

Direct Testimony and Schedules
Jill H. Reed

Before the North Dakota Public Service Commission
State of North Dakota

In the Matter of the Application of Northern States Power Company,
a Minnesota corporation
for Authority to Increase Rates for Electric Service in North Dakota

Docket No. PU-10-____
Exhibit____(JHR-1)

Employee Compensation and Benefits

December 20, 2010

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1 **I. INTRODUCTION AND QUALIFICATIONS**

2
3 Q. PLEASE STATE YOUR NAME AND OCCUPATION.

4 A. My name is Jill H. Reed. I am the Director, HR Operations and Retirement
5 for Xcel Energy Services Inc. (“XES”).
6

7 Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES AND QUALIFICATIONS.

8 A. I oversee the following areas: HR Operations, which oversees the human
9 resources call center, benefits and payroll delivery functions as well as
10 employer-sponsored qualified pension and saving programs, and non-
11 qualified/supplemental executive retirement programs. I provide leadership
12 and have strategic responsibility for designing, developing, and implementing
13 cost effective, employee-valued retirement programs that align with market
14 and enhance our ability to attract, motivate, and retain talent at all levels
15 throughout the organization. In addition, I am responsible for ensuring that
16 our HR programs and services are delivered accurately, cost effectively, and
17 efficiently while delivering on established and related priorities identified by
18 the business areas and corporation. My resume is included as
19 Exhibit___(JHR-1), Schedule 1.
20

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

22 A. I am testifying on behalf of Northern States Power Company, a Minnesota
23 corporation (“Xcel Energy,” the “Company,” or “NSPM”). I discuss several
24 topics related to our employee compensation and benefits plan, including:

- 25 • The reasonableness of the level of total cash compensation offered to our
26 employees and why rate recovery is appropriate;

- 1 • Changes we have made to manage our health care costs, and changes in
- 2 law or policies that could affect these costs prospectively; and
- 3 • Our current defined pension program, the reasonableness of the plan and
- 4 the benefits achieved by implementing the current design.

5

6 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

7 A. Our obligation to provide reliable, safe, and low-cost electric service to our

8 customers requires that we retain our talented, highly motivated, and

9 experienced employees. To do so, we continually need to provide competitive

10 compensation and benefits to our existing employees and to prospective

11 employees in light of the employee recruitment competition we face from

12 other utilities and industries.

13

14 As demonstrated more fully below, the amount of employee compensation

15 and benefits costs included in our 2011 test year is reasonable. We have taken

16 prudent steps to address our overall compensation and benefit plan in an

17 effort to ensure those costs are as low as reasonably possible, while at the

18 same time providing a competitive compensation package that is required to

19 find and retain the employees with the skills needed to provide high quality

20 service to our customers. Therefore, the Commission should grant recovery

21 of these costs in rates.

22

23 Q. HOW IS THE BALANCE OF YOUR TESTIMONY ORGANIZED?

24 A. In Section II, I will discuss the goals and objectives of Xcel Energy's

25 Compensation and Benefits Plan. In Section III, I will discuss the

26 reasonableness of total cash compensation costs included in the proposed

27 revenue requirement. In Section IV, I will describe cost control efforts related

1 to our health care costs, along with a description of some legislation that may
2 affect future costs. In Section V, I will discuss our retirement program,
3 including our pension plan.

4
5 **II. GOALS AND OBJECTIVES OF XCEL ENERGY'S**
6 **COMPENSATION AND BENEFITS PLAN**

7
8 Q. WHAT ARE THE GOALS AND OBJECTIVES OF XCEL ENERGY'S COMPENSATION
9 AND BENEFITS PLAN?

10 A. Xcel Energy's compensation and benefits plan is intended to attract, retain and
11 engage the talented employees necessary to deliver safe, reliable, low-cost
12 service to our customers. Our goal is to provide employees with market-
13 competitive compensation and benefits through the use of base salaries,
14 annual incentive compensation, and other employee benefits. The primary
15 elements that impact our test-year cost of service are: base salary; annual
16 incentive; health care costs; and retirement program costs. I will discuss in
17 detail how our compensation and benefits plan advances this goal while
18 simultaneously providing customer benefits.

19
20 Q. IS IT IMPORTANT FOR XCEL ENERGY TO PROVIDE COMPENSATION
21 CONSISTENT WITH MARKET?

