

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

Direct Testimony and Schedules  
Ruth K. Lowenthal

Before the Minnesota Public Utilities Commission  
State of Minnesota

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

Docket No. E002/GR-19-564  
Exhibit\_\_\_\_(RKL-1)

**Employee Compensation and Benefits**

November 1, 2019

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

**Table of Contents**

I.	Introduction	1
II.	Overview of Recovery Request for Total Rewards Program	3
III.	Workforce Evolution and Resulting Challenges	11
	A. Changes in the Company’s Current Workforce	12
	B. Changes in the Company’s Business Model	16
	C. Labor Market Competition	19
IV.	Total Compensation	22
	A. Base Pay	24
	B. AIP	29
	C. LTI	43
	D. Compensation Study	48
V.	Active Health and Welfare Costs	53
	A. Active Health and Welfare Benefits	54
	B. Active Health, Welfare, and Retirement Benefits Study	61
VI.	Employee Retirement Programs	62
	A. Defined Benefit Plan	62
	B. Defined Contribution Plan	67
	C. Retiree Medical Expense	67
VII.	Conclusion	68

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

**Schedules**

Statement of Qualifications	Schedule 1
2017, 2018 and 2019 AIP Documents	Schedule 2
Willis Towers Watson Compensation Study (Non-Public)	Schedule 3
Dental, Vision, Life Insurance, and Disability Summary	Schedule 4
Willis Towers Watson Energy Industry Benefits Study (BENVAL <sup>®</sup> ) (Non-Public)	Schedule 5
Retirement Program Summary	Schedule 6

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

**I. INTRODUCTION**

Q. PLEASE STATE YOUR NAME AND OCCUPATION.

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

Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

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

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

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

Q. PLEASE PROVIDE A SUMMARY OF YOUR TESTIMONY.

A. To provide safe and reliable electric service for our customers, the Company must be able to attract, retain, and motivate high-quality employees. In turn, to achieve that goal, the Company must offer a package of compensation and benefits that is competitive in the market.

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 The Company has always had these responsibilities; however, an increasingly  
2 competitive talent marketplace and changes to the Company's business model  
3 to meet customers' evolving expectations have created a new and different  
4 workforce environment that the Company must address. The Company is  
5 requesting recovery of the amounts necessary to continue to be able to attract  
6 the necessary talent to meet today's needs and position us for the future.

7  
8 Recognizing that our costs impact our customers, we have made a concerted  
9 effort to manage our total rewards programs in a strategic and cost effective  
10 fashion. For example, we have built on previous efforts and placed even  
11 greater emphasis on strengthening the link between employee pay and  
12 performance. The Company has also taken steps to reduce benefits costs.  
13 For example, we have monitored and renegotiated with all of our major health  
14 and welfare vendors and implemented programs to balance the cost of our  
15 health plans to charge more for employees who make choices that drive  
16 expense. For example, a monthly surcharge for tobacco users, a monthly  
17 surcharge for coverage of a spouse when the spouse's employer offers medical  
18 coverage, and mandates for employees to use generic prescription drugs.  
19 Despite these efforts, costs related to health and welfare programs continue to  
20 rise.

21  
22 In summary, we are requesting to recover the costs necessary to allow the  
23 Company to maintain and invest in our most important assets, our people, so  
24 that they can provide safe and reliable electric service for our customers.

25  
26 Q. HOW IS YOUR TESTIMONY STRUCTURED?

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

A. In Section II, I describe the Total Rewards Program and the components for which the Company is and is not seeking recovery. In Section III, I provide information about changes underway in the Company's workforce, the Company's business model, and the overall labor pool. In Section IV, I provide additional information about base pay and forms of incentive compensation. In Section V, I describe the Company's cost to provide our active employees with health and welfare benefits. In Section VI, I describe the retirement benefits the Company offers.

**II. OVERVIEW OF RECOVERY REQUEST FOR TOTAL REWARDS  
PROGRAM**

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

A. The Total Rewards Program includes the following components:

- *Total Compensation* consisting of base pay, the Annual Incentive Program (AIP), Long-Term Incentive Program (LTI), and a recognition program for non-exempt (hourly) employees.
- *Active employee health and welfare programs* primarily consisting of medical, pharmacy, dental, disability, vision, and life insurance coverage for our active (as opposed to retired) employees and their families, plus employee long-term disability and workers' compensation.
- *Retirement package* consisting of a defined benefit pension plan, a defined contribution 401(k) savings plan, and retiree medical benefits for employees who retired prior to the year 2000.

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

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

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

**Table 1  
Total Rewards Program Costs**

Expense Amount for State of MN Electric Jurisdiction O&M (\$000s)				
Type of Benefit	2019 Forecast	2020 Test Year	2021 Plan Year	2022 Plan Year
AIP*	\$22,256	\$23,738	\$24,428	\$25,174
LTI**	\$2,833	\$1,940	\$2,009	\$2,119
Qualified Pension	\$21,399	\$20,957	\$20,378	\$19,781
401(k)	\$9,260	\$9,314	\$9,553	\$9,809
Active Health	\$33,531	\$34,548	\$35,966	\$37,506
Misc. Ben., Life, LTD	\$4,015	\$3,875	\$3,925	\$3,993
Retiree medical	\$1,104	\$1,267	\$1,139	\$1,040
Spot On Award Recognition	\$197	\$212	\$217	\$221

\* Amount accounts for limitations we have placed on our request for recovery.

\*\*Environmental component

- Q. HOW DO THOSE TEST YEAR AND PLAN YEAR AMOUNTS COMPARE TO ACTUAL TOTAL REWARDS PROGRAM COSTS IN PRIOR YEARS?

- A. The actual amounts of Retirement and Health and Welfare program costs for prior years, the 2020 test year, and the plan years are shown in Schedule 2 of the Direct Testimony of Company witness Mr. Richard R. Schrubbe. Table 4 below shows a prior year AIP comparison.

- Q. IS THE COMPANY SEEKING TO INCLUDE ALL OF THE COSTS OF THE TOTAL REWARDS PROGRAM IN ITS TEST YEAR COST OF SERVICE?

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

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

- 3 • Long-term incentive compensation related to Total Shareholder Return
- 4 and Time-Based grants;
- 5 • Non-qualified pension benefits; and
- 6 • Supplemental Incentive Program (SIP).

7  
8 Q. HAS THE COMPANY LIMITED ITS REQUEST TO RECOVER THE COST OF THE  
9 ANNUAL INCENTIVE PROGRAM (AIP)?

10 A. Yes, we have limited our request for AIP cost recovery in several ways.  
11 Consistent with past practice, we are requesting recovery of only the target level  
12 incentive amount, subject to capping mechanisms. So, if our employees  
13 perform beyond their specific goal targets and the Company performs better  
14 than the established operational goals, our customers receive this added benefit  
15 at no extra cost. Please see the Direct Testimony of Company witness Mr.  
16 Benjamin C. Halama for a description of this AIP adjustment.

17  
18 Second, we are requesting rate recovery of these incentive compensation costs  
19 subject to capping mechanisms; specifically, a four-year average payout of AIP,  
20 capped at 100 percent of the given performance target, and limited to a cap of  
21 20 percent of aggregate base pay. This cap continues to implement the  
22 Commission's original intent<sup>1</sup> of excluding recovery of part of the cost of  
23 providing incentive compensation to executives.

24  

---

<sup>1</sup> Docket Nos. E002/GR-92-1185 and G002/GR-92-1186.



**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 Finally, we are proposing to retain a modified version of the current refund  
2 mechanism that would provide customer refunds if actual overall incentive  
3 compensation payouts are lower than the test or plan year levels approved in  
4 rates. By including this previously approved Commission safeguard, we are able  
5 to balance the interests of our customers with our need to attract, retain, and  
6 motivate our employees by paying market-competitive compensation.

7  
8 Q. IN PREVIOUS RATE CASES, THE COMPANY HAS CAPPED AIP COST RECOVERY AT  
9 15 PERCENT OF AGGREGATE BASE PAY. IN THIS RATE CASE, THE COMPANY IS  
10 PROPOSING TO CAP RECOVERY AT 20 PERCENT OF AGGREGATE BASE PAY.  
11 WHY IS THE COMPANY PROPOSING THIS CHANGE?

12 A. In its last rate case, the Company agreed to cap AIP cost recovery at 15  
13 percent of aggregate base pay in order to limit disputed issues. Capping  
14 recovery at that level, though, has created a situation in which the Company is  
15 materially under-recovering our expenses at the same time we are trying to  
16 attract, retain, and motivate employees in a challenging marketplace for  
17 attracting talent (as detailed below). This situation is not sustainable.

18  
19 Currently, the cap impacts the Company's recovery of compensation costs for  
20 employees at the manager and director levels of the Company. Incentive pay  
21 for these jobs is 20-30 percent of the employee's overall cash compensation.  
22 The current cap of 15 percent removes over 25 percent of the AIP target  
23 opportunity dollars from the Company's recovery request for this non-  
24 executive group of employees. These funds are necessary to allow the  
25 Company recovery of the costs necessary to attract and retain these employees  
26 in our competitive job market.

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1       There is recent Commission precedent for approving this request. In  
2       Minnesota Power's last rate case, the Commission ordered approval of that  
3       company's proposed short-term incentive capped at 20 percent of base  
4       salaries. (Docket No. E015/GR-16-664.) As the Commission noted,  
5       "[p]articularly important is the fact that, without AIP, Minnesota Power's total  
6       cash compensation for eligible employees would be below the market rate."  
7       As detailed further below, that is precisely the Company's situation at this  
8       time.

9  
10      In fact, there is Commission precedent for a cap of even higher than 20  
11      percent of base pay. For example, in 2016, the Commission allowed  
12      CenterPoint Energy to recover short-term incentive compensation capped at  
13      25 percent of base pay. (Docket No. G008/GR-15-424.) In 2018, when  
14      CenterPoint Energy agreed to cap short-term incentive compensation at 15  
15      percent of base pay, it did so as part of a global settlement of outstanding  
16      issues.

17  
18      In summary, based on the Commission's precedent and the Company's need  
19      to attract, retain, and motivate employees in order to meet our commitments  
20      to our customers, we believe that recovery of short-term incentive costs  
21      capped at 20 percent of base pay would be reasonable.

22  
23      Q. ARE YOU PROPOSING A CHANGE TO THE AIP REFUND MECHANISM?

24      A. Yes. As mentioned above, we are proposing a clearer and more  
25      straightforward version of the refund mechanism that would simply provide  
26      customer refunds if the actual overall incentive compensation payouts are

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 lower than the test or plan year levels approved in rates, with no additional  
2 calculations or adjustments.

3  
4 Additionally, we propose that any actual bill credit/refund to customers  
5 occurs only after a minimum cumulative refund threshold is reached. All  
6 refund amounts would be tracked and would be paid or credited upon  
7 meeting this established threshold. For example, in a past matter the  
8 Commission established a \$1 threshold for refunds to a customer.<sup>2</sup>  
9 Previously, the Company has been required to return amounts as low as \$0.01  
10 to customers, an obligation that created a significant administrative cost.

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

14 A. Yes. The Company is undertaking an industry-leading initiative to eliminate  
15 all carbon emissions by 2050. To attract, retain, and motivate the leadership  
16 necessary to achieve this important goal, the Company is requesting the cost  
17 of performance shares relating to Xcel Energy's environmental activities for  
18 executives, which I refer to as the "environmental LTI." We acknowledge  
19 that this is a change from our requests in previous rate cases, but we believe  
20 the request is just and reasonable because it aligns our incentives for  
21 leadership personnel with state policy goals. We are not seeking recovery for

---

<sup>2</sup> *In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota*, Docket No. G007, 011/ GR-10-977, FINDINGS OF FACT, CONCLUSIONS, AND ORDER; (July 13, 2012); page 30. ("MERC may track the annual amounts to be refunded and make the refunds only after they reach \$1 per customer.")

