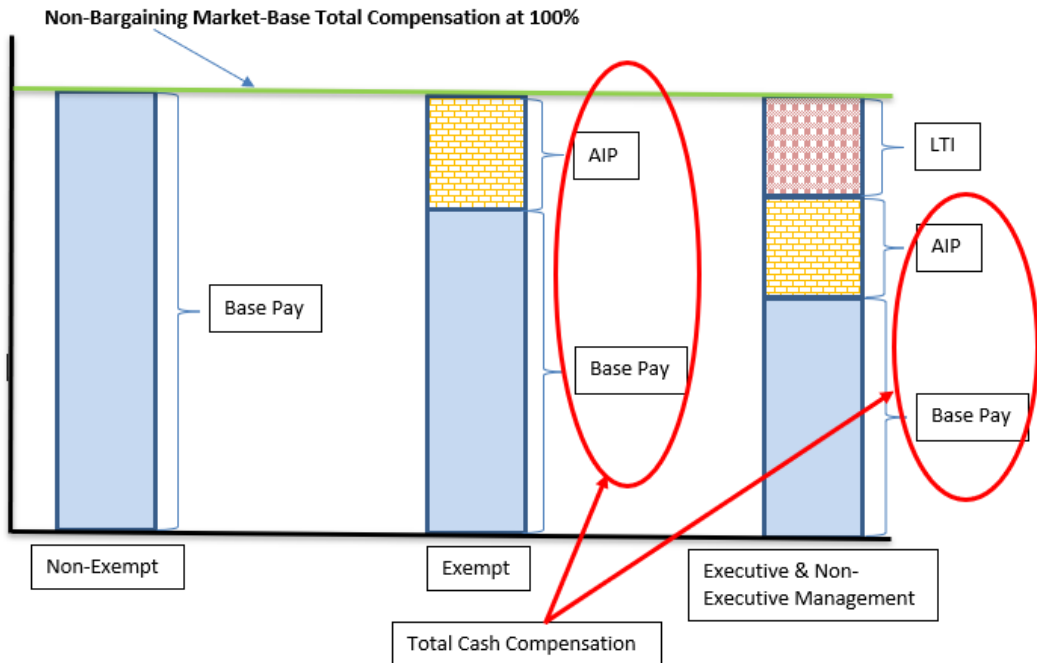
14 A. Yes. Xcel Energy uses market survey data to ensure that its total cash compensation  
15 and total direct compensation levels are consistent with the median of the market.  
16 Xcel Energy also engaged Willis Towers Watson to perform an analysis of how  
17 Xcel Energy's target total cash compensation and total direct compensation  
18 compare with the compensation of other utility companies, which I discuss below.  
19 The analysis included compensation information related to exempt and executive  
20 employees.

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1 **Q. In the previous response, you used the phrases “total cash compensation” and**  
2 **“total direct compensation.” What is the difference between those concepts?**

3 A. Total cash compensation is the combination of base pay plus short-term incentive  
4 compensation (the AIP) components, as applicable (Chart MTK-3). These two  
5 compensation components apply to all non-bargaining, exempt employees, and are  
6 the main components of the compensation package offered to a majority of these  
7 non-bargaining, exempt employees to make up all of their market-based  
8 compensation.