22 A. Yes. Xcel Energy competes for talent within the utility sector and the non-
23 utility sector. Utility-sector competition generally takes place for jobs specific
24 to the generation, transmission and delivery of electric services such as power
25 plant operators, engineers, energy traders and linemen. In particular, the
26 Company must focus on retaining and attracting employees with specialized
27 skills and experience specific to our industry and systems. For example, we

1 need employees with specialized skills in order to comply with new regulations
2 and to maintain performance for safety and reliability, as well as required
3 planning and modeling of system expansion. Non-utility sector competition
4 generally takes place for jobs that encompass a broader skill set such as finance
5 or accounting analyst, marketing analyst, designer, and customer service
6 representative.

7
8 **III. REASONABLENESS OF TOTAL CASH COMPENSATION**
9 **COSTS INCLUDED IN THE PROPOSED REVENUE**
10 **REQUIREMENT**

11
12 **A. Base Salary**

13 Q. DID YOU INCLUDE A BASE PAY MERIT INCREASE IN THE TEST-YEAR BUDGET?

14 A. Yes, non-bargaining employee wage increases are based on a 2.5 percent
15 increase in base salary.

16
17 Q. IS A 2.5 PERCENT INCREASE IN BASE SALARY APPROPRIATE FOR 2011 IN LIGHT
18 OF THE RECENT ECONOMIC DIFFICULTIES?

19 A. Yes. As discussed more fully below, the Company regularly compares its total
20 cash compensation levels and plans to other firms, including other utilities and
21 non-utilities. Studies demonstrate that a 2.5 percent increase in base salary is
22 comparable and even slightly behind what the market is providing for 2011.
23 In particular, four different survey sources¹ project 2011 merit increases to fall
24 within the following ranges:

- 25
- 2.8 - 3.0 percent for all companies on a national basis; and

¹ WorldatWork, published 08/02/2010; The Conference Board, published 05/11/2010; Mercer, data as of 04/01/2010; and Towers Watson, data as of 05/01/2010.

- 3.0 - 3.1 percent for all utilities on a national basis.

Therefore, our proposal to provide a 2.5 percent base salary increase for 2011 is reasonable. As I will discuss below in Section III(C), our total cash compensation in 2010 (based upon a recent study) is also in line with market. As a result, the overall level of our compensation package remains reasonable for the test year, as our budgeted wage increase is consistent with market.

Q. WHAT IS THE STATUS OF BARGAINING UNIT EMPLOYEE COMPENSATION?

A. The current contract has been extended through January 28, 2011 after our initial tentative agreement was not ratified by bargaining employees in November. A new tentative agreement has been reached and will be voted upon by bargaining employees in mid-January. The Company will provide updates regarding progress of the contract during the course of this proceeding.

B. AIP

Q. WHAT IS INCLUDED IN THE TEST YEAR FOR ANNUAL INCENTIVE PLAN (“AIP”) COSTS?

A. The total amount of the AIP for which we are requesting recovery from North Dakota customers is \$1,329,426. This amount includes only the AIP at 85 percent of target payout and elimination of any amounts that exceed 15 percent of any individual’s base pay.

Q. WHY DO YOU PROPOSE TO REFLECT 85 PERCENT OF TARGET?

A. The Company included 85 percent in the budget for the test year. It should be noted that our budgeted target is less than the average of incentive

1 compensation actually paid over the last four years. The most recent four-year
2 average of the incentive target amount actually paid was 89 percent of target.
3 Exhibit___(JHR-1), Schedule 2 provides support for these calculations. This
4 schedule shows: the Company's amount of total base incentive paid; the
5 amount of base incentive pay at 100 percent of target; and the ratio of paid
6 incentive to target for the years 2005 through 2009.

7
8 Q. IS THE USE OF THE BUDGETED AMOUNT OF AIP VERSUS ACTUAL PAYOUT
9 CONSISTENT WITH WHAT THE COMPANY HAS BASED ITS TARGETS ON IN PRIOR
10 RATE CASES?

11 A. Yes. Since our budget is less than our actual four-year average, it is reasonable
12 only to request recovery of the budgeted level of AIP.

13
14 Q. DO YOU HAVE ANY OTHER PROPOSALS RELATED TO RECOVERY OF INCENTIVE
15 COMPENSATION COSTS?