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 the cost of LTI related to Total Shareholder Return and Time-Based LTI.<sup>3</sup> I  
2 discuss LTI in greater detail later in my testimony.

3  
4 Q. WHY IS THE COMPANY LIMITING ITS REQUEST IN THE WAY YOU DESCRIBE?

5 A. The Company is limiting its request in an effort to reduce the number of  
6 contested issues in this case. By doing so, we believe we can identify the  
7 proper amount of recovery of our costs of compensation, consistent with  
8 Commission precedent. Our proposal better aligns our actual costs of  
9 compensating our employees – and meeting our and the State’s policy goals –  
10 with previous Commission decisions. Additionally, we believe our proposals  
11 to modify the AIP cap and refund mechanism will better align our rate  
12 recovery with the costs we incur to retain talented and motivated employees.

13  
14 Q. ARE THERE IMPACTS TO THE COMPANY’S OPERATIONS IF THE COMPANY DOES  
15 NOT RECOVER THE COSTS OF THE TOTAL REWARDS PROGRAM AS REQUESTED?

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

22  
23 With that said, under-recovery of the compensation and benefits costs we  
24 have requested in this case does impact our ability to attract and retain talent.

---

<sup>3</sup> Mr. Halama discusses the approximately \$15.3 million adjustment to the cost of service related to LTI costs for Relative Total Shareholder Return and Time-Based components.

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 To the extent we are not fully recovering the amounts requested, we must go  
2 beyond cost control and seek to find ways to further reduce compensation  
3 levels in ways that can affect our ability to attract and retain talented  
4 employees. I note, however, that these mitigation measures are not necessarily  
5 a dollar for dollar reduction in the compensation areas where we under  
6 recover. Rather, we seek to find ways to address under recovery in the least  
7 impactful way possible. Over time, this affects our ability to meet the  
8 compensation and benefits requirements that our employees require.

9  
10 Q. COULD YOU PROVIDE AN EXAMPLE OF TOTAL REWARDS PROGRAM CHANGES  
11 DRIVEN BY UNDER RECOVERY?

12 A. Yes. Regarding compensation and benefit levels, limited recovery of our  
13 compensation design elements degrades our ability to compete for those  
14 employees with other companies who pay at or above market compensation  
15 levels. For example, we are currently able to offer our new employees health  
16 and welfare benefits generally comparable to our industry peers, but our  
17 retirement benefit for new hires is inferior to that of our peers. We made the  
18 change to that benefit in order to hold down costs, but this puts us at a  
19 disadvantage when we are trying to attract new candidates. If we had  
20 recovered past requests in full and retained this benefit, we would be better  
21 positioned in the market today.

22  
23 Q. WHAT DO YOU CONCLUDE ABOUT YOUR TOTAL REWARDS PROGRAM COST  
24 RECOVERY REQUEST IN THIS CASE?

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

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

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

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

14 A. As I discuss later in my Direct Testimony, the Company benchmarks its  
15 compensation and health and benefit plans to the industry to determine if it is  
16 paying competitive compensation. The results of these studies indicate that  
17 the Company's compensation is in-line but on the low end of the market.  
18 This demonstrates not only that our costs are reasonable, but also that our  
19 recovery request is reasonable.

20  
21 **III. WORKFORCE EVOLUTION AND RESULTING CHALLENGES**

22  
23 Q. ARE THERE CHANGES UNDERWAY THAT IMPACT THE COMPANY'S CURRENT  
24 WORKFORCE, THE GENERAL LABOR POOL, AND THE COMPANY'S BUSINESS  
25 MODEL?

26 A. Yes. Material changes are occurring regarding each of these dynamics.  
27 Therefore, the Company is taking a variety of steps to help ensure it can

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

continue attracting, retaining, and motivating high-quality employees, thereby enabling it to keep providing safe and reliable electric service for our customers. A competitive Total Rewards program is a key element of our ability to attract talent to allow us to provide safe, reliable, and affordable energy to our customers.

**A. Changes in the Company's Current Workforce**

Q. WHAT CHANGES ARE OCCURRING IN THE COMPANY'S CURRENT WORKFORCE?

A. A significant portion of the Company's workforce is already eligible for retirement, and more than 40 percent of our workforce will be eligible to retire over the next ten years. Furthermore, many of our employees are viable candidates for other companies in the energy industry, as well as general industry, because of the experience, knowledge and skills they have acquired while working for the Company. This means that we are expecting attrition levels to increase from 2019 during the test year and the plan years.

Q. WHAT LEVEL OF ATTRITION DO YOU EXPECT WITHIN THE COMPANY?

A. For the last several years our attrition rate has been about 7 percent, on average, but these rates are projected to be roughly 7.7 percent per year through 2023 as shown in Table 2:

**Table 2  
Company Attrition by Year**

2016	2017	2018	2019*	2020*	2021*	2022*	2023*
5.7%	9.4%	6.7%	6.4%	7.8%	7.7%	7.7%	7.7%

\* Includes actual numbers through July 2019 and is trended through year end.  
Simulated attrition through 2019. Simulated projections from 2020-2023.

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 Annual attrition in this range means that we could turn over as much as half  
2 of our workforce every seven or eight years. That level of attrition means we  
3 need to hire, train, and retain new employees and ensure that retiring  
4 employees transfer knowledge effectively to newer employees.

5  
6 Our goals to provide customer options in a changing utility environment will  
7 continue to require a skilled and experienced workforce with additional  
8 competencies. Developing these employees will take time and require  
9 competitive opportunities to cultivate these employees while providing new  
10 offerings and total rewards designs.

11  
12 Q. WHAT STEPS IS THE COMPANY TAKING TO HELP ENSURE IT MAINTAINS A  
13 SKILLED AND KNOWLEDGEABLE WORKFORCE?

14 A. The Company has knowledge transfer tools in place to prepare for ongoing  
15 retirements. We develop our employees through various utility apprenticeship  
16 programs and technical skills training opportunities, along with knowledge  
17 documentation efforts and leadership training offerings to maintain  
18 operational knowledge and to develop our employees.

19  
20 Q. DO THESE INITIATIVES ENSURE THAT THE COMPANY WILL BE ABLE TO OFFSET  
21 THE EFFECTS OF ATTRITION?

22 A. No. These initiatives will help us preserve and transfer knowledge, but they  
23 must be offered in tandem with a competitive Total Rewards Program  
24 package to attract and retain employees.

25  
26 Q. WHAT EFFORTS HAS THE COMPANY UNDERTAKEN IN LIGHT OF THIS?



**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 A. The Company has developed several creative ways to enhance our recruiting  
2 efforts. For example, we have an award-winning program expressly designed  
3 to recruit and hire veterans of the United States Armed Forces.<sup>4</sup> We actively  
4 recruit veterans because their skills, leadership, high performance standards,  
5 commitment to teamwork, and work ethic all translate well to a utility  
6 environment. Currently, about 10 percent of Xcel Energy's employees are  
7 military veterans, with many represented in management.

8  
9 The Company has also built relationships with several universities, colleges,  
10 technical schools and high schools across all of our jurisdictions to introduce  
11 career opportunities and to help build pipelines of talent with the various  
12 skillsets necessary for the future.

13  
14 Q. WHAT ARE SOME EXAMPLES OF THIS?

15 A. One example of how the Company works to attract a diverse workforce and  
16 get students interested in careers in energy is our Legacy I<sup>3</sup> Program. Legacy  
17 I<sup>3</sup> is designed to help students who are native to an area become aware of  
18 energy as a career and adopt the skills and qualities that will make them high-  
19 quality job candidates for the industry. We started this program in the  
20 summer of 2016 specifically targeting students to enter the Electrical  
21 Lineworker program at Dakota County Technical College (DCTC). The  
22 Legacy I<sup>3</sup> model works by engaging diverse and local high school students and  
23 their parents with industry mentors in a long-term, holistic approach that  
24 focuses on helping them improve their job preparation and job seeking skills

---

<sup>4</sup> Xcel Energy was named one of GI Jobs' Top 100 Military Friendly Employers for the last eight years and Best for Vets employer by Military Times four consecutive years.

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

(such as resume writing and interviewing) and assisting them in leveraging existing community support resources. Legacy I<sup>3</sup> teaches students and their families about the energy industry, creating a positive image of the industry and building excitement about possible career paths. It provides character and skills training and connects families with community-based agencies that provide support services such as financial training, English language classes, GED classes, and links to financial assistance.

Another example of how the Company has creatively worked to attract a diverse workforce is through its scholarship program. The Company currently provides scholarship dollars to the Minnesota Private Scholarship Fund. Student resumes are reviewed by Xcel Energy managers for consideration for scholarships in the areas of engineering, IT, marketing and HR. Students must meet scholarship requirements such as GPA, financial need and be a student of color. Once the candidates are chosen to be scholarship recipients, they are notified of open internship opportunities and are invited to apply. We also offer the students in Right Track, Step Up and our Legacy I<sup>3</sup> programs the opportunity to apply for scholarships.

The Company also partners with two Twin Cities high school summer internship programs, Right Track in St. Paul and Step Up in Minneapolis. We generally hire 25-35 high school students each year as summer interns in Minnesota.

Q. WHAT HAVE BEEN THE RESULTS OF THESE EFFORTS THUS FAR?

A. Since the launch of the Legacy I<sup>3</sup> Program, four students of color have graduated from the DCTC line worker program in the summer of 2019. They

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 were the first students of color to ever graduate from the program. The  
2 program is now in six Twin Cities high schools, and we currently have five  
3 students working for us as interns, two students have been hired as full-time  
4 employees and two have been hired as contractors.

5  
6 Through the scholarship program we have awarded 41 scholarships since  
7 2016. Twelve scholarship recipients have interned at Xcel Energy. We have  
8 four scholarship recipients currently employed as interns, and to date, four  
9 have been hired as full-time employees.

10  
11 **B. Changes in the Company's Business Model**

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

14 A. Customers are already expecting more than just reliable and affordable electric  
15 service. They expect a broad array of energy-related products and services  
16 that meet their specific needs and the ability to communicate and interact with  
17 the Company through a variety of methods. To meet these expectations, over  
18 the next decade we expect significant changes across all aspects of our  
19 business. We will shift our generation mix from primarily fossil-fuel based to  
20 primarily carbon-free. We will shift our power grid to move from central  
21 generation and one-way power flow to more distributed generation with two-  
22 way power flow. Each of these changes will impact the number of workers  
23 we will employ and the skills and mindsets we need them to bring to the table.

24  
25 Q. WHAT IMPACT DO YOU EXPECT THESE CHANGES WILL HAVE ON THE  
26 WORKFORCE?

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 A. Our employees will need to develop new skillsets. For example, we will  
2 collect, analyze, and make decisions based upon increasingly large sets of data.  
3 Accordingly, we will need to hire specialized data scientists and fully train our  
4 employees to manage automated processes since we expect many of our  
5 professional positions will use automated processes to complete repetitive  
6 low-value work to focus on higher-value, more consultative work.

7  
8 As another example, where we once had a labor-intensive power plant  
9 footprint, we are transitioning to lower-maintenance wind and solar farms.  
10 Where employees were accustomed to fixing things with their hands,  
11 technology will now be more prominent in the work. Our customer service  
12 agents will continue to answer phones and solve problems and will also need  
13 to be equipped to offer more products and services and engage with  
14 customers in new ways. We will still need field workers that do construction,  
15 maintenance, storm restoration and the like. But, they will have to perform  
16 their jobs in a rapidly changing, customer-centric environment.