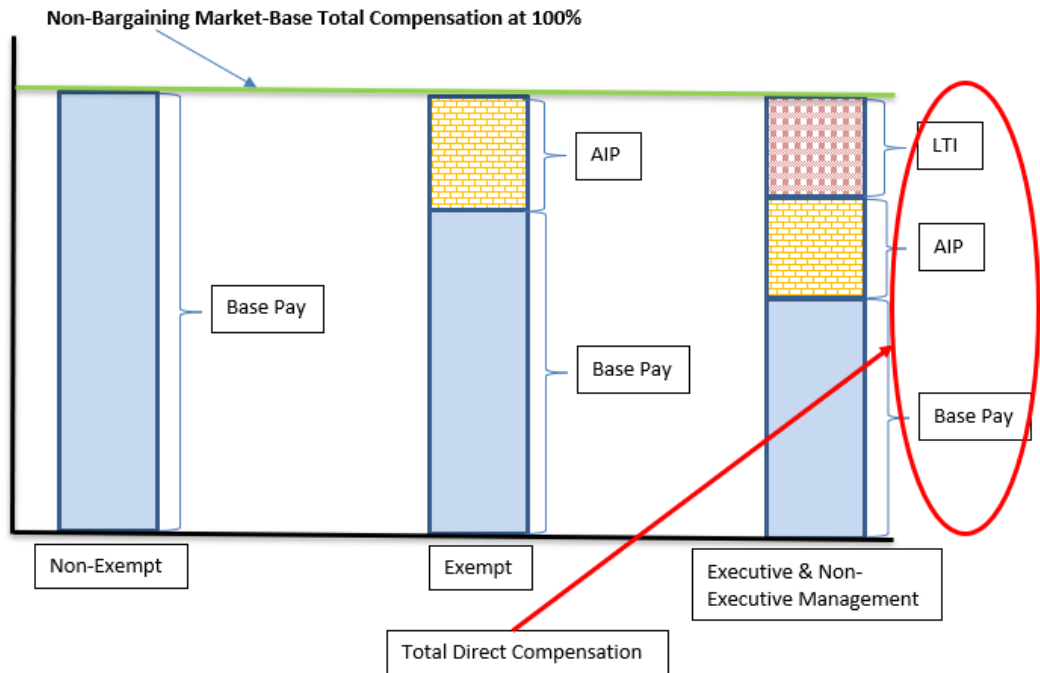
9 **Chart MTK-3: Exempt Total Cash Compensation Components**



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

10 **Chart MTK-4: Total Direct Compensation Components**



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1 **Q. Please describe the specific focus of the 2020 Willis Towers Watson**  
2 **compensation study.**

3 A. The 2020 Willis Towers Watson Compensation Study compared Xcel Energy's  
4 level of compensation to the median and average levels of compensation paid by  
5 the comparison groups. The 2020 Willis Towers Watson Compensation Study  
6 includes the following comparisons:

- 7 • Xcel Energy's total cash compensation levels, which are base salary  
8 plus target annual incentive compensation, were compared with  
9 competitive market target total cash compensation levels;
- 10 • Xcel Energy's total direct compensation levels, which are base salary  
11 plus target annual incentive compensation plus long-term incentive  
12 compensation, were compared with total target compensation levels  
13 offered in the market;
- 14 • Xcel Energy's base salary levels were compared with competitive  
15 market total base salary levels;
- 16 • Xcel Energy's annual incentive targets were compared with market  
17 annual incentive targets; and
- 18 • Xcel Energy's long-term incentive targets were compared with the  
19 market long-term incentive targets.

20 **Q. What comparison groups were used in the 2020 Willis Towers Watson**  
21 **compensation study?**

22 A. Compensation levels were compared with two sets of data. The first set of data  
23 compared Xcel Energy's compensation programs to the programs of a large number

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1 of investor-owned utilities across the nation, including those both smaller and larger  
2 than Xcel Energy. The second set of data compared Xcel Energy's compensation  
3 programs to those of investor-owned utilities similar in size to Xcel Energy based  
4 on revenue size.

5 **Q. What were the results of the 2020 Willis Towers Watson compensation study?**

6 A. As shown on Table MTK-9, the 2020 Willis Towers Watson Compensation Study  
7 finds that with the inclusion of the AIP, Xcel Energy's median total cash  
8 compensation levels are generally in line with other utilities, although they fall  
9 below market. Without the target-level AIP, the median total cash compensation  
10 provided would be well below the overall utility market, which shows that not  
11 offering the AIP would put Xcel Energy at a material disadvantage in the  
12 competition for employees.