16 A. Yes. First, as I noted above, our proposed incentive compensation costs
17 reflect a cap of 15 percent of individual employees' base salary in the
18 calculation of revenue requirements for this proceeding. Second, we are not
19 requesting rate recovery of any portion of long-term incentive compensation
20 costs.

21
22 Q. DOES THE 15 PERCENT CAP CONTINUE TO BE REASONABLE?

23 A. Yes. Recent studies have demonstrated that total compensation levels for
24 Xcel Energy employees are comparable to compensation paid by other
25 utilities.

26

1 Q. DOES THE 15 PERCENT CAP PROVIDE AN ADDED ASSURANCE THAT
2 RATEPAYERS ARE NOT PAYING MORE THAN A REASONABLE AMOUNT OF THE
3 CASH COMEPENSATION?

4 A. Yes. As discussed in more detail below, total cash compensation levels,
5 including incentive compensation at target levels, subject to a cap of 15
6 percent of base salary, are competitive with the market when compared to
7 other utilities. Thus, our total cash compensation, which includes base salaries
8 plus the annual incentive target levels, subject to a cap of 15 percent of base
9 salary, represents a reasonable basis upon which to set prospective rates.

10

11 **C. Reasonableness of Overall Cash Compensation**

12 Q. HOW DOES THE TOTAL CASH COMPENSATION (BOTH BASE SALARY AND AIP)
13 OFFERED BY XCEL ENERGY COMPARE TO THE MARKET?

14 A. The Company requested a study (the “Towers Watson study”) comparing the
15 total cash compensation levels of utilities (at both full-targeted annual
16 incentive compensation levels and as proposed for recovery in revenue
17 requirements) for 2010. That study, dated October 2010, shows that Xcel
18 Energy’s total cash compensation levels are comparable to those of other
19 utilities.

20

21 Q. WHAT COMPARISON GROUPS DID THE TOWERS WATSON STUDY INCLUDE?

22 A. Company compensation levels were compared to two sets of data. The first
23 set of comparison data was national data reflecting a large majority of U.S.
24 electric and gas companies (with median revenues of \$4.2 billion). The second
25 set of comparison data was data reflecting U.S. electric and gas companies
26 similar in size to Xcel Energy Inc. (with revenue greater than \$4.0 billion).
27 The second set of data is significant because managerial positions in larger

1 organizations typically have greater complexity, and therefore they require
2 more skill, which in turn increases the compensation requirement.

3
4 Q. WHAT WERE THE RESULTS OF THE TOWERS WATSON STUDY?

5 A. The study findings are as follows:

- 6 • The Company's total cash compensation levels without AIP would lag
7 the overall utility market by an average of 7 percent. When compared to
8 similar-sized utilities, the Company's total cash compensation levels
9 without AIP would fall below the competitive market by an average of 9
10 percent; and
- 11 • The Company's annual incentive targets are well aligned with other
12 utilities. On average, the Company's annual incentive targets are
13 approximately 2 percent below competitive levels when compared to
14 both the overall market of other utilities and similar-sized utilities.

15
16 Q. DID THE COMPANY SOLELY RELY UPON THE TOWERS WATSON STUDY?

17 A. No. The Company regularly compares its total cash compensation levels and
18 plans to other firms, including other utilities and non-utilities. Our
19 comparisons are based upon market compensation data from numerous third-
20 party surveys.

21
22 Q. WHAT IS THE GOAL OF THE COMPANY WITH REGARD TO COMPENSATION
23 DATA?

24 A. Our goal is to identify data that: (1) reflects the market-competitive rate for a
25 given skill set; and (2) is inclusive of companies with which Xcel Energy
26 competes for talent.

27

1 Q. HOW DOES THE COMPANY SET SALARIES FOR POSITIONS USING THIRD-PARTY
2 DATA?

3 A. Using the data provided by third-party surveys, the Company selects
4 benchmark positions that are representative of positions within each salary
5 range and compares the Company's salaries to external market data. Once a
6 job is placed within the structure, individual pay is determined by the
7 employee's manager and is based, in part, on the employee's performance.