17  
18 Q. WHAT ARE SOME OF THE SPECIFIC SKILLSETS THAT WILL BE REQUIRED TO  
19 SUPPORT THE FUTURE GRID AND OUR JOURNEY TO A CLEAN ENERGY FUTURE?

20 A. There will be a wide variety of new skillsets and expertise required. Some  
21 examples include:

- 22 • Ability to oversee and direct day-to-day smart metering network;
- 23 • Technical skills specific to renewable energy (operations, systems, data,  
24 and process);
- 25 • Supervisory Control and Data Acquisition (SCADA) technical skills;
- 26 • Engineering skills on the forefront of the energy sector;

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

- Ability to install and maintain communication enabled equipment and systems;
- Control system installation and design mapping; and
- Outage and emergency response within a new platform, process, and system infrastructure.

Q. WHAT IS THE COMPANY DOING TO BUILD THESE SKILLSETS IN EXISTING EMPLOYEES?

A. The Company is working to help ensure our employees have the capabilities, skills, and behaviors that our carbon-free vision will require, while investing in the employee's economic value within the community. This effort will prepare employees for the carbon-free working environment of the future and equip the employee and community for success during this period of rapid technological change. To achieve our goals, the Company has implemented both strategic and tactical initiatives. Each initiative is structured to ensure the training and employee development is designed and deployed as efficiently and effectively as possible. Strategic efforts are underway that will ensure the Company's global training needs are prioritized, cost-efficient and effective.

Q. CAN YOU PROVIDE AN EXAMPLE OF THESE EFFORTS?

A. We have recently created the Enterprise Learning Organization (ELO) to modernize learning and develop communities of practice. The Company has introduced a strategy to build upon the existing learning curriculum and infrastructure. In addition to hundreds of functional and professional development courses, the ELO has introduced new online curriculum opportunities. These offerings are designed to support the employee in the

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 time and place of need and take the form of technically enabled instructor-led  
2 training and virtual real-time engagements.

3  
4 The ELO develops professionally relevant training content to equip the  
5 Company's workforce for the rapidly changing working environment while  
6 creating sought after skills valued within the local community.

7  
8 **C. Labor Market Competition**

9 Q. PLEASE DESCRIBE AT A HIGH LEVEL THE CURRENT COMPETITION IN THE  
10 LABOR MARKET.

11 A. Prospective employees with the specific skillsets and training required for  
12 technical or specialized careers are in high demand. There is a limited pool of  
13 candidates, and the Company competes for them on a national, regional, and  
14 local basis. Due to the unique nature of many of our highly technical utility  
15 jobs, we need to hire experienced employees that can perform in their roles  
16 immediately upon starting, as opposed to being able to use entry-level  
17 employees who can grow into their roles.

18  
19 Q. WHAT KINDS OF EMPLOYERS DOES XCEL ENERGY COMPETE AGAINST FOR  
20 QUALIFIED EMPLOYEES?

21 A. Xcel Energy competes for talent within both the utility and the non-utility  
22 sectors. Utility sector competition generally takes place for jobs specific to  
23 utility operations and the delivery of utility services, such as engineers, plant  
24 operators, technicians, welders, and machinists. We also compete with other  
25 utilities for corporate employees such as technical trainers and load  
26 forecasters. In addition, we compete with non-utility employers for jobs that  
27 are not specific to utilities, such as finance and accounting analysts, marketing

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

analysts, designers, information technology specialists, human resource generalists, and customer service representatives.

Q. PLEASE DESCRIBE THE LABOR MARKET IN MINNESOTA.

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

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

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

Q. WHAT IMPACT HAS THE REGIONAL LABOR MARKET HAD ON THE COMPANY?

A. Minnesota had a 3.3 percent unemployment rate in August 2019, below the national average of 3.7 percent, according to the U.S. Bureau of Labor

---

<sup>5</sup> See <https://mn.gov/deed/ed/why-mn/mn-companies/> (accessed on Aug. 14, 2019).

<sup>6</sup> See <https://mn.gov/puc/consumers/help/utility/> (accessed on Aug. 14, 2019).

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1       Statistics.<sup>7</sup> The robust job market in neighboring states has increased the  
2       competition for employees. In August 2019, the unemployment rate in North  
3       Dakota was 2.4 percent (second lowest in the country), in South Dakota was  
4       2.9 percent (eighth lowest in the country), and in Wisconsin was 3.1 percent  
5       (thirteenth lowest in the country).<sup>8</sup> Ensuring a market competitive  
6       compensation and benefits package allows us to compete for talent in these  
7       tight labor markets.

8  
9       Q.   AND AT THE NATIONAL LEVEL?

10      A.   There are several developments within the national labor market worth noting.  
11       The nuclear industry is facing a shortage of workers possessing the specific  
12       skills and experience on specialized equipment that come from working in the  
13       industry. Accordingly, we must vigorously compete for nuclear operations  
14       employees. This dynamic has caused, and will continue to cause,  
15       compensation expectations of nuclear professionals to rise more quickly than  
16       the expectations of other professionals. There will be increased pressure  
17       going forward to match perceived compensation levels and to attract  
18       employees with what they believe is a competitive offer.

19  
20       In addition, there is a highly competitive national market for skilled talent with  
21       cybersecurity experience, but there is a limited pool of qualified candidates.  
22       Cyberattacks on information systems are becoming increasingly common.  
23       Successful attacks significantly impact businesses by interrupting service and

---

<sup>7</sup> See <http://www.bls.gov/web/laus/laumstrk.htm> (accessed on Sept. 26, 2019).

<sup>8</sup> *Id.*



**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 causing customers to lose confidence in the Company if a data breach or  
2 unplanned outage were to occur.

3  
4 Xcel Energy has more than 50 critical systems that are deemed to be required  
5 for delivery of our electric and gas services, satisfaction of regulatory  
6 compliance requirements, and continuation of core business functions.

7  
8 To defend against emerging threats, the Company must continue hiring  
9 technologically-savvy employees who can build a vigilant culture and deploy  
10 defensive technology. We are competing for these employees with other  
11 businesses who are facing similar threats to their information systems.  
12 Ensuring market competitive compensation and benefits are being offered to  
13 these employees provides us the basis to compete for this needed talent.

**IV. TOTAL COMPENSATION**

14  
15  
16  
17 Q. WHAT COMPENSATION COMPONENTS ARE NON-BARGAINING EMPLOYEES  
18 ELIGIBLE TO RECEIVE?

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

- 21 • Base pay, which is market-based;
- 22 • AIP;
- 23 • LTI compensation; and
- 24 • Recognition awards.

25 The respective compensation components vary by employee. The sum of the  
26 components provides each non-bargaining employee with 100 percent of the  
27 market-based compensation, on average, relative to his or her job.

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1  
2 Q. WHY DO THE COMPENSATION COMPONENTS VARY BY EMPLOYEE?

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

12  
13 Q. ARE THE TOTAL COMPENSATION PACKAGES STRUCTURED THE SAME FOR ALL  
14 NON-BARGAINING EMPLOYEES?

15 A. No. While non-exempt employees, as described above, receive their total  
16 compensation through base pay, exempt employees receive incentive  
17 compensation to reach their market-based level of total compensation. All  
18 non-bargaining, exempt employees are eligible to receive AIP, and a smaller  
19 subset of exempt employees receive LTI in order to reach their market-based  
20 level of total compensation.

21  
22 This competitive market-based compensation program design is similar to  
23 other employers the Company competes with for employees. This design  
24 reflects an intentional decision to align compensation opportunities with an  
25 employee’s level of responsibility and influence on the Company’s operations.  
26

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

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

5  
6 Q. WHAT COSTS FOR COMPENSATION HAS THE COMPANY INCLUDED IN THE 2020  
7 TEST YEAR AND 2021 AND 2022 PLAN YEARS?

8 A. The components of compensation in the test year are base pay (including  
9 PTO), AIP, LTI (Environmental LTI only) and our Spot-On Award  
10 Recognition program. In combination, these components compensate  
11 employees at a level that is consistent with the market. I will describe each of  
12 them in the following subsections.

13  
14 **A. Base Pay**

15 Q. HOW ARE BASE PAY AMOUNTS ESTABLISHED FOR NON-BARGAINING  
16 EMPLOYEES?

17 A. The Company undertakes a comprehensive evaluation process for each non-  
18 bargaining position using external market data obtained from independent  
19 third-party compensation surveys to ensure its non-bargaining employee  
20 compensation levels are comparable to the market. To develop an apples-to-  
21 apples comparison, the Company must first match the job responsibilities of  
22 the Company's positions to the job responsibilities of the positions within  
23 other companies that compete with the Company for employees. After that,  
24 the Company considers data from a variety of surveys, including data for both

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 utility and non-utility companies.<sup>9</sup> The 50th percentile (that is, the median) is  
2 then used to determine the appropriate pay range for a position. After an  
3 appropriate pay range is determined, the components of the compensation  
4 package are broken up among base pay, AIP, SIP, and LTI, as applicable. By  
5 approaching compensation in this manner, the Company can ensure that its  
6 total compensation levels are comparable to the market and, thus, that those  
7 costs are set a reasonable level.

8  
9 Q. HOW DOES A NON-BARGAINING EMPLOYEE EARN AN ANNUAL BASE PAY  
10 INCREASE?

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

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

24  

---

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

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 I note that annual non-bargaining base pay increases are not cost-of-living  
2 increases. The Company does not provide any separate cost-of-living raise.

3  
4 Q. HOW DOES THE COMPANY DETERMINE THE ANNUAL BUDGET FOR BASE PAY  
5 INCREASES?

6 A. For non-bargaining employees, we initially budget for annual base pay  
7 increases on a five-year, forward-looking basis. Each year, we refine the  
8 budget using our current workforce information (including attrition and  
9 attraction estimates) and each employee's base pay at that time. We then  
10 calculate the budgeted annual base pay increase for the following five years  
11 using target percentage values that are based on several factors, including:

- 12 • Review of external market surveys regarding base pay increases;
- 13 • Comparison of compensation of non-bargaining employees to potential  
14 or negotiated wage increases for our bargaining employees;
- 15 • Economic conditions; and
- 16 • Company performance.

17  
18 By balancing these considerations, we develop a budgeted annual base pay  
19 increase that allows us to meet our hiring and retention challenges while being  
20 fair and reasonable to our employees and customers.

21  
22 For bargaining unit employees, the general wage increases are part of the  
23 negotiation process and are included in the collective bargaining agreements.

24  
25 Q. DOES THE BUDGET INCLUDE PTO?

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

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

4  
5 Q. WHAT IS INCLUDED IN THE 2020 TEST YEAR AND 2021 AND 2022 PLAN YEAR  
6 BUDGETS FOR BASE PAY INCREASES FOR NON-BARGAINING EMPLOYEES?

7 A. We included the costs budgeted for providing non-bargaining employees with  
8 2020 annual base pay increases equal to a 3.0 percent increase in base pay.  
9 Based on recent trends, we anticipate base pay will continue to rise at  
10 approximately 3.0 percent in 2021 and 2022, as well.

11  
12 Q. HOW WAS THE BUDGET CALCULATED FOR THE 2020 TEST YEAR AND 2021 AND  
13 2022 PLAN YEARS?

14 A. We used the headcount and base pay in effect as of May 2019 and applied a  
15 3.0 percent increase to those values for each respective year.

16  
17 Q. WHY IS A THREE PERCENT BASE PAY INCREASE FOR NON-BARGAINING  
18 EMPLOYEES APPROPRIATE?