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

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1

**Table MTK-9**  
**Market Compensation Comparisons**

<b>Components of Xcel Energy Compensation</b>	<b>Compared to Base Salaries and Incentives of U.S. Utilities (National Sample)</b>	<b>Compared to Base Salaries and Incentives of U.S. Utilities with Similar Revenues (Revenue Sample)</b>
Base Salary Only (excludes Target AIP)	Below Market by 13.0%	Below Market by 15.2%
Target Total Cash Compensation (Base Salary + Target AIP)	Above Market by 0.6%	Below Market by 1.9%
Base Salary Only (excludes Target AIP and Target LTI*)	Below Market by 19.4%	Below Market by 23.2%
Base Salary + Target AIP (excludes Target LTI*)	Below Market by 6.8%	Below Market by 11.1%
Target Total Direct Compensation (Base + Target AIP + Target LTI*)	Above Market by 3.3%	Above Market by 1.4%

2

\* Includes those eligible for LTI

3

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

4

5

6

**A.** While both the National Sample and Revenue Sample provide good points of comparison, references to utilities with revenues comparable to Xcel Energy's are

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1 more informative than comparisons to an array of utilities throughout the United  
2 States. The Revenue Sample is more informative because it is more representative  
3 of the total compensation package design for large utilities. The National Sample  
4 includes many smaller regional utilities that may not have the same total  
5 compensation design structure as Xcel Energy, as some may not include LTI  
6 compensation when they are not publicly traded companies or they reduce the total  
7 compensation package based on the overall size of their company.

8 **Q. What do you conclude from the 2020 Willis Towers Watson Compensation**  
9 **Study?**

10 A. The study illustrates that Xcel Energy's compensation structure (i.e., both base  
11 salary and the AIP) provides a market level of compensation, which confirms that  
12 SPS's requested compensation expense in the Test Year is appropriate and  
13 reasonable. The study also confirms that the target level annual incentives provided  
14 to employees through the AIP are aligned with those for similar positions in the  
15 competitive market. Without the AIP, however, Xcel Energy's total cash  
16 compensation would significantly lag behind the market by 15.2% (compared to  
17 utilities with similar revenues), which would put Xcel Energy at a material  
18 disadvantage when competing for skilled employees. For example, if SPS were

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1 authorized to recover only base pay and not also AIP costs, it would be collecting  
2 only 85% of the reasonable and necessary costs it incurs to compensate employees.

3 Additionally, the study confirms that the level of LTI compensation offered  
4 to eligible employees is both in-line with the market and a necessary component of  
5 pay for executives, other senior management and senior specialized employees to  
6 fully reach their market-based level of compensation. Similarly, the study confirms  
7 that without offering LTI, Xcel Energy's total direct compensation for those  
8 employees would lag behind the market by 11.1% compared to utilities with similar  
9 revenues.

10 In total, not offering the AIP and LTI program would significantly hamper  
11 Xcel Energy from attracting, retaining, and motivating eligible employees because  
12 the study shows the levels of compensation would be 23.2% below market  
13 competitive levels of total compensation compared to utilities with similar  
14 revenues.

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

16 A. Yes. Prospective employees with the skills and training required for the utility  
17 industry are in high demand. Many of SPS and XES jobs require strong science,  
18 technology, engineering, and math skills. Contracting firms, utilities, and other



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1 sectors of both the energy and non-energy industries need these employees, too.  
2 Thus, SPS experiences steep competition in attracting and retaining these  
3 employees.

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

8 **Q. With whom does Xcel Energy compete for employees?**

9 A. Xcel Energy principally competes for employees with utility-sector employers for  
10 utility-specific employees, as well as corporate employees, but also competes with  
11 non-utility sector employers. There are currently three investor-owned electric  
12 companies, including SPS, and 21 rural electric cooperatives in New Mexico who  
13 are competing for the same or similar industry expertise and experience.<sup>13</sup> Xcel  
14 Energy competes with the oil and gas industry for employees within this  
15 jurisdiction.