8

9 The Company also sets annual incentive compensation targets, which are the
10 annual compensation available to employees if targeted levels of performance
11 are met under Xcel Energy's AIP. The annual incentive targets are set to
12 deliver market-comparable total cash compensation. Total cash compensation
13 data is reviewed on an annual basis to ensure that annual incentive targets
14 remain appropriate for delivering market-competitive cash compensation.

15

16 Q. WHAT DO YOU CONCLUDE REGARDING THE MARKET-COMPETTIVE NATURE
17 OF THE COMPANY'S TOTAL CASH COMPENSATION?

18 A. The Towers Watson study demonstrates that with the inclusion of the AIP,
19 the Company's total cash compensation levels are in line with the market.
20 However, if AIP were excluded, our total cash compensation would lag the
21 overall utility market by 7 percent, and 9 percent when compared to similarly-
22 sized utilities, which would put us at a material disadvantage in the
23 competition for talented employees. Accordingly, our total cash compensation
24 is necessary to provide service and the costs are set at a reasonable level.

25

26 **D. The Company's AIP Provides Benefits to Customers**

27 Q. PLEASE SUMMARIZE HOW THE COMPANY'S AIP IS STRUCTURED.

1 A. As mentioned above, the Company uses an AIP that covers many of the non-
2 bargaining employees and a few bargaining employees. Each eligible
3 employee has a targeted annual incentive expressed as a percentage of base
4 salary. The percentage is determined by position level within the organization
5 and, when combined with the employee's base salary, delivers a market-
6 competitive level of total cash compensation. Target levels assume 100
7 percent achievement of Individual, Business Area, and Corporate objectives.
8 Based on performance, actual payments may exceed or fall below target for a
9 given performance period.

10
11 Q. PLEASE DESCRIBE IN MORE DETAIL THE THREE PERFORMANCE COMPONENTS
12 OF THE AIP.

13 A. The Company's AIP includes the following components:

- 14 • *Individual.* Individual objectives consist of objectives determined by the
15 employee and the employee's manager. The objectives tie specifically to
16 the employee's job functions.
- 17 • *Business Area.* Business Area objectives consist of objectives specific to
18 the Business Area in which the employee works. These goals are typically
19 comprised of measures related to operational performance, as well as
20 budget performance.
- 21 • *Corporate.* Corporate objectives consist of objectives tied to broad goals,
22 and have included financial performance, environmental goals, and safety.
23 The corporate goals will be similar for 2011. Customer, employee, and
24 shareholder interests are all represented *within each of* the Corporate goal
25 elements.

26

1 Q. PLEASE DESCRIBE HOW THE AIP COMPONENTS ARE WEIGHTED IN THE
2 CALCULATION OF THE ANNUAL INCENTIVE.

3 A. Components are weighted to maintain employees' focus on objectives they
4 have the greatest potential to impact. For non-supervisory employees, this
5 naturally creates a focus on the Individual and Business Area objectives.
6 Managers focus on Business Area and Corporate goals that are tied to
7 financial cost control and performance. Exhibit___(JHR-1), Schedule 3
8 shows the 2010 weightings of these components for all employee
9 classifications.

10

11 Q. HOW ARE AIP AWARDS DETERMINED?

12 A. AIP awards are calculated from an employee's Individual, Business Area, and
13 Corporate scores. Individual and Business Area goals determine the
14 individual annual incentive compensation score, which is then multiplied by
15 the results of the financial metric to determine payment.

16

17 Q. ARE THERE ANY OTHER FACTORS THAT ARE APPLIED TO DETERMINE THE
18 AMOUNT OF ANNUAL INCENTIVE COMPENSATION PAID TO EMPLOYEES?

19 A. Yes. The Company has always had a threshold financial performance metric
20 to trigger payments from the AIP, and the AIP for 2011 will also have such a
21 metric. For example, from 2007–2010 the AIP included payout criteria based
22 on a similar mechanism utilizing Earnings per Share (“EPS”) of the parent
23 company, Xcel Energy Inc., and its subsidiaries, including the Company. The
24 2011 AIP has not been finalized, but the Company will promptly notify the
25 Commission of the final determination for the 2011 AIP.