19 A. The Company regularly compares its total cash compensation levels, base pay  
20 increases and programs to those of other companies, including other utilities  
21 and non-utilities. Surveys demonstrate that a three percent increase in base  
22 pay is comparable to what the market is projecting for 2020. In particular, five  
23 different survey sources<sup>10</sup> project 2020 base pay increases to fall within the  
24 following ranges:

---

<sup>10</sup> WorldatWork "2018-2019 Salary Budget Survey"; The Conference Board "2019 Salary Increase Budget Survey Results"; Willis Towers Watson, "2018 General Industry Salary Budget Survey"; Mercer

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

- 3.0 - 3.2 percent for all utilities on a national basis; and
- 2.9 - 3.3 percent for all companies on a national basis.

These independent surveys include a comprehensive representation of many companies, both in the utility and general industry. The number of companies participating in the surveys ranges from 258 to 1,908. Using numerous salary increase survey sources provides us with reliable data on the salary increase trends in the market.

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

A. Xcel Energy's exempt, non-bargaining compensation already lags the market by 1.7 percent when comparing base pay plus incentive, according to the Willis Towers Watson compensation study described in more detail later in my testimony. If the Company does not maintain a yearly market-competitive program, the gap between the Company's compensation level and market-based compensation level will continue to grow. That gap would further impair our ability to attract and retain the employees needed to provide safe and reliable electricity to our customers.

Q. WHAT IS INCLUDED IN THE 2020 TEST YEAR BUDGET FOR BASE WAGE INCREASES FOR BARGAINING EMPLOYEES?

A. The current collective bargaining contract includes a 2.5 percent increase scheduled with an effective date of January 1, 2019. This contract is currently

---

"2018/2019 US Compensation Planning Survey Report"; and Aon Hewitt "U.S. Salary Increase Survey 2018-2019."

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1       being negotiated with an effective date of January 1, 2020. Additional  
2       information will be provided once available.

3  
4   Q.   DOES BASE PAY ALONE PROVIDE COMPENSATION THAT IS COMPETITIVE WITH  
5       THE MARKET?

6   A.   No. As stated above, the Company's base compensation amounts alone would  
7       lag the market. It is only with incentive compensation that the Company's  
8       compensation levels reach a competitive market rate needed to keep and  
9       attract employees.

10  
11       **B.   AIP**

12   Q.   WHAT IS THE COMPANY'S ANNUAL INCENTIVE PROGRAM?

13   A.   The Company's AIP is a form of incentive compensation offered to exempt,  
14       non-bargaining employees. Please see Exhibit\_\_\_\_(RKL-1), Schedule 2 for  
15       AIP documents for 2017, 2018, and 2019.

16  
17       1.   *Test Year AIP Expense*

18   Q.   WHAT IS THE AIP EXPENSE IN THE 2020 TEST YEAR AND 2021 AND 2022 PLAN  
19       YEARS?

20   A.   For the State of Minnesota, Electric Jurisdiction, the AIP costs included in the  
21       stated years are as follows: 2020 test year, \$23.8 million; 2021 plan year, \$24.5  
22       million; and 2022 plan year, \$25.2 million.

23  
24   Q.   YOU MENTIONED ABOVE THAT YOU CAPPED YOUR AIP REQUEST AT 20  
25       PERCENT OF ANY INDIVIDUAL'S BASE PAY AND USED A FOUR-YEAR AVERAGE  
26       METHODOLOGY. PLEASE DESCRIBE THE FOUR-YEAR AVERAGE CALCULATION.



**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

A. As we have done in the past several electric rate cases, we have again used the four-year average methodology. Specifically, our request in this case reflects the four-year average ratio of payout to the AIP performance target. Table 3 below shows the actual AIP and target AIP for the most recent four-year period (2015 to 2018). As shown, the four-year average payout is 103 percent of the target. We do not scale the request for a four-year average above 100 percent.

**Table 3  
(Total Company O&M) AIP Amount Paid Compared to Target**

<b>AIP Year</b>	<b>Actual AIP (\$000s)</b>	<b>Target AIP (\$000s)</b>	<b>% Paid to Target</b>
2015	\$28,473	\$28,128*	101%
2016	\$29,982	\$28,888	104%
2017	\$29,872	\$29,613	101%
2018	\$32,420	\$30,436	107%
2019	In progress	\$30,418	In Progress
2020	TBD	\$31,324	TBD
2021	TBD	\$32,240	TBD
2022	TBD	\$33,222	TBD
<b>4-Year Average Payout (2015 through 2019)</b>			<b>103%</b>

\*2015 Target AIP was previously reported as \$31,806 in Docket No. E002/GR-15-826, which represented the O&M plus Capital amount.

Q. WHY HAS THE PAYOUT BEEN MORE THAN 100 PERCENT IN SOME RECENT YEARS?

A. We set KPI targets for the scorecards to represent the improved performance levels we aspire to achieve in our business operations. When payout levels achieve more than 100 percent, it indicates that we have achieved higher than expected performance results. However, the Company has not requested

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

recovery for amounts greater than the established target level payout (*i.e.*, 100 percent).

Q. HOW HAS THE COMPANY’S BUDGETING PROCESS HISTORICALLY COMPARED TO LEVELS OF AIP ACTUALLY PAID?

A. Our budgeting process has historically resulted in AIP budgets lower than the actual level of AIP paid. (See Table 4 below.) It is developed with AIP payouts assumed to be at the target level (100 percent) and does not account for any AIP costs that may be paid above the target level. Furthermore, the budget is subject to review by other internal business units, like Accounting, that take other factors into consideration and may reduce the budget level further.

**Table 4  
Total Company Budgeted versus Actual AIP**

Year	100% Target AIP (\$000s)	Budgeted AIP (\$000s)	Actual AIP (\$000s)
2016	\$28,888	\$28,888	\$29,982
2017	\$29,613	\$29,613	\$29,872
2018	\$30,436	\$30,436	\$32,420
2019	\$30,418	\$30,418	In progress
2020 Test Year	\$31,324	\$31,324	TBD
2021 Plan Year	\$32,240	\$32,240	TBD
2022 Plan Year	\$33,222	\$33,222	TBD

While considering this conservative budgeting process, the 20 percent cap of base pay, and our use of a four-year average capped at 100 percent, our request for AIP expense recovery will most likely be for lower than the amount the Company actually pays out as AIP costs.

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

2. *Benefits of Incentive Compensation*

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

A. Yes. The use of incentive compensation by employers is a prevalent practice throughout the United States. According to the 2018 Willis Towers Watson Compensation Study of investor-owned utility companies, provided as Exhibit\_\_\_(RKL-1), Schedule 3, 100 percent of companies in both the national sample and the revenue-based sample maintain an annual incentive plan.

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

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

Q. HOW DOES INCENTIVE COMPENSATION PROMOTE SUPERIOR EMPLOYEE PERFORMANCE?

A. Incentive pay aligns compensation with results and positively affects performance when employees see the connection between their superior performance and additional pay.<sup>11</sup> In particular, for incentive compensation to be effective, it must be possible for the incentive amount to be reduced or eliminated, resulting in below-market cash compensation when an employee

---

<sup>11</sup> See [http://www.shrm.org/hrdisciplines/compensation/articles/pages/cms\\_005592.aspx](http://www.shrm.org/hrdisciplines/compensation/articles/pages/cms_005592.aspx)

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 fails to meet performance metrics. This structure motivates employees to  
2 perform at a higher level because they are compensated for doing so.

3  
4 Q. HOW DOES THE COMPANY'S AIP PROMOTE SUPERIOR PERFORMANCE FROM  
5 EMPLOYEES?

6 A. Providing safe, reliable electric service to our customers is the Company's  
7 most important objective. Our AIP program directly aligns Company  
8 objectives and customers' interests by awarding incentive compensation when  
9 employees, and the Company as a whole, achieve goals regarding safety,  
10 reliability, and overall customer satisfaction.

11  
12 Q. HOW DOES INCENTIVE COMPENSATION REDUCE FIXED LABOR COSTS?

13 A. The use of incentive compensation reduces labor costs by lowering the base  
14 amount to which annual escalation rates are applied. For example, if a non-  
15 bargaining employee's total compensation was \$50,000 in year one and all of  
16 the compensation was in the form of base pay, a 3.0 percent base pay increase  
17 would lead to a base pay increase of \$1,500 in year two and a new base pay of  
18 \$51,500.

19  
20 In contrast, if the compensation was structured as 80 percent base pay and 20  
21 percent incentive compensation, the 3.0 percent base pay increase would lead  
22 to an increase of only \$1,200 in year two ( $\$40,000 \times .03 = \$1,200$ ) and a new  
23 base pay of \$41,200, with the employee having to earn the remaining \$8,800  
24 through the incentive program. Thus, by moving a portion of each  
25 employee's pay from base pay to incentive pay, the Company reduces overall  
26 fixed labor costs (base pay) by avoiding the compounding effect of annual  
27 base pay increases on the higher base pay amount.

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1  
2 Furthermore, fixed costs associated with base pay affect a variety of benefit-  
3 related expenses, such as 401(k) match, life insurance premiums, long-term  
4 disability premiums, and short-term disability expenses. If total compensation  
5 were provided through base pay at 100 percent, the additional fixed costs  
6 would correspondingly increase benefit-related expenses. In contrast, variable  
7 pay expenses associated with incentive compensation do not affect all benefit  
8 expenses, and variable pay may fluctuate from year to year. These factors,  
9 along with prorated awards and eligibility requirements for payout, also  
10 contribute to incentive design savings.

11  
12 In summary, by utilizing base pay and incentive components in the  
13 compensation program, the Company reduces costs for our customers.

14  
15 Q. DO YOU BELIEVE IT IS APPROPRIATE TO RECOVER AIP COSTS IN RATES?

16 A. Yes. If we were to rely on current base pay alone, the Company's  
17 compensation levels would be well below market levels, hindering our ability  
18 to attract, retain, and motivate the employees necessary to provide customers  
19 with safe, reliable electricity. Raising employee base pay to make up the  
20 difference to market-based compensation creates an immediate impact on  
21 fixed costs and additional expense related to associated benefits, which would  
22 negatively impact customers. I provide further details about this point later in  
23 my testimony. Furthermore, as described, incentive pay aligns the interests of  
24 customers and employees, and reduces costs for customers.

25  
26 3. *Structure of the Company's AIP*

27 Q. PLEASE DESCRIBE THE COMPANY'S AIP.

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 A. Each eligible employee has a targeted annual incentive opportunity expressed  
2 as a percentage of base pay. The employee receives the incentive for  
3 achievement related to pre-determined individual performance goals and for  
4 the Company achieving Corporate Key Performance Indicators (KPIs).

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

12  
13 In addition to the year-end portion of their AIP, which is based on  
14 achievement of Corporate KPIs and individual performance results,  
15 employees are eligible to earn a portion of their individual component  
16 throughout the course of the year. I will address this in more detail later in my  
17 testimony.

18  
19 Q. WHICH EMPLOYEES ARE ELIGIBLE TO PARTICIPATE IN THE ANNUAL  
20 INCENTIVE PROGRAM?

21 A. The AIP applies to exempt, non-bargaining employees. An employee must be  
22 employed by October 1 of a particular year to be eligible for a prorated year-  
23 end portion of the AIP compensation for that program year. With limited  
24 exceptions, a person must also be actively employed by the Company on the

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 date that the year-end award payments are made in order to receive an  
2 incentive award.<sup>12</sup>

3  
4 Q. DOES THE COMPANY OFFER ANY RECOGNITION PROGRAM FOR EMPLOYEES  
5 NOT ELIGIBLE FOR AIP?

6 A. Yes. The Company offers the Spot On award for non-exempt (hourly), non-  
7 bargaining employees to motivate them to provide superior performance. The  
8 program allows managers to recognize and reward these employees close to  
9 the time when the employee has made the contribution. Employees who are  
10 eligible for AIP are ineligible for the Spot On award.

11  
12 Q. PLEASE DESCRIBE THE CORPORATE KPI COMPONENTS OF THE 2019 AIP.