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<sup>13</sup> See New Mexico Public Regulation Commission website, Consumer Relations - Company Directory, available at <http://www.nmprc.state.nm.us/consumer-relations/company-directory.html> (last visited on Dec. 14, 2020).

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

3 A. Yes. SPS and Xcel Energy must provide a market-competitive level of total cash  
4 compensation to attract and retain the employees who provide safe and reliable  
5 electric service to SPS's customers—this includes base pay and incentive  
6 compensation. Furthermore, base pay coupled with the AIP is an appropriate  
7 method of providing market competitive total cash compensation because it  
8 includes some form of fixed base pay in addition to an incentive opportunity that  
9 requires an individual employee to perform at expected levels in order to be  
10 compensated in a competitive way.

11 To attract and retain employees at higher levels, SPS and Xcel Energy must  
12 also include LTI compensation in a competitive compensation program design.  
13 The design of the LTI program and the levels of LTI compensation offered to select  
14 groups of employees are market-based and require a greater level of commitment  
15 from these employees before this form of compensation is realized. Without this  
16 component of compensation, employees in these eligible positions would not have  
17 access to a competitively designed compensation package, and Xcel Energy would  
18 be at a great risk of not being able to attract or retain employees in these positions.

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1 Without the LTI program, Xcel Energy would be misaligned with market best  
2 practices regarding compensation plan design. However, Xcel Energy would still  
3 be required to provide competitive compensation in another manner to attract,  
4 retain, and motivate these groups of critical employees. Xcel Energy would also  
5 lose the motivational tool incentive pay provides and would not have the ability to  
6 vary employee compensation based on performance of the company or the  
7 employee.

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

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

16 Market competitive compensation is important in attracting employees  
17 with the specialized knowledge and skills necessary to provide safe and reliable  
18 electric service. Without competitive compensation, SPS would likely lose these

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1 skilled employees, resulting in added costs associated with recruitment and  
2 training, as well as a loss in productivity.

**V. BENEFIT COMPONENTS**

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

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

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

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

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

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

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

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

16 A. Through the Cash Balance Plan formula, participants earn a 5% benefit on eligible  
17 wages each year, which has interest credited annually. The interest is based on the  
18 30-year treasury rate based on November from the prior year and has no minimum

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1 guarantees. This interest bearing account acts like a savings account or a 401(k)  
2 plan and will reduce Xcel Energy's pension obligations prospectively compared to  
3 the legacy employee benefits programs.

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

6 A. In the health care arena, Xcel Energy offers employees one medical plan option,  
7 the High Deductible Health Plan ("HDHP") with a Health Savings Account  
8 ("HSA"). Non-bargaining employees and their eligible dependents are responsible  
9 for an upfront annual deductible of \$2,400 per individual or \$4,800 per family (in-  
10 network). After the deductible is satisfied, the plan covers 80% of costs, with  
11 employees or their dependents contributing 20% of costs until they reach an annual  
12 out-of-pocket maximum, which is \$3,500 per individual or \$7,000 per family.  
13 Non-bargaining employees and their eligible dependents contribute 20 to 50% of  
14 prescription drug costs. After the out-of-pocket maximum is met, the plan covers  
15 the remaining eligible medical and pharmacy expenses for the calendar year. The  
16 HSA is a tax-advantaged medical savings account that Xcel Energy offers to  
17 employees to provide a vehicle for them to save for their out-of-pocket costs under  
18 the plan.

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1           Effective May 1, 2017, as part of Union negotiations, SPS bargaining  
2 employees asked to move from the HDHP to a multi-employer union plan, called  
3 the Family Medical Care Plan (“FMCP”). This plan is managed outside of Xcel  
4 Energy.