26

1 Q. DOES THE FINANCIAL METRIC DIVERT EMPLOYEES' FOCUS FROM THEIR GOALS
2 OR THE DAY-TO-DAY OPERATIONS OF THE COMPANY?

3 A. No. A financial metric recognizes the impact of financial performance while
4 maintaining individuals' focus on their respective Individual goals and
5 Business Area goals. Individuals' focus remains on their respective Individual
6 and Business Area goals because those objectives determine the individual
7 annual incentive compensation score, which is then multiplied by the results
8 of the financial metric to determine payment. A low score for an individual
9 based on poor performance toward Individual and Business Area goals cannot
10 be improved by the financial metric.

11

12 Q. DOES THE OVERALL COMPANY FINANCIAL METRIC ELIMINATE MANAGEMENT
13 DISCRETION REGARDING AIP PAYMENTS?

14 A. No. The AIP remains subject to the discretion of the Chief Executive
15 Officer, as has been the case with all previous plans that the Commission has
16 reviewed and approved.

17

18 Q. CAN YOU EXPLAIN HOW AIP ULTIMATELY PROVIDES BENEFITS FOR
19 CUSTOMERS?

20 A. Yes. I believe our AIP provides benefits to customers in the following three
21 ways:

22 • The AIP incorporates quantifiable goals relating to safety, customer
23 satisfaction, productivity, cost control, and individual employee
24 performance.

25 • The majority of employees are incented primarily on Business Area and
26 Individual performance goals that focus predominately on achieving
27 customer satisfaction and operational excellence. As a result, the AIP

1 does not contain a disproportionate focus on achievement of financial
2 goals.

- 3 • Annual incentive compensation is only received if the employee
4 demonstrates that the employee has met his or her annual objectives,
5 which motivates employees to accomplish specific goals.

6
7 **IV. XCEL ENERGY'S EMPLOYEE**
8 **HEALTH & WELFARE BENEFIT PROGRAM**
9

10 Q. DESCRIBE XCEL ENERGY'S EMPLOYEE HEALTH & WELFARE BENEFIT
11 PROGRAM.

12 A. The Health & Welfare benefit program includes health care and disability
13 programs for our employees and their families. Health plans include two
14 medical plan options that cover our bargaining and non-bargaining employees
15 depending on the group or contract. The Company also provides other
16 benefits, with the primary benefits including voluntary insurance programs,
17 and other retirement and required post-employment benefits.

18
19 Q. WHY IS IT REASONABLE TO ALLOW THE COSTS RELATED TO THE COMPANY'S
20 HEALTH & WELFARE BENEFIT PROGRAM TO BE RECOVERED IN RATES?

21 A. The costs related to the Company's Health and Welfare Benefit program are
22 necessary to provide service. Moreover, while our health care costs have risen
23 rapidly since 2008, we have implemented plan design changes and cost sharing
24 target changes to keep our costs at a reasonable level.

25
26 Q. ARE THERE ANY FACTORS UNIQUE TO XCEL ENERGY THAT AFFECT THE
27 OVERALL LEVEL OF HEALTH CARE COSTS?

1 A. Yes. While there are many factors that impact our plans' costs, there are three
2 primary drivers: (1) the average age of our workforce is 47 years compared to
3 an average of 41.9 years at other firms – this age and gender demographic
4 tends to have higher claims experience; (2) since our last rate case, we continue
5 to experience a higher number of dependents being insured under our health
6 care plan; and (3) we have experienced a greater number of high cost claims in
7 recent years.

8
9 Q. WHAT BENEFITS-RELATED INITIATIVES HAVE BEEN UNDERTAKEN TO MANAGE
10 HEALTH CARE COSTS?

11 A. Several current initiatives as well as numerous programs implemented in the
12 past several years have been designed to mitigate the rising cost of health care
13 and related employee benefits. These initiatives include the following:

- 14 • In 2006, we changed the cost share from 80 percent (employer)/ 20
15 percent (employee) to 75 percent (employer)/ 25 percent (employee) for
16 all non-bargaining, active employees for premium contributions.
17 Subsequently, all bargaining employees migrated to a 25 percent cost
18 share between 2008 and 2010 and our 2011 budget is predicated on this
19 cost -share target for all employees.
- 20 • We continually monitor our vendor contracts to help ensure the costs are
21 reasonable. We have renegotiated contracts with all of our major benefit
22 vendors over the past three years. These negotiations resulted in fee and
23 premium reductions, better performance guarantees and rebates and
24 improved discounts on provider networks, all contributing to our ability
25 to reduce or slow down the increase in future medical trends and benefit
26 administration costs.

