

June 28, 2021

Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101

RE: Northern States Power Company d/b/a Xcel Energy's Annual Report on the Operation and Performance of its 2020 Incentive Compensation Plan Pursuant to the Minnesota Public Utilities Commission's Orders After Reconsideration
Docket Nos. E002/GR-92-1185; G002/GR-92-1186; and E,G002/M-21-369

Mr. Seuffert:

On May 28, 2021, Northern States Power Company d/b/a Xcel Energy (Xcel Energy or the Company) filed its annual incentive compensation compliance report for the year 2020 (the 2020 Incentive Compensation Annual Compliance Report, or 2020 Report) pursuant to the Minnesota Public Utilities Commission's (Commission) *Order After Reconsideration* dated January 14, 1994 in Docket No. E002/GR-92-1185 and dated December 30, 1993 in Docket No. G002/GR-92-1186. The Commission's Ordering Paragraphs 2 and 3 relate to Xcel Energy's electric and natural gas utilities' incentive compensation. Ordering paragraph 3 requires that:

The Company shall file a report on or before April 1, 1995^[1] and annually thereafter evaluating the operation and performance of its incentive compensation plan. The report shall include, but shall not necessarily be limited to, an accounting of all amounts paid under the plan, an accounting of all amounts recorded as earned but not paid, and an evaluation of the plan's success in meeting its stated goals, including controlling overall compensation costs.

Ordering Paragraph 2 requires that "The Company shall record for future refund all incentive compensation payments earned under the terms of the plan and recoverable in rates under this Order but not paid." The Commission noted that if the Company included such costs in rates but later did not make incentive payments, such circumstances would be seen "as an inappropriate transfer of risk from shareholders to ratepayers and as inconsistent with the test year concept on which rates are based."²

¹ The Commission approved a later filing date in its March 27, 2002 Order. The Order required "that the incentive compensation report will be due on May 31, 2002, and annually thereafter." Xcel Energy requested a later filing date since it changed the date that incentive compensation payments are made from February 1 to March 15.

² See page 7 of the *Order After Reconsideration* dated January 14, 1994 in Docket No. E002/GR-92-1185 and dated December 30, 1993 in Docket No. G002/GR-92-1186.

In its 2020 Report, based on performance for the year 2020, Xcel Energy explained that the jurisdictional amount of electric utility incentive compensation paid and eligible for recovery (which excludes annual incentive payments (AIP) over 15 percent of base pay) was \$19,189,700. Thus, the eligible paid amount was \$2,101,585 less than the recovery amount included in electric base rates, as identified on Attachment C to Xcel Energy's Compliance Report. For its natural gas utility operations, Xcel explained that the jurisdictional amount of incentive compensation paid and eligible for recovery (which excludes AIP over 25% of base pay) was \$1,238,228. Thus, the eligible paid amount exceeded the recovery amount included in natural gas base rates, also identified on Attachment C to Xcel Energy's Compliance Report.

The Minnesota Department of Commerce, Division of Energy Resources (Department) reviewed documents from the appropriate rate cases and verified that the incentive compensation included in current rates for the electric utility is \$21,291,285 and for the gas utility is \$927,885. The Department concludes that Xcel Energy used the correct comparison in support of the Company's assertion that electric service customers are due an approximate \$2.1 million refund for the incentive compensation recovered in base rates, but not paid; and that no refund is due to the gas utility customers.

The Company estimates that the refund for the typical residential electric customer will be approximately \$0.66, including interest at the prime rate.³ The Company plans to refund the excess recovered incentive pay, with interest, through one-time bill credits. As allowed in Xcel's prior refund to customers (Docket No. E,G002/M-20-516), the Company proposes to again combine the electric AIP refund with Xcel's expected property tax refund. The details for this combined refund effort will be included in Xcel's forthcoming 2020 Property tax True-up Report filing, due by July 1, 2021, in Docket No. E002/GR-15-826. The Department is supportive of Xcel's proposal to combine these two cost item refunds because it is more efficient to do so, and interest on this balance will accrue until the excess rate recoveries are refunded.

As part of its 2020 Report, Xcel provided a copy of its 2020 Incentive Compensation Program plan document.⁴ In brief, the incentives earned by participants are based on two overall performance components, Corporate and Individual.

- The 2020 corporate scorecard Key Performance Indicators (KPIs) focused on three priorities: enhancing the customer experience, keeping bills low, and safety and reliability. In 2020, the overall KPI achievement was 123.93-percent of the 100-percent target level.
- The individual component is comprised of three separate incentive opportunities: the year-end award (AIP), the "I Deliver" award and the "Innovator" award.

Rewards earned by participants are based on a combination of target weights assigned to the corporate component and to individual performance as determined by the individual managers.

³ 2020 Report, page 5.

⁴ See Attachment A to the 2020 Report.

The Company summarized its view of its Incentive Plan, stating,⁵

We believe that our compensation philosophy and continuing commitment to the goals of the Plan have positively impacted the following important parts of our business:

- Our ability to attract, retain and motivate valued employees. The incentive compensation component is part of the employee's total compensation and is considered when deciding on employment either as a new recruit or in evaluating other employment opportunities.
- Lowers the cost of our overall fixed compensation by providing an important control that links total cash compensation to business results.
- Incentivizes strong employee performance, process improvements and innovation as employees strive to earn incentive pay by delivering appropriate levels of customer service, reliability, and safety results.

The Department recommends that the Commission accept Xcel Energy's 2020 Incentive Compensation Annual Compliance Report as being compliant with the Commission's Orders. The Company will refund to electric service customers \$2,101,585 plus interest, computed monthly, using the prime rate.

The Department is available to answer any questions the Commission may have.

Sincerely,

/s/ DOROTHY MORRISSEY
Financial Analyst

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⁵ 2020 Report, pages 7-8.

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce
Letter**

Docket No. E002/GR-92-1185, G002/GR-92-1186 and E, G002/M-21-369

Dated this 28th day of June 2021

/s/Sharon Ferguson

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