

June 26, 2020

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

**RE: Northern States Power Company d/b/a Xcel Energy's Annual Report on the Operation and Performance of its 2019 Incentive Compensation Plan Pursuant to the Minnesota Public Utilities Commission's Orders After Reconsideration**  
Docket Nos. E002/GR-92-1185; G002/GR-92-1186; and E,G002/M-20-516

Mr. Seuffert:

On June 1, 2020, Northern States Power Company d/b/a Xcel Energy (Xcel Energy or the Company) filed its annual incentive compensation compliance report for the year 2019 (the 2019 Incentive Compensation Annual Compliance Report, or 2019 Report) pursuant to the Minnesota Public Utilities Commission's (Commission) *Order After Reconsideration* dated January 14, 1994 in Docket No. E002/GR-92-1185 and dated December 30, 1993 in Docket No. G002/GR-92-1186. The Commission's Ordering Paragraphs 2 and 3 relate to Xcel Energy's electric and natural gas utilities' incentive compensation. Ordering paragraph 3 requires that:

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

Ordering Paragraph 2 requires that "The Company shall record for future refund all incentive compensation payments earned under the terms of the plan and recoverable in rates under this Order but not paid." The Commission noted that if the Company included such costs in rates but later did not

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

make incentive payments, such circumstances would be seen “as an inappropriate transfer of risk from shareholders to ratepayers and as inconsistent with the test year concept on which rates are based.”<sup>2</sup>

In its 2019 Report, Xcel Energy explained that, based on performance for the year 2019, the amount of electric incentive compensation paid in 2019 and eligible for recovery (which excludes annual incentive payments (AIP) over 15% of base pay) was \$19,124,625. Thus, the amount paid was \$2,166,660 less than the \$21,291,285 amount included in base rates as identified on Attachment C to Xcel Energy’s Compliance Report. Also in the Report, Xcel Energy explained that, based on performance for the year 2019, the amount of gas incentive compensation paid in 2019 and eligible for recovery (which excludes AIP over 25% of base pay) was \$808,376. Thus, the amount paid was \$119,509 less than the \$927,885 amount included in base rates as identified on Attachment C to Xcel Energy’s Compliance Report.

The Minnesota Department of Commerce, Division of Energy Resources (Department) reviewed documents from the appropriate rate cases, and verified that the incentive compensation included in current rates for the electric utility is \$21,291,285 and for the gas utility is \$927,885. The Department concludes that Xcel Energy used the correct comparison in support of the Company’s assertion that it does have unpaid earned incentive compensation that exceeds the amount recoverable in base rates for the electric utility by \$2,166,660, and \$119,509 for the gas utility. As a result, refunds are owed to customers of both utilities.

The Company estimates that the refund for the typical residential electric customer will be approximately \$0.68, and the refund for the typical residential natural gas customer will be \$0.19.<sup>3</sup>

The Company proposes to refund the \$2,286,169 through one-time bill credits, with the natural gas AIP refund issued separately from the electric refund. The Company proposes to combine the electric AIP refund to customers with a projected property tax refund. Xcel proposes to file the detailed refund plan with Xcel’s 2019 Property tax True-up Report that is due by July 1, 2020 in Docket No. E002/GR-15-826.

The Company explained that the Incentive Compensation Program for 2019 was based on two performance components, Corporate and Individual:

- The Corporate Scorecard Key Performance Indicators (KPIs) include reliability, customer and employee goals; and
- Individual:
  - A) Year-end award individual contributions and performance that can be aligned to individual performance goals as determined by the manager,
  - B) I Deliver Award, and

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

<sup>3</sup> 2019 Report, page 5.

C) Innovator Award.

The Department notes that the “I Deliver Award” and the “Innovator Award” first appeared in the Company’s 2017 AIP Plan. Xcel Energy indicated that the business unit level component was discontinued.<sup>4</sup> As explained in the Company’s 2019 Incentive Compensation Annual Compliance Report, the 2019 Plan was designed to reward employees based on a combination of target weights assigned to the corporate component and to individual performance as determined by the individual managers.

The Department notes that the last paragraph in Attachment A, Page 5 of 11 of the 2019 Report states:

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 percent of their incentive target by earning one or more of these awards based on superior contributions and performance.

As the Company explained in its 2019 Report,<sup>5</sup>

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

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

The Department recommends that the Commission accept the Company’s 2019 Annual Report as being compliant with the Commission’s Order. The Company will refund to electric ratepayers \$2,166,660, and to natural gas ratepayers \$119,509 as a result of over-recovering the amounts eligible for recovery.

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<sup>4</sup> 2019 Report, page 3.

<sup>5</sup> 2019 Report, pages 7-8.

The Department does not object to Xcel combining these refunds with other refunds, so long as customers are notified about the bases for the refunds, and so long as the refunds are provided as soon as possible.

The Department recommends that interest at the prime rate be applied to the refunds.

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

Sincerely,

/s/ DALE V. LUSTI  
Financial Analyst

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