- 1 • We have implemented a series of medical and drug management
2 programs, which encourage appropriate and cost effective utilization and
3 assist in improving the health of our covered members.
- 4 • Health care plan designs are regularly reviewed to encourage proactive
5 employee behavior in managing health care consumption. In 2008, we
6 implemented a High Deductible Health Plan (“HDHP”), which provided
7 our employees with appropriate incentives to minimize health care costs.
8 Subsequently, in 2009 the HDHP became the only medical plan available
9 to non-bargaining employees. An HDHP has the potential to lower the
10 overall costs of the plan as individuals must pay out of pocket for all
11 medical costs up to the high deductible amount.
- 12 • In 2009, Xcel Energy implemented changes to retiree medical plans by
13 adding Medicare Advantage options and reducing the number of self
14 insured retiree medical plans. These changes increase the efficiency of
15 plan administration, reduce risk and cost growth, and provide more
16 affordable options for retirees.
- 17 • In 2010, Xcel Energy implemented benefit reductions in our non-
18 bargaining and certain bargaining employees’ health plans by eliminating
19 the Company’s contribution to their Health Savings Account.
- 20 • In 2011, further reductions in the HDHP plan for non-bargaining and
21 certain bargaining employees will be implemented. Out of pocket
22 maximums will be increased for single and family members through an
23 additional co-insurance for medical and drug expenses after the plan’s
24 deductible is met. Two mandatory drug programs will be added in 2011
25 that will reduce costs for prescription drug coverage: a mandatory mail
26 order program for maintenance drugs; and a mandatory generic “pay the
27 difference” program.

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Q. ARE YOU ABLE TO QUANTIFY ANY COST SAVINGS THAT HAVE BEEN ACHIEVED BY THE INITIATIVES DESCRIBED ABOVE?

A. For some of the initiatives we can quantify what the cost savings have been at a total company level. In particular:

- The changes to retiree medical plans by adding Medicare Advantage options and reducing the number of self insured retiree medical plans has provided \$7 million in savings since its implementation in 2009;
- Benefit reductions in our non-bargaining and certain bargaining employees' health plans by eliminating the Company's contribution to their Health Savings Account saved the Company \$1.7 million in 2010;
- The further reductions in the HDHP plan for non-bargaining and certain bargaining employees, i.e., increased out of pocket maximums for single and family members, is expected to provide \$1 million in savings in 2011; and
- The renegotiated Hartford contract is expected to bring \$791,000 in savings in 2011.

Q. HAVE YOU UNDERTAKEN ANY OTHER INITIATIVES THAT SUPPORT EMPLOYEE HEALTH IMPROVEMENT AND/OR WELL-BEING?

A. Yes. Given the age of our workforce and our experience with high cost claims, some of the initiatives we have implemented to mitigate employee health risks generate long-term savings and reward employees for healthy behaviors include the following:

- A Disease Management program that is targeted to high risk members in specific health areas, including: diabetes; heart disease; cancer; back care; healthy mom program; and behavior health;

- 1 • An Advanced Care Management program targeted at complex medical
- 2 cases in order to improve the health and quality of life for the very ill;
- 3 • An enhanced Tobacco Cessation program which now includes one-on-
- 4 one counseling and nicotine replacement therapies at no or low cost to
- 5 participants; and
- 6 • A health risk assessment tool to support employee health improvement
- 7 and health awareness.

8
9 Q. PLEASE SUMMARIZE FEDERAL HEALTH CARE REFORM AND OTHER
10 LEGISLATION IMPACTING BENEFIT PROGRAMS.

11 A. With the passing of the Patient Protection and Affordable Care Act
12 (“PPACA”), the Company is required to implement several changes to the
13 medical plan. In 2010, we expensed \$17.5 million to account for the Retiree
14 Drug Subsidy that is received by the Company from the Centers for Medicare
15 and Medicaid Services for continuing retiree drug coverage for our over-65
16 retirees and their families.

17
18 Other health care-related legislative and policy reforms that will impact the
19 Company on a prospective basis include:

- 20 • In 2011 the Company will be required to allow enrollment of adult
- 21 children up to age 26 under our medical plans regardless of student
- 22 status, marital status or tax dependency.
- 23 • The Company must begin to expense potential excise tax (tax is effective
- 24 in 2018) for retiree coverage in 2010 if not funded by the retirees.
- 25 • Certain plan changes will be made to adjust plan coverage for over the
- 26 counter drugs in 2011 and several union plans will be updated to comply
- 27 with the Mental Health Parity Act.