13 A. Each year, Xcel Energy develops a Corporate scorecard that identifies certain  
14 priorities for the year. In 2019, for example, the Corporate KPIs are focused  
15 on three priorities: (1) enhancing the customer experience; (2) keeping bills  
16 low; and (3) promoting safety and reliability. As shown in Table 5, those three  
17 priorities resulted in five Corporate KPIs for the year:

---

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

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

**Table 5  
2019 Corporate Scorecard**

Priority	KPI	Threshold (50%)	Target (100%)	Maximum (150%)	KPI Weight
Enhance Customer Experience	Customer Satisfaction (Residential)	726	737	759	20%
Keep Bills Low	O&M Growth (Over 2017)	2.0%	0.0%	(1.0%)	20%
Safety and Reliability	Employee Safety	0.61	0.49	0.45	20%
	Public Safety	85%	89%	94%	20%
	Electric System Reliability (SAIDI)	100	92	84	20%

Q. WHAT DO THESE CORPORATE GOALS MEASURE?

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

Q. IS THE AIP CORPORATE SCORECARD FOR 2019 REPRESENTATIVE OF THE SCORECARDS XCEL ENERGY EXPECTS TO USE ON A PROSPECTIVE BASIS?

A. Yes. The Company will continue to be customer-focused by driving operational and cost efficiencies to deliver safe and reliable electric service to



**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1       our customers. Although the specific KPIs and measures may change to  
2       reflect specific objectives from year to year, the safety of the communities we  
3       serve and our employees, and the provision of reliable service with  
4       outstanding customer service, will always be high priorities.

5  
6    Q. DOES THE ACHIEVEMENT OF A KPI LEAD TO A “BONUS” FOR THE EMPLOYEE?

7    A. No. While some may equate any dollars beyond base pay as a “bonus,” the  
8       AIP is a market-based incentive program with written goals and measurements  
9       related to the payout, not a one-size-fits-all distribution of funds. If the goals  
10       are achieved and AIP is paid at target, the employee’s compensation for that  
11       year is *just then* meeting market levels. Anything less than 100 percent of the  
12       full AIP amount (target payout) generally puts the employee at a  
13       compensation level below what other companies and utilities are paying, as  
14       detailed elsewhere in my testimony.

15  
16   Q. HOW DOES THE AIP DESIGN REFLECT THE COMPANY’S PAY-FOR-  
17       PERFORMANCE PHILOSOPHY?

18   A. The Company has had a long-standing pay-for-performance philosophy which  
19       further correlates rewards with work expectations and performance, creating  
20       an even greater distinction between typical and exceptional work.  
21       Consequently, those employees who are performing at levels less than  
22       satisfactory will receive less pay. This philosophy serves to motivate higher  
23       performance, set clearer expectations, and recognize and drive continuous  
24       improvement. Our emphasis in this area has not affected our overall need for  
25       greater compensation levels; it merely targets spending our resources more  
26       strategically. We believe practicing greater pay differentiation will help  
27       motivate employees and raise performance levels.

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1  
2 Q. PLEASE TURN NOW TO THE INDIVIDUAL COMPONENT OF THE AIP AND  
3 EXPLAIN HOW THAT IS EVALUATED.

4 A. The purpose of the individual component is to focus an employee on  
5 individual goals and to reward that employee for his or her achievement of  
6 those goals. Including an individual component allows managers to recognize  
7 and reward employees based on their levels of contribution and performance,  
8 consistent with Xcel Energy's pay-for-performance philosophy. Each  
9 manager has discretion to determine the year-end individual component award  
10 within a range of 0 to 150 percent based on the employee's contributions and  
11 performance during the year, while remaining within their budget.  
12

13 Q. DOES PAYMENT OF INCENTIVE COMPENSATION DEPEND ON ANY FACTORS  
14 OTHER THAN SATISFYING THE INDIVIDUAL AND CORPORATE KPI  
15 COMPONENTS?

16 A. Yes. To ensure that incentive compensation can be afforded, Xcel Energy  
17 conditions payment of the year-end incentive compensation upon the  
18 achievement of a certain earnings per share (EPS) level for the year.<sup>13</sup> If Xcel  
19 Energy does not achieve that EPS level, the program does not pay any year-  
20 end incentive compensation. The threshold EPS level to pay out the AIP for  
21 2019 is \$2.55 per share. This is a common annual incentive program design  
22 element.  
23

---

<sup>13</sup> There is no EPS requirement for the "I Deliver Award" or the "Innovator Award," as discussed later in my testimony.

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 Q. DOES THE COMPANY MONITOR ITS AIP DESIGN TO DETERMINE WHETHER IT  
2 SHOULD MAKE IMPROVEMENTS?

3 A. Yes. The Company regularly examines its compensation programs to  
4 determine whether the programs are effectively motivating employees. That  
5 said, there are no pending changes at this time.  
6

7 Q. HAS THE COMPANY MADE ANY DESIGN CHANGES TO THE COMPENSATION  
8 PORTION OF THE TOTAL REWARDS PROGRAM?

9 A. Yes. In an effort to get the most value out of our existing program, we  
10 continuously evaluate opportunities to focus our resources more strategically.  
11

12 Q. IN WHAT WAYS HAS THE COMPANY CHANGED PROGRAM DESIGN?

13 A. We changed the structure of the AIP program in 2017. Prior to 2017, AIP  
14 compensation was based upon performance in three areas: Corporate,  
15 Business Area, and Individual. In 2017, Xcel Energy redesigned the program  
16 by moving the prior weighting of the Business Area component into the  
17 Individual performance component. Most employees eligible for AIP now  
18 have the highest weighting in their Individual performance component. The  
19 change created a clearer “line of sight” between an employee’s individual  
20 accomplishments and receipt of AIP compensation and means that most  
21 employees earn the majority of their incentive compensation based on the  
22 successful completion of individual goals that are designed to benefit  
23 customers. Furthermore, our recent AIP design changes allow leaders to  
24 reward employees during the program year, rather than only at the end of the  
25 year. This design change allowed more flexibility, without increasing the  
26 expense of the program.  
27

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 Q. ABOVE, YOU DESCRIBED THE ADDITIONAL WEIGHTING GIVEN TO THE  
2 INDIVIDUAL PERFORMANCE COMPONENT OF THE AIP SINCE 2017. PLEASE  
3 EXPLAIN THESE CHANGES TO AIP DESIGN?

4 A. The Company added the “I Deliver” and “Innovator” awards to the AIP for  
5 the 2017 performance year. These awards give leaders a mechanism to reward  
6 employees who generate positive outcomes for customers and Xcel Energy at  
7 a time when it would be most meaningful to the employee rather than waiting  
8 for the year-end payout. These award options within the construct of the AIP  
9 were designed to address our changing workforce and their expectation for  
10 real-time recognition of their accomplishments.

11  
12 An employee can earn one or more of these awards by delivering greater than  
13 expected results for a team or a department, or by implementing innovative,  
14 high-impact solutions or processes that deliver significant benefits Company  
15 wide.

16  
17 Payments from these two elements of the AIP are separate from the year-end  
18 incentive compensation payouts and EPS requirements; however, they did not  
19 result in additional AIP expenses. Xcel Energy continues to use the same AIP  
20 budgeting process and sets a portion of this budget aside to allow for these  
21 awards.

22  
23 Q. IS AN EMPLOYEE’S ANNUAL INCENTIVE COMPENSATION TARGET  
24 OPPORTUNITY STILL EXPRESSED AS A PERCENTAGE OF BASE PAY?

25 A. Yes. The employee’s incentive target opportunity continues to be a  
26 percentage of base pay. The target opportunity levels are designed to provide

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 eligible employees with 100 percent of their market-competitive total cash  
2 compensation when base pay and incentive are combined.

3  
4 Q. DID THE TARGET-LEVEL AIP COSTS CHANGE IN LIGHT OF THE AIP DESIGN  
5 CHANGES?

6 A. No. The target-level AIP costs continue to be calculated using the individual  
7 target opportunity levels of incentive pay in the market. Accordingly, the AIP  
8 budgeting process used to determine the AIP target-level expense has not  
9 changed. Thus, from a ratemaking perspective, the level of costs that the  
10 Company asks to recover in rates will remain consistent under the design  
11 changes. In other words, the AIP design changes do not increase the target  
12 amount of AIP expense in comparison to the target amounts in prior years  
13 under the prior AIP design.

14  
15 *4. AIP Compliance*

16 Q. IN ITS ORDER IN DOCKET NO. E002/GR-13-868, THE COMMISSION ISSUED  
17 ORDER POINT NO. 29 REFERENCING THE COMMISSION'S SEPTEMBER 3, 2013  
18 ORDER IN DOCKET NO. E002/GR-12-961 WHICH DIRECTED THE COMPANY  
19 TO ANALYZE THE AIP TARGETS. HAS THE COMPANY PERFORMED THAT  
20 ANALYSIS?

21 A. Yes. The Company has evaluated its AIP targets. Based upon the process for  
22 setting AIP goals and the fact that employees have not been able to achieve  
23 their AIP goals on some occasions, the Company concludes that our AIP  
24 goals strike the right balance between being difficult enough to challenge our  
25 employees, while not being so difficult as to serve as a disincentive.

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

**C. LTI**

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

A. The Company offers a long-term incentive program that, for executives and certain non-executives, is tied to three different goals: (1) Total Shareholder Return relative to our peer group; (2) retention or Time-Based; and (3) environmental activities, which I refer to as the “environmental component” of the LTI.

Like the other Company compensation programs, the LTI program is intended to attract, retain, and motivate employees and it is necessary to ensure compensation levels and mix are competitive with the external market.

Long-term incentive differs from AIP and other types of compensation as it is generally granted to a limited group of employees, including executives and senior management employees.

Less than five percent of the non-bargaining employee population is eligible for the LTI program. The employees who typically receive an LTI grant tend to have a higher level of influence in the Company’s direction and strategy. These employees are hired into positions that can be expensive and time-consuming to fill.

Retaining these experienced employees is critical. This group of employees has a significant impact on the direction, leadership and decision-making within the Company; therefore, it is imperative that the compensation value and design for these employees are comparable to the options available in the market.

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1  
2 Q. ARE LONG-TERM INCENTIVE PROGRAMS COMMONLY USED IN THE UTILITY  
3 INDUSTRY?

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

13  
14 Q. IS THE COMPANY SEEKING RECOVERY OF ALL OF THE LONG-TERM INCENTIVE  
15 (LTI) COMPENSATION PAID TO ELIGIBLE EMPLOYEES?

16 A. No. The Company is not seeking expense recovery for the relative Total  
17 Shareholder Return component or the Time-Based component of LTI in this  
18 proceeding, which equates to a combined 70 percent of executive LTI grant  
19 value.<sup>14</sup> The Company is, however, requesting recovery of only the  
20 environmental component of the LTI.

21  
22 Q. PLEASE GENERALLY DESCRIBE THE ENVIRONMENTAL COMPONENT OF THE  
23 LTI PROGRAM.

---

<sup>14</sup> More than \$15.3 million from the test year cost of service related to LTI costs for costs for relative Total Shareholder Return and Time-Based LTI for the Company have been removed.

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

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

7  
8 The measurement for the environmental component is the reduction in  
9 carbon dioxide emissions below 2005 levels associated with the Company's  
10 electric service, as measured in the third year of a grant cycle. The types of  
11 activities that affect the results are implementing renewable energy resources,  
12 promoting energy efficiency programs, and improving plant operations to  
13 reduce carbon output, among others.

14  
15 Because the majority of the Company's LTI for executives is performance-  
16 based, payout of compensation occurs only when pre-defined performance  
17 goals are achieved.

18  
19 Q. IS IT REASONABLE TO GRANT RATE RECOVERY OF LTI COSTS RELATED TO THE  
20 ENVIRONMENTAL COMPONENT?