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

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

- 10           • Xcel Energy offers a HDHP medical plan to encourage participating  
11 employees to make (1) healthier lifestyle choices; and (2) informed  
12 consumer choices when utilizing healthcare providers;
- 13           • To help mitigate pharmacy costs, Xcel Energy’s pharmacy coverage  
14 mandates that employees fill prescriptions with generic drugs when  
15 available, unless there is medical need to use a brand name;
- 16           • SPS bargaining employees hired after January 1, 2012 no longer receive  
17 post-retirement medical benefits. This change will reduce Xcel  
18 Energy’s future Other Post Employment Benefit costs prospectively;
- 19           • Vendor contracts are continually monitored and renegotiated with  
20 benefit vendors on an ongoing basis. These negotiations focus on  
21 administrative fee reductions, better performance guarantees and  
22 rebates, and improved discounts on provider networks. All contribute  
23 to our ability to minimize rising healthcare costs and benefit  
24 administration costs charged by third parties;



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- 1                   • Effective January 2017, Xcel Energy introduced a monthly premium  
2                   surcharge for non-bargaining employees for coverage of a spouse when  
3                   the spouse's employer offers medical coverage;
- 4                   • Effective April 2017, Xcel Energy outsourced the Family Medical  
5                   Leave Act administration, resulting in greater efficiencies, as well as  
6                   cost savings;
- 7                   • Effective May 1, 2017, as part of Union negotiations, SPS bargaining  
8                   employees asked to move from the HDHP to a union plan, called the  
9                   FMCP. SPS agreed because the change provided an opportunity to  
10                  mitigate costs and risk through this insured plan: and
- 11                  • Effective January 2018, Xcel Energy introduced a monthly premium for  
12                  non-bargaining employees and spouses and domestic partners who are  
13                  enrolled in the medical plan and are tobacco users.

14   **Q.    What has been the effect of these changes?**

15    A.    These changes have allowed SPS to better manage overall healthcare costs and the  
16           rate at which our costs increase. These changes have helped keep overall employee  
17           contributions to health and welfare benefits low, and the ways in which our  
18           employees access healthcare and consume healthcare services have improved. For  
19           example, we have seen improved use of urgent care facilities as opposed to hospital  
20           emergency room visits for acute injuries and illness, and we also have a very high  
21           rate of generic prescription drug use. This change in behavior has the potential to  
22           mitigate healthcare cost increases for SPS as well as our employees.

23                            Although it is difficult to identify direct savings from these changes, the  
24                            intent of the plan modifications was to mitigate cost increases on a long-term basis,

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1 in part by motivating employees to be more cost-conscious consumers of medical  
2 and dental care, and also to live healthier lifestyles. We also know that it can take  
3 time to see cost impacts resulting from program design changes and that healthcare  
4 reform presents us with some unknown impacts to our costs.

5 **Q. Has SPS done anything other than change design to contain costs of health and**  
6 **welfare benefits under the Xcel Energy medical plan?**

7 A. SPS is regularly taking steps to control costs without increasing costs to employees.  
8 In the last two years:

9 (1) We renegotiated contracts with our medical plan administrator and pharmacy  
10 administrator. These negotiations focus on reducing administrative fees,  
11 obtaining better performance guarantees and rebates, and increasing  
12 discounts on provider networks. All of these measures help mitigate the  
13 increasing healthcare costs and benefit administration costs charged by third  
14 parties.

15 (2) We examined emerging benefit designs that would continue to drive our  
16 employees and their covered family members to high quality, cost-efficient  
17 healthcare providers. We also continuously assess programs that will provide  
18 more cost-effective opportunities for employees and help drive healthy  
19 behaviors. For example, we offer a telemedicine or virtual visit option for

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1 routine medical visits, a personalized diabetes management program, and an  
2 online program to help employees manage stress. These non-traditional visits  
3 with a trained physician or other provider are convenient and provide a less  
4 expensive option for employees and SPS. In addition, the plan provides lower  
5 levels of benefits coverage for using out-of-network medical providers in  
6 order to encourage members to use in-network providers when possible.

7 (3) We have increased communications about programs we offer to control our  
8 costs by improving the overall health and welfare of our employees, including  
9 counseling and coaching for plan members who are seeking treatment for a  
10 condition, engaging plan members proactively to help modify behaviors and  
11 health risks, and providing education materials to help plan members make  
12 informed decisions.