1 These changes have been incorporated into our 2011 test-year expense.

2
3 Q. DO YOU BELIEVE THE COMPANY'S ESTIMATE OF HEALTH AND WELFARE COSTS
4 IS REPRESENTATIVE OF WHAT YOU CAN EXPECT TO INCUR IN FUTURE YEARS?

5 A. Yes. While the changes we have implemented help control the pace of growth
6 in our health care costs, I believe it is a conservative estimate and clearly
7 representative of future costs. As discussed above, medical inflation costs
8 continue to increase. Towers Watson estimates the annual increase in medical
9 inflation of 7 percent will be in effect for several years to come; however, due
10 to our aging workforce and increasing number of high cost claims, we have
11 experienced a higher rate of medical inflation. In addition, we anticipate the
12 number of dependants to increase prospectively as a result of PPACA.
13 Accordingly, while we have implemented various initiatives to keep our
14 medical costs as low as possible, we do not expect to see a reduction in our
15 health care costs going forward.

16
17 **V. XCEL ENERGY'S EMPLOYEE RETIREMENT PROGRAM**

18
19 Q. DESCRIBE XCEL ENERGY'S RETIREMENT PROGRAM.

20 A. Xcel Energy provides retirement benefits to eligible employees, which
21 includes a defined benefit (pension) plan, as well as a defined contribution
22 (401(k)) savings plan. Like many utilities, our pension or defined benefit
23 programs are non-contributory programs, which provide retirement benefits
24 to eligible employees upon separation of service, including retirement. The
25 retirement benefits may be paid in a lump sum at the time of commencement
26 or in the form of a monthly annuity.

27

1 Our 401(k) Savings Plan encourages employees to save regularly for their
2 retirement through pre-tax and taxed employee deferrals and an employer
3 matching contribution. As with our other benefits, we continually evaluate our
4 401(k) match. In 2007, we changed the 401(k) Savings Plan by raising the level
5 of contributions required for non-bargaining employees to receive the full
6 employer match; in 2008, we made a similar change for bargaining employees.
7 The amount of the Company contribution differs based on which pension
8 plan the employee is eligible to participate in.

9
10 Q. HAS THE COMPANY'S DEFINED BENEFIT PENSION PLAN ENABLED THE
11 COMPANY TO ACHIEVE COST SAVINGS RELATING TO OTHER RETIREMENT
12 BENEFITS?

13 A. Yes. The Company's defined benefit pension reflects the elimination of a
14 previously-existing post retirement medical benefit ("PRMB") that became
15 effective in 1998. In order to keep our total compensation and benefits
16 competitive with the market, the Company increased the retiree incomes by
17 offering pension supplements which, on average, were approximately
18 equivalent on an after-tax basis to the previous PRMB.

19
20 The 1998 increase in pension benefits to offset the elimination of PRMB: (1)
21 was performed without additional cash funding (due to the funding status of
22 the pension plan); (2) was implemented without additional ratepayer expense,
23 as our NSPM pension plan expense during this period of overfunding was
24 zero²; and (3) eliminated the necessity to incur growing and potentially volatile
25 costs related to the medical inflation. Accordingly, our current defined benefit

² The first pension expense included in rates from the XES plan, approximately \$2 million, occurred for the first time in 2009.

1 pension plan resulted in net savings for the Company and ratepayers through
2 the elimination of the need to provide the post-retirement medical benefit.

3
4 Q. HAVE SAVINGS BEEN ACHIEVED AS A RESULT OF THE PRMB ELIMINATION?

5 A. Yes. As a part of a rate case proceeding in Minnesota in 2004, the Company
6 performed an analysis that demonstrated the elimination of PRMB had
7 reduced the annual post-retirement benefit costs of the total Company by
8 \$12.2 million. An update of this same analysis for this test year shows there are
9 still net savings in the range of approximately \$15-20 million, even after
10 considering the significant increase in our pension expense. Our test-year costs
11 reflect these savings. The NSPM electric O&M portion of our PRMB expense
12 continues to decline each year and has decreased by \$1.2 million since 2009.
13 The cumulative savings to customers from this decision, assuming we had
14 maintained our plan and experienced the higher medical inflation growth rate
15 that occurred during this period, are significant.