21 A. Yes. The Company has set aggressive carbon reduction goals and is an  
22 industry leader. The achievement of the environmental component directly  
23 benefits customers and the public through prudently reducing air emissions  
24 and their impact on the environment. Establishing and paying an  
25 environmental LTI component aligns the long-term incentives of our  
26 leadership with these goals and incents our efforts toward carbon emission  
27 reductions.



**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1  
2 Q. HOW DOES THE THREE-YEAR PERFORMANCE PERIOD AFFECT THE LTI  
3 EXPENSE FOR THE COST OF SERVICE?

4 A. LTI expense occurs ratably over a three-year period and, therefore, reflects  
5 LTI plans in effect during each of the three years. Therefore, costs for the  
6 2018, 2019 and 2020 LTI years are included in the cost of service for the 2020  
7 test year.

8  
9 Q. WHAT AMOUNTS FOR THE LTI PROGRAM ARE INCLUDED IN THE 2020 TEST  
10 YEAR AND 2021 AND 2022 PLAN YEARS AND INCLUDED IN THE COMPANY'S  
11 COST RECOVERY REQUEST?

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

13  
14 **Table 6**  
15 **State of MN, Electric Environmental LTI (\$000s)**

LTI Component	2020	2021	2022
Executive Environmental	\$1,940	\$2,009	\$2,119

16  
17  
18  
19  
20 Q. WHAT DO YOU CONCLUDE ABOUT TOTAL REWARDS PROGRAM  
21 COMPENSATION COSTS?

22 A. These costs are reasonable and necessary to attract, retain, and motivate the  
23 talent necessary to continue to offer safe and reliable electric service to our  
24 customers. Furthermore, base pay coupled with the AIP is an appropriate  
25 method of providing market competitive total compensation. This common  
26 compensation program design includes a form of fixed base pay and incentive

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 opportunity that requires an individual employee to perform at expected  
2 levels.

3  
4 Additionally, in order to have a competitive compensation program design, a  
5 combination of base pay and incentive opportunities is necessary to attract  
6 and retain employees at higher levels within the Company and Xcel Energy.  
7 (As I detail later in my testimony, the Company has used benchmarking  
8 studies to establish this fact.)

9  
10 The Company can achieve this goal only with the inclusion of LTI. The  
11 design of the LTI program and the levels of LTI offered to select groups of  
12 employees are market-based and require a greater level of commitment from  
13 these employees before they receive this form of compensation. Without this  
14 element of compensation, employees in these eligible positions would not  
15 have access to a competitively designed compensation package, the Company  
16 would be misaligned with market best practices regarding compensation plan  
17 design, and the Company would be at a great risk of not being able to attract  
18 or retain employees in these positions.

19  
20 However, the Company would still be required to provide competitive  
21 compensation in another manner to attract, retain and motivate these groups  
22 of critical employees.

23  
24 Offering 100 percent of compensation through base pay would result in  
25 higher fixed costs for the Company, as base pay is a guaranteed expense and  
26 incentive pay is a variable expense, based on employee eligibility and  
27 performance. The Company would also lose the motivational tool that

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

incentive pay provides and would not have the ability to vary employee compensation based on performance of the Company or the employee.

**D. Compensation Study**

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

A. The Company uses industry-wide studies to benchmark against companies with whom we compete for talent.

Q. DO ANY INDEPENDENT STUDIES DEMONSTRATE THAT THE COMPANY'S TOTAL REWARDS PROGRAM IS CONSISTENT WITH MARKET VALUES?

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

Q. PLEASE DESCRIBE THE SPECIFIC ELEMENTS OF THE 2018 WILLIS TOWERS WATSON COMPENSATION STUDY.

A. The 2018 Willis Towers Watson Compensation Study analyzed the following elements:

- Xcel Energy's total cash compensation (base salary + target annual incentive) compared to competitive market target total cash compensation;
- Xcel Energy's total direct compensation (base salary + target annual incentive + long-term incentive) compared to competitive market target total direct compensation;
- Xcel Energy's base salary compared to competitive market total cash compensation levels;

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

- 1           • Xcel Energy’s annual incentive targets compared to market annual
- 2           incentive targets;
- 3           • Xcel Energy’s long-term incentive targets compared to market long-
- 4           term incentive targets; and
- 5           • Xcel Energy’s level of compensation compared to the median and
- 6           average levels of compensation paid by the comparison groups.

7

8   Q.   WHAT COMPARISON GROUPS DID THE 2018 WILLIS TOWERS WATSON

9       COMPENSATION STUDY USE?

10  A.   There were two comparison groups. The first group was comprised of a large

11       number of investor-owned utilities across the nation, including utilities both

12       smaller and larger than Xcel Energy. The second group was comprised of

13       investor-owned utilities similar in revenue to Xcel Energy (48 companies

14       responded to this survey at the management and professional job levels and 53

15       companies responded at the executive level).

16

17  Q.   ON WHAT INFORMATION IS THE WILLIS TOWERS WATSON COMPENSATION

18       STUDY BASED?

19  A.   Willis Towers Watson conducts a survey from March through May of each

20       year to gather information about base pay and incentive compensation. The

21       Company submitted information in effect as of March 2018, in accordance

22       with the survey’s request.

23

24  Q.   WHAT WAS THE PERCENTAGE INCREASE REFLECTED IN THE COMPANY’S

25       SALARY INFORMATION SUBMITTED TO WILLIS TOWERS WATSON AS COMPARED

26       TO THE PREVIOUS YEAR’S STUDY?

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 A. We provided Willis Towers Watson the pay rates that were in effect as of  
2 March 16, 2018, which reflected a three-percent average increase over the pay  
3 rates effective March 2017.

4  
5 Q. WHAT WERE THE RESULTS OF THE 2018 WILLIS TOWERS WATSON  
6 COMPENSATION STUDY?

7 A. As shown on Table 7, the 2018 Willis Towers Watson Compensation Study  
8 finds that with the inclusion of AIP, the Company's median total cash  
9 compensation levels are generally in line with other utilities. Without the  
10 target-level AIP, however, the median total cash compensation provided  
11 would be well below the overall utility market and would put the Company at  
12 a material disadvantage in the competition for employees.

13  
14 Similarly, our compensation would be below market for executive and senior  
15 exempt talent and leadership without the LTI component of total  
16 compensation. LTI can be a significant portion of the compensation package  
17 offered to attract, retain and motivate this group of employees to design,  
18 organize, lead, and manage a large-scale public utility.

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

**Table 7  
Compensation Study Results**

<b>Components of Xcel Energy Compensation</b>	<b>Compared to Base Salaries and Incentives of Utilities with Similar Revenues (Revenue Sample)*</b>	<b>Compared to Base Salaries and Incentives of Utilities Across the Nation (National Sample)</b>
Base Salary Only (excludes Target AIP)	Below Market by 15.7%	Below Market by 13.0%
Target Total Cash Compensation (Base Salary + Target AIP)	Below Market by 1.7%	Above Market by 1.4%
Base Salary Only (excludes Target AIP and Target LTI*)	Below Market by 23.2%	Below Market by 19.1%
Base Salary + Target AIP (excludes Target LTI*)	Below Market by 10.5%	Below Market by 5.7%
Target Total Direct Compensation (Base Salary + Target AIP + Target LTI)	Above Market by 1.6%	Above Market by 5.7%

\* Primary comparison group using median pay components

Q. WHAT DO YOU CONCLUDE FROM THE 2018 WILLIS TOWERS WATSON COMPENSATION STUDY?

A. The 2018 Willis Towers Watson Compensation Study illustrates that Xcel Energy's compensation structure provides a market level of compensation, which confirms that the Company's requested compensation expense in the test year is appropriate and reasonable. The study also confirms that the target level annual incentives provided to employees through the AIP are aligned with those for similar positions in the competitive market.

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 Without the AIP, however, the Company's total cash compensation would lag  
2 its market peers (*i.e.*, large utilities) by 15.7 percent on average, which would  
3 put the Company at a material disadvantage when competing for skilled  
4 employees.

5  
6 Additionally, the study confirms that the level of LTI offered to eligible  
7 employees is both in line with the market for utilities of our size and is a  
8 necessary component of pay for executives, other senior management, and  
9 senior specialized employees to reach a market-competitive level of  
10 compensation. Without the LTI, however, the Company's total direct  
11 compensation would lag the market by 10.5 percent compared to utilities with  
12 similar revenues. The Company is requesting recovery for the amount related  
13 to the Environmental grants which have and will continue to play a part in our  
14 energy transition.

15  
16 Q. IS IT COMMON FOR COMPANIES TO RELY UPON STUDIES SUCH AS THE WILLIS  
17 TOWERS WATSON COMPENSATION STUDY FOR COMPENSATION COMPARISON  
18 PURPOSES?

19 A. Yes. It is very common for companies seeking to ensure that their  
20 compensation is market-competitive to use third-party consulting firm survey  
21 data for benchmarking purposes. The use of surveys is a widely used and  
22 accepted compensation best practice. Use of surveys is the most effective way  
23 for employers to compare their compensation levels to the labor market in  
24 order to design and maintain market-competitive compensation programs.

25  
26 Q. HOW SPECIFICALLY DOES XCEL ENERGY USE THIRD-PARTY COMPENSATION  
27 SURVEY DATA?

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 A. We use the compensation data provided by the survey to determine the pay  
2 grade corresponding to a given position. An employee's compensation within  
3 the pay grade range will be individually determined based on several factors,  
4 including experience, skills, and performance. For each eligible pay grade, the  
5 Company also sets AIP and/or LTI compensation targets. We use the survey  
6 data to set market-competitive AIP and LTI targets. We obtain refreshed  
7 survey data every year to ensure our base pay structures and incentive  
8 opportunities remain competitive in the market.

9  
10 Q. IS THE WILLIS TOWERS WATSON COMPENSATION STUDY THE ONLY STUDY  
11 THE COMPANY RELIES UPON FOR PURPOSES OF BENCHMARKING?

12 A. No. The Company routinely uses a number of additional third-party surveys  
13 to compare its total compensation levels, merit pay increases, and other  
14 programs to those of other employers, including utilities and non-utilities.  
15 The compensation study provided with my Direct Testimony was created as a  
16 comparison summary of our compensation levels with those in the electric  
17 and gas utility market.

18  
19 **V. ACTIVE HEALTH AND WELFARE COSTS**

20  
21 Q. WHAT DO YOU DISCUSS IN THIS SECTION OF YOUR TESTIMONY?

22 A. I describe the active (as opposed to retiree) healthcare and welfare programs  
23 that the Company offers to eligible employees. Mr. Schrubbe discusses the  
24 actual amounts of health and welfare costs in his testimony, and he describes  
25 the cost trends that the Company is experiencing in this area. I also describe  
26 how the Company benchmarks these costs to ensure they are just and  
27 reasonable.



**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

**A. Active Health and Welfare Benefits**

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

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

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

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

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

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

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

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

7 Q. ARE THERE ANY OTHER KEY ASPECTS OF THE PLAN TO DESCRIBE?

8 A. Yes. The plan provides lower levels of benefits coverage for using out-of-  
9 network medical providers. The HSA is a tax-advantaged medical savings  
10 account that the Company offers to employees to provide a vehicle for them  
11 to save for their out-of-pocket costs under the Plan.

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

15 A. I provide a brief description of the Company's dental and vision plans as well  
16 as the disability benefits and life insurance in Exhibit\_\_\_\_(RKL-1), Schedule 4.

17  
18 Q. WHAT IS THE REQUESTED LEVEL OF ACTIVE HEALTH AND WELFARE COSTS IN  
19 THE 2020 TEST YEAR AND 2021 AND 2022 PLAN YEARS?