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

15 A. Yes. Xcel Energy provides an affordable method to maintain the health of our  
16 employees, who are ultimately serving customers. Large companies, like Xcel  
17 Energy, are required by the Patient Protection and Affordable Care Act to offer full-  
18 time employees health insurance. Even before the passage of this Act, however,  
19 the vast majority of large employers offered their employees' health insurance as a

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1 standard and expected part of any employment package. By providing these types  
2 of benefits, SPS is providing a competitive package to attract, retain, and motivate  
3 the current and future employees SPS will need to provide safe and reliable service  
4 to customers.

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

6 A. Yes.

**BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION**

**IN THE MATTER OF SOUTHWESTERN )  
PUBLIC SERVICE COMPANY'S )  
APPLICATION FOR: (1) REVISION OF )  
ITS RETAIL RATES UNDER ADVICE )  
NOTICE NO. 292; (2) AUTHORIZATION ) **CASE NO. 20-00238-UT**  
AND APPROVAL TO ABANDON ITS )  
PLANT X UNIT 3 GENERATING )  
STATION; AND (3) OTHER )  
ASSOCIATED RELIEF, )  
)  
SOUTHWESTERN PUBLIC SERVICE )  
COMPANY, )  
)  
**APPLICANT.** )  
)  
\_\_\_\_\_ )**

**VERIFICATION**

On this day, December 24, 2020, I, Michael T. Knoll, swear and affirm under penalty of perjury under the law of the State of New Mexico, that my testimony contained in Direct Testimony of Michael T. Knoll is true and correct.

*/s/ Michael T. Knoll*  
\_\_\_\_\_  
MICHAEL T. KNOLL

Southwestern Public Service Company

Total Company Amounts and Jurisdictional Percentages

Line No.	Witness	Description	Page No.	Line No.	Total Company Amount	Number Scale	Allocator (Name)	TY Allocator (%)	NM Amount
1	Knoll	Section II: Bargaining Wages	6	Table MTK-1	\$ 28,334,130	dollars		*	\$ 8,547,606
2	Knoll	Section II: Non-Bargaining Base Pay	6	Table MTK-1	\$ 83,679,032	dollars		*	\$ 25,131,373
3	Knoll	Section II: Annual Incentive 2020 Target	6	Table MTK-1	\$ 6,897,501	dollars		*	\$ 2,071,161
4	Knoll	Section II: Long-Term Incentive Compensation	6	Table MTK-1	\$ 3,559,170	dollars	L-ABXAG	0.300624	\$ 1,069,971
5	Knoll	Section III: Bargaining Wages	19	3&4	\$ 28,334,130	dollars		*	\$ 8,547,606
6	Knoll	Section IV: Non-Bargaining Base Pay	25	6&7	\$ 83,679,032	dollars		*	\$ 25,131,373
7	Knoll	Section IV: Annual Incentive (AIP) Requested	43	11&12	\$ 6,897,501	dollars		*	\$ 2,071,161
8	Knoll	Section IV: Annual Incentive (AIP) 2020 Target	43	14	\$ 6,324,784	dollars		*	\$ 1,909,452
9	Knoll	Section IV: Annual Incentive (AIP) K&M Adjustment	44	2	\$ 572,717	dollars		*	\$ 161,709
10	Knoll	Section IV: Executive Environment (Component of LTI)	51	Table MTK-8	\$ 1,636,988	dollars	L-ABXAG	0.300624	\$ 492,117
11	Knoll	Section IV: Executive & Senior Exempt Time-Based (Component of LTI)	51	Table MTK-8	\$ 1,922,182	dollars	L-ABXAG	0.300624	\$ 577,854
12	Knoll	Section IV: Relative Total Shareholder Return (TSR)	52	1	\$ 6,225,906	dollars		*	\$ 1,869,497

\* In order to calculate the NM Retail Share numerous allocators were used, please see Attachment SNN-6 of Stephanie N. Niemi's Testimony for calculation.