20 A. The 2020 test year health and welfare expense is \$38,423,462 (State of  
21 Minnesota, Electric Jurisdiction O&M). This expense, and our budgeting  
22 process for the test year and plan years, are discussed further by Mr. Schrubbe.

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

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 A. Yes. Our health and welfare costs are increasing due to the challenges  
2 discussed below and for the reasons discussed in Mr. Schrubbe's testimony,  
3 but the Company has implemented several design changes and wellness  
4 programs that I discuss below to help mitigate cost increases associated with  
5 our health and welfare program. Our efforts have kept our health and welfare  
6 program costs consistent with the experiences of other private sector  
7 businesses.

8  
9 Q. DO YOU HAVE ANY STUDIES DEMONSTRATING THAT THE COMPANY'S ACTIVE  
10 HEALTHCARE PROGRAMS ARE REASONABLE?

11 A. Yes. The BENVAL<sup>®</sup> study, included with my testimony as Exhibit\_\_\_(RKL-  
12 1), Schedule 5, compares the value, based on plan provisions, of Xcel Energy's  
13 benefits with those of a group of primarily electric and gas utility companies.  
14 The Company uses this study to consider options, check in on strategy  
15 decisions, review the balance of program elements, and assess what value  
16 needs to be communicated to employees.

17  
18 Q. HOW DO THE COMPANY'S ACTIVE HEALTHCARE BENEFITS COMPARE WITH  
19 OTHER COMPANIES?

20 A. Xcel Energy's deductibles are higher than the other energy companies that  
21 offer High Deductible Health Plans (HDHP) as reported in the 2019  
22 BENVAL<sup>®</sup> study, with approximately the same coinsurance. Most HDHPs  
23 have an 80 percent coinsurance, including the non-bargaining population of  
24 Xcel Energy.

25  
26 Q. ARE CUSTOMERS BEARING THE ENTIRE COST OF ACTIVE HEALTHCARE?

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

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

7  
8 Q. WHY IS IT IMPORTANT FOR XCEL ENERGY TO OFFER HEALTH AND WELFARE  
9 BENEFITS FOR EMPLOYEES AND THEIR FAMILIES?

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

19  
20 Q. WHY IS IT REASONABLE FOR CUSTOMERS TO BEAR PART OF THE COSTS FOR  
21 ACTIVE HEALTH AND WELFARE BENEFITS FOR EMPLOYEES AND THEIR  
22 FAMILIES?

23 A. Large companies, like Xcel Energy, are required by the Patient Protection and  
24 Affordable Care Act to offer full-time employees health insurance. According  
25 to the Society for Human Resource Management (SHRM), 99 percent of over

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

2,700 participants in their 2019 Employee Benefits study offer at least one of seven types of health care plans surveyed.<sup>15</sup> By providing these types of benefits, the Company is providing a competitive package to attract, retain, and motivate the current and future employees the Company will need to provide safe, reliable electric service to customers.

Q. PLEASE DESCRIBE PROGRAM DESIGN CHANGES THE COMPANY HAS IMPLEMENTED TO MANAGE THE COSTS OF THE HEALTH AND WELFARE BENEFITS.

A. Examples of program design changes include the following:

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

---

<sup>15</sup><https://shrm.org/hr-today/trends-and-forecasting/research-and-surveys/Documents/SHRM%20Employee%20Benefits%202019%20Healthcare%20and%20Health%20Services.pdf>

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

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

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

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

22  
23 Q. HAS THE COMPANY DONE ANYTHING OTHER THAN CHANGE DESIGN TO  
24 CONTAIN COSTS OF HEALTH AND WELFARE BENEFITS?

25 A. The Company is always taking steps to control costs without increasing costs  
26 to employees. In the last two years:

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 (1) We renegotiated contracts with our medical plan administrator and  
2 pharmacy administrator, as well as others on an ongoing basis. These  
3 negotiations focus on reducing administrative fees, obtaining better  
4 performance guarantees and rebates, and increasing discounts on  
5 provider networks. This effort substantially mitigated the healthcare  
6 cost trend to employees and the Company. All of these measures help  
7 mitigate the increasing healthcare costs and benefit administration costs  
8 charged by third parties.

9 (2) We examined emerging benefit designs that would continue to drive  
10 our employees and their covered family members to high quality, cost-  
11 efficient healthcare providers. We also continuously assess programs  
12 that will provide more cost-effective opportunities for employees and  
13 help drive healthy behaviors. For example, we offer a telemedicine or  
14 virtual visit option for routine medical visits, a personalized diabetes  
15 management program, and an online program to help employees  
16 manage stress. These non-traditional visits with a trained physician or  
17 other provider are convenient and provide a less expensive option for  
18 employees and the Company.

19 3) We have increased communications about programs we offer to control  
20 our costs by improving the overall health and welfare of our employees,  
21 including counseling and coaching for plan members who are seeking  
22 treatment for a condition, engaging plan members proactively to help  
23 modify behaviors and health risks, and providing education materials to  
24 help plan members make informed decisions.  
25

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

**B. Active Health, Welfare, and Retirement Benefits Study**

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

A. The Company uses industry-wide studies to benchmark against the utility industry. For example, Willis Towers Watson compares our health, welfare, and retirement benefit offerings to utilities to help ensure we are providing comparable options and relative value to our employees. I provide the BENVAL<sup>®</sup> study as Exhibit\_\_\_\_(RKL-1), Schedule 5. Willis Towers Watson collects health, welfare, and retirement benefit plan provisions from hundreds of employers in all industry sectors and measures the value of these programs. This study provides information about what employers offer new hires in our industry.

According to the study, the Company's health, welfare, and retirement benefit programs for non-bargaining employees are competitive in the industry. While program designs and specific program elements will vary across all companies, the nature of the programs to provide health coverage and future financial security to employees make the Company's offering attractive to job seekers. Without these programs, the Company would not be competitive with the labor market generally and with the utility industry specifically.

Q. HOW WERE PARTICIPANTS IN THE BENVAL<sup>®</sup> STUDY COMPARED TO ONE ANOTHER?

A. Companies participating in the study provided information about programs offered to newly hired employees. The study reviewed the value of the benefits by applying a standard methodology to a standard demographic profile. The overall value was determined through a combination of plan



**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

design and employee contribution strategies. Participants were ranked based on these criteria to determine the “value;” however, the actual program costs, funding or experience were not evaluated.

Q. HOW DID THE COMPANY’S OFFERINGS TO NEW HIRES COMPARE TO INDUSTRY NORMS?

A. Based on the evaluation of program designs, premiums, employer contributions, and other elements, the Company’s overall new hire offering was ranked in the bottom quartile for value.

**VI. EMPLOYEE RETIREMENT PROGRAMS**

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

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

- A defined benefit pension plan, which is also referred to as a “qualified” pension plan;
- A “non-qualified” pension plan, which is the same as the qualified pension plan, but maintains a consistent level of benefit to that of the qualified defined pension benefit for employee wages over the IRS wage limitations in effect. This plan is commonly referred to as a “restoration” plan because it restores to affected employees benefits that would have been provided under the qualified plan but for the limits imposed by the IRS;
- A 401(k) defined contribution plan;
- Retiree medical benefits for certain employees who retired before 2000; and

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

- A Supplemental Executive Retirement Plan (SERP), which provides supplemental compensation to assure that the Total Rewards Program benefits are market-competitive for certain executives. The SERP is no longer offered to new executives and covers only one remaining executive.

We summarize changes made to the retirement plan in Exhibit\_\_\_\_(RKL-1), Schedule 6.

**A. Defined Benefit Plan**

Q. PLEASE DESCRIBE THE COMPANY'S DEFINED BENEFIT PLAN.

A. We offer newly-hired employees a 5 Percent Cash Balance Plan, under which the Company contributes five percent of the employee's annual pay into a notional account. This account has interest credited to it annually based on the 30-year Treasury rates. This plan is similar to a savings account or a 401(k) plan, so employees easily understand the plan value. Non-bargaining employees hired prior to January 1, 2012 and bargaining employees hired prior to January 1, 2011 are eligible for the 10 percent Pension Equity Plan (PEP), which results in employees receiving 10 percent of their highest 48 months of consecutive earnings per year of service.

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

A. Yes. Of the 40 utilities in the Fortune 1000, 17 (43 percent) continue to provide defined benefit pension benefits to all employees, 19 (47 percent) provide defined benefit pension benefits to all employees except those hired

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 after a certain date, and only four have fully or partially discontinued the  
2 defined benefit pension benefit for employees.<sup>16</sup>

3  
4 Q. WOULD IT BE REASONABLE TO ELIMINATE THE DEFINED BENEFIT PENSION  
5 PLAN AND RELY ENTIRELY ON A DEFINED CONTRIBUTION PLAN?

6 A. No. Offering a defined benefit pension plan provides us the opportunity to  
7 remain competitive with other utilities that we compete against for talent.  
8 Today, we offer a lower valued pension plan compared with other utilities, as  
9 demonstrated by the BENVAL<sup>®</sup> study. We believe that offering a pension  
10 plan, along with a 401(k) savings plan, provides employees with a retirement  
11 program in which employee participation is required, assets are fully  
12 diversified, and future investment risk is shared. Eliminating our pension  
13 offering would put the Company at a material disadvantage to other  
14 employers or require changes to our current defined contribution plan at a  
15 much greater cost.

16  
17 Our retirement program is cost-effective and helps us manage our workforce  
18 appropriately for the following reasons:

- 19 • The defined benefit pension plan, along with our defined contribution  
20 plan, aligns with our Total Rewards Program strategy to provide a  
21 shared responsibility between employee and employer to accumulate  
22 retirement assets.
- 23 • By providing a pension plan in which the employee can count on a  
24 defined amount of retirement benefits, we are able to manage an

---

<sup>16</sup> Information gathered from publicly available reports of the Fortune 1000 utilities issued through mid-2019.

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 orderly transition of employees into retirement. This provides Xcel  
2 Energy an opportunity to effectively manage our workforce at the end  
3 of the employees' careers, appropriately prepare for knowledge transfer,  
4 and manage our training and succession planning.

- 5 • Given the same benefit levels, pension plans can be a less expensive  
6 vehicle for delivering retirement benefits than a defined contribution  
7 plan, in both the short-term and the long-term. That is because the  
8 Company is able to utilize investment earnings to fund future benefit  
9 obligations, which reduces future cash flow requirements. In a defined  
10 contribution plan, those earnings on the Company's contributions  
11 belong to the employee.
- 12 • Studies show more employees, including younger and less-tenured  
13 employees, value the security a defined benefit pension plan provides.<sup>17</sup>

14  
15 Q. HAS THE COMPANY UNDERTAKEN ANY RECENT INITIATIVES TO REDUCE THE  
16 COSTS OF ITS DEFINED BENEFIT PENSION EXPENSE?

17 A. Yes, effective January 1, 2018, the annual Retirement Spending Account  
18 credits were eliminated on a go-forward basis for all non-bargaining  
19 employees and the Social Security Supplement was eliminated for all non-  
20 bargaining employees who will not meet retirement eligibility by December 31,  
21 2022.

22  

---

<sup>17</sup> <https://www.willistowerswatson.com/-/media/WTW/Insights/2017/11/2017-global-benefits-attitudes-survey.pdf> (accessed on July 19, 2019).

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 Q. WHY DOESN'T THE COMPANY MAKE CHANGES TO ITS NON-UNION  
2 WORKFORCE ONLY?

3 A. Having similarly valued benefit programs for bargaining and non-bargaining  
4 employees is a critical part of our workforce strategy. Similar programs  
5 provide opportunities to transition employees from bargaining positions into  
6 supervisory positions. These transitions are important because former union  
7 employees understand the job responsibilities and have credibility with union  
8 employees. Alignment of benefit programs between union and non-union  
9 workforces is common in the utility industry. Based on all of these factors,  
10 the Company determined that a gradual transition to limit disruption to  
11 current employees was the most appropriate course of action and was well  
12 within the practices of others within our industry. Accordingly, we offered the  
13 5 Percent Cash Balance Plan to newly hired and rehired union and non-union  
14 employees and to employees transitioning between union and non-union  
15 positions.

16  
17 Q. WHY IS IT REASONABLE FOR DEFINED BENEFIT PENSION EXPENSE TO BE  
18 INCLUDED IN RATES?

19 A. Including defined benefit pension expense in rates is reasonable because  
20 approximately 90 percent of the utilities with which we compete for  
21 employees have active defined benefit plans for all employees or employees  
22 hired before a certain date and generally do not offer a richer defined  
23 contribution plan. It is important for the Company to attract, retain, and  
24 motivate employees by offering total compensation and benefits that align  
25 with the companies with which we compete for talent.

26

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

**B. Defined Contribution Plan**

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

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

Q. WHY ARE THE 401(K) COSTS RISING?

A. As discussed by Mr. Schrubbe, the 401(k) expense is increasing because the contribution is calculated based on a percentage of base pay, and increases cause the total labor costs to increase each year. Moreover, the Company has experienced an overall increase in 401(k) participation in recent years, and that trend is expected to continue.

Q. WHY IS IT REASONABLE FOR 401(K) EXPENSE TO BE INCLUDED IN RATES?

A. The expense is reasonable because it is an important part of our benefit program to attract, retain, and motivate employees, who are necessary to provide safe, reliable service to customers. The BENVAL<sup>®</sup> study reported that 100 percent of the companies provide their non-bargaining employees with 401(k) savings plans. Company matches to 401(k) savings plans are extremely common and our overall match is comparable to the market.

**C. Retiree Medical Expense**

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

A. For bargaining employees who retired prior to 2000 and non-bargaining employees who retired prior to 1999, the Company provides subsidized

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 medical and pharmacy coverage at varying levels based on the year in which  
2 the employee retired. Employees who retired after those dates receive access  
3 to medical coverage but are responsible for 100 percent of the cost. Mr.  
4 Schrubbe has outlined the retiree medical expenses in his testimony.

5  
6 Q. WHY IS IT REASONABLE FOR RETIREE MEDICAL EXPENSE TO BE INCLUDED IN  
7 RATES?

8 A. Our retirees contributed greatly to the success and reliability of our Company  
9 and to the products, services, and infrastructure that our customers use today.  
10 The Company continues to pursue aggressively benefit designs that manage or  
11 reduce our retiree expenses while fulfilling our obligations to them for their  
12 past service with the Company and to our customers.

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

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

22  
23 **VII. CONCLUSION**

24  
25 Q. PLEASE SUMMARIZE YOUR TESTIMONY AND RECOMMENDATIONS.

26 A. The Company offers a conservative, yet comprehensive, total rewards package  
27 to employees with the goal of providing market competitive levels of

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

1 compensation and benefits. The Company follows industry best practices  
2 related to the design and maintenance of its compensation programs. Base  
3 pay and incentives are rooted at the market median pay level, indicating they  
4 are reasonable expenses, which are necessary to attract, retain and motivate  
5 our employees.

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

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

15  
16 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

17 A. Yes, it does.



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

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

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

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

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



RESPONSIBLE BY NATURE™

## **XCEL ENERGY NON-BARGAINING, EXEMPT EMPLOYEE ANNUAL INCENTIVE PROGRAM**

**Program Year: January 1 – December 31, 2017**

**CONTENTS**

Introduction and Purpose of the Annual Incentive Program .....	2
Participation and Performance Components.....	3
Incentive Targets.....	4
Program Components .....	5
Funding the Program.....	6
Program Administration .....	7
Incentive Program Related Information.....	10

## INTRODUCTION

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

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

The Program will be in effect from January 1 to December 31, 2017 (the “Program Year”), unless amended to end at an earlier date or terminated. In order for the Program to pay out year-end incentive awards in the Program Year, Xcel Energy must meet certain operating goals and a financial based affordability objective. Your incentive award is primarily based on corporate goal achievement and discretionary based on your individual contributions and performance.

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

## PURPOSE OF THE PROGRAM

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

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

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

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

**PARTICIPATION**

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

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

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

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

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

**PERFORMANCE COMPONENTS**

The Program for 2017 is based on two performance components, Corporate and Individual:

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

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

**INCENTIVE TARGETS**

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

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

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

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

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

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

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

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

**PROGRAM COMPONENTS****Corporate Scorecard – KPI**

The 2017 corporate scorecard goals focus on three priorities: Customer, Reliability, and Employee.

Priority	Key Performance Indicator	Threshold (50%)	Target (100%)	Maximum (150%)	KPI Weight
Customer	Net Promoter Score (Residential Customers)	40 <sup>th</sup> Percentile	60 <sup>th</sup> Percentile	70 <sup>th</sup> Percentile	20%
	Public Safety (damages per 1000 locates)	1.45	1.34	1.25	20%
	O&M Growth (over 2016)	1.8%	0%	-1.8%	20%
Reliability	Electric System Reliability (SAIDI)	99	93	87	20%
Employee	Employee Safety (DART)	0.68	0.52	0.48	20%

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

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

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

Results are calculated in this manner:

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

*Results will be rounded to the second decimal.*

## The Individual Component

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

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

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

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

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

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

## FUNDING THE PROGRAM

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

### Earnings Per Share Determines Affordability

An affordability trigger, based on EPS at \$2.25, must be achieved before any year-end award can be paid. The 2017 EPS is based on continuing operations and shall be adjusted to exclude the positive or negative earnings impacts for any one-time, unusual events if the impact of the event exceeds \$20 million on an after-tax basis.



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

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

- 50% - 100% for \$2.25 to \$2.30
- 100% - 150% for \$2.31+

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

## PROGRAM ADMINISTRATION

**Effective date of Program** The Annual Incentive Program covers a performance period of January 1 to December 31, 2017 and becomes effective at the start of that performance period (January 1). This is defined as the Program Year. The scorecard goals, as defined by the KPIs, are communicated to employee participants at or near the start of the performance period.

**Approval and Timing of Payment** After the 2017 financial statements are released, the Governance, Compensation & Nominating Committee of the Xcel Energy Inc. Board of Directors will review financial and corporate results. Actual year-end award payments will be made no later than two and a half months following the end of the relevant Program Year.

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

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

**Eligibility**

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

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

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

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

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

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

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

**Employed on Last Day of Program Year and Date of Payment.** You must be an active employee of Xcel Energy on December 31, 2017, and you must have continuous service through the day the year-end incentive award is paid, unless one of the following applies:

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

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

following applies:

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

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

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

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

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

### **Award Proration**

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

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

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

award based on the number of calendar days actively employed by Xcel Energy in an AIP eligible position.

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

#### **INCENTIVE AWARD PROGRAM RELATED INFORMATION**

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



RESPONSIBLE BY NATURE™

## **XCEL ENERGY NON-BARGAINING, EXEMPT EMPLOYEE ANNUAL INCENTIVE PROGRAM**

**Program Year: January 1 – December 31, 2018**

**CONTENTS**

Introduction and Purpose of the Annual Incentive Program .....	2
Participation and Performance Components.....	3
Incentive Targets.....	4
Program Components .....	5
Funding the Program.....	6
Program Administration .....	7
Incentive Program Related Information.....	10

**INTRODUCTION**

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

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

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

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

**PURPOSE OF THE PROGRAM**

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

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

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

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

**PARTICIPATION**

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

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

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

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

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

**PERFORMANCE COMPONENTS**

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

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

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



**INCENTIVE TARGETS**

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

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

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

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

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

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

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

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

**PROGRAM COMPONENTS****Corporate Scorecard – KPI**

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

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

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

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

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

Results are calculated in this manner:

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

*Results will be rounded to the second decimal.*

## The Individual Component

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

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

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

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

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

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

## FUNDING THE PROGRAM

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

### Earnings Per Share Determines Affordability

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

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

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

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

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

## PROGRAM ADMINISTRATION

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

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

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

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

**Eligibility**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Award Proration**

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

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

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

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

#### **INCENTIVE AWARD PROGRAM RELATED INFORMATION**

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



RESPONSIBLE BY NATURE™

## **XCEL ENERGY NON-BARGAINING, EXEMPT EMPLOYEE ANNUAL INCENTIVE PROGRAM**

**Program Year: January 1 – December 31, 2019**



**CONTENTS**

Introduction and Purpose of the Annual Incentive Program .....	2
Participation and Performance Components.....	3
Incentive Targets.....	4
Program Components .....	5
Funding the Program.....	6
Program Administration .....	7
Incentive Program Related Information.....	10

**INTRODUCTION**

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

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

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

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

**PURPOSE OF THE PROGRAM**

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

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

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

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

**PARTICIPATION**

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

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

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

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

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

**PERFORMANCE COMPONENTS**

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

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

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

**INCENTIVE TARGETS**

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

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

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

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

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

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

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

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

**PROGRAM COMPONENTS****Corporate Scorecard – KPI**

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

Priority	Key Performance Indicator	Threshold (50%)	Target (100%)	Maximum (150%)	KPI Weight
Enhance Customer Experience	Customer Satisfaction (residential raw score)	726	737	759	20%
Keep Bills Low	O&M Growth (over 2017)	2.0%	0%	(1.0%)	20%
Safety and Reliability	Employee Safety (DART)	0.61	0.49	0.45	20%
	Public Safety (gas emergency response)	85%	89%	94%	20%
	Electric System Reliability (SAIDI)	98	91	84	20%

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

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

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

Results are calculated in this manner:

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

*Results will be rounded to the second decimal.*

## The Individual Component

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

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

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

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

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

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

## FUNDING THE PROGRAM

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

### Earnings Per Share Determines Affordability

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

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

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

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

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

## PROGRAM ADMINISTRATION

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

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

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

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

**Eligibility**

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

### **Award Proration**

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

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

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

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

#### **INCENTIVE AWARD PROGRAM RELATED INFORMATION**

##### **Chief Executive Officer**

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

##### **No Right to Continued Employment**

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

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

**Schedule 3 – Willis Towers Watson Study on Competitive Annual  
Incentive and Total Cash Compensation Analysis Including Nuclear  
Positions**

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

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

**[PROTECTED DATA BEGINS**

**PROTECTED DATA ENDS]**

**Dental, Vision, Life insurance, and Disability Summary**

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

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

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

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

**PUBLIC DOCUMENT –  
NOT PUBLIC DATA HAS BEEN EXCISED**

**Schedule 5 – Towers Watson 2019 Energy Industry Benefits Study  
(BENVAL®)**

The Company has designated Schedule 5 as Not Public information in its entirety as defined by Minn. Stat. § 13.37, subd. 1(b). Because it derives independent economic value from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, Xcel Energy maintains this information as a trade secret pursuant to Minn. Rule 7829.0500, subp. 3. Pursuant to Minn. R. 7829.0500, subp. 3, the Company provides the following description of the excised material:

1. **Nature of the Material:** Schedule 5 is a compensation and benefits study prepared by an external consultant.
2. **Authors:** The data was prepared by Willis Towers Watson, an external consulting firm.
3. **Importance:** Schedule 5 is a compensation and benefits study prepared by an external consultant. The information contained in this schedule is not the work product of Xcel Energy, and we are only able to allow its release under the condition that it be protected as trade secret and will not be publicly released.
4. **Date the Information was Prepared:** The information was prepared and given to Xcel Energy in September 2019.

**[PROTECTED DATA BEGINS]**

**PROTECTED DATA ENDS]**

**Retirement Program Summary**

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