16
17 Q. DID THE COMPANY INCLUDE PENSION EXPENSE AS A PART OF ITS LAST
18 ELECTRIC RATE CASE?

19 A. No cash funding requirements have existed for the NSPM defined pension
20 plan and accordingly, the jurisdictional pension funding cost assigned to the
21 Company since 1994 has been zero. However, due to the significant drops in
22 pension asset market values caused by the economic downturn in 2008, the
23 funding status of our pension plan has changed. As a result, we need to fund
24 our pension under the requirements of the 2006 Pension Protection Act
25 beginning in 2011, and we began to recognize pension expense for the
26 Company's pension plan in 2010.

27

1 Q. WHAT IMPACT DOES THE NEW NSPM PENSION EXPENSE HAVE ON THE
2 REQUESTED RATE INCREASE FOR THIS CASE?

3 A. The new NSPM pension expense accounts for \$0.5 million of the total
4 proposed rate increase of \$19.8 million in this proceeding.
5

6 Q. DOES THE COMPANY'S PENSION PLAN REPRESENT A REASONABLE LEVEL OF
7 BENEFITS?

8 A. Yes. All pension accruals are driven largely by the design of the legacy plan as
9 the rights of employees and retirees under those plans have vested. There are
10 difficulties in transitioning benefit changes in a currently existing plan and as a
11 result many companies whose pension plans were overfunded before the
12 market collapse are now looking to create separate plans for new employees.
13 As with our other benefits, we continually evaluate changes, and are currently
14 reviewing other approaches.
15

16 VI. CONCLUSION

17

18 Q. CAN YOU PLEASE SUMMARIZE YOUR TESTIMONY AND RECOMMENDATIONS?

19 A. Yes. The level of compensation and benefits provided to our employees is
20 comparable to what other utilities offer and, therefore, is appropriate to
21 include in our prospective rates. Moreover, recovery of our employee
22 compensation and benefits costs is appropriate especially in light of the
23 ratepayer protections included in our proposal. The Company has undertaken
24 numerous initiatives to manage our employee health care costs to a reasonable
25 level. In addition, this is our first request for recovery of pension expense
26 related to the Company's defined benefit pension plan for the past 16 years.
27 We have taken appropriate steps to keep our employee compensation and

1 benefits at reasonable levels while maintaining a level of competitiveness
2 necessary to attract and retain the talent necessary to provide safe, reliable, and
3 low-cost service to our customers.

4

5 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

6 A. Yes, it does.

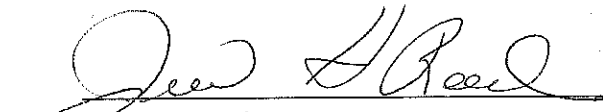
STATE OF NORTH DAKOTA
BEFORE THE
PUBLIC SERVICE COMMISSION

In the Matter of the Application of Northern)
States Power Company, a Minnesota corporation)
For Authority to Increase Rates for Electric Service)
in North Dakota)

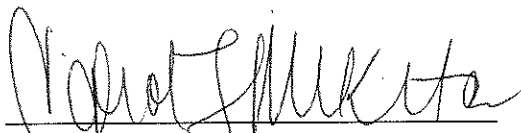
Case No. PU-10-____

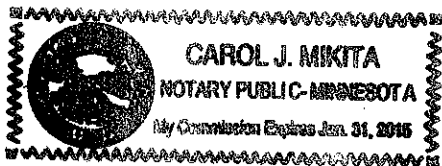
**AFFIDAVIT OF
Jill H. Reed**

I, the undersigned, being duly sworn, depose and say that the foregoing is the Direct Testimony of the undersigned, and that such Direct Testimony and the exhibits or schedules sponsored by me to the best of my knowledge, information and belief, are true, correct, accurate and complete, and I hereby adopt said testimony as if given by me in formal hearing, under oath.


Jill H. Reed

Subscribed and sworn to before me, this 16 day of December, 2010.


Notary Public



Jill H. Reed
Director, Human Resources Operations and Retirement
Xcel Energy Services Inc.
414 Nicollet Mall, Minneapolis, MN 55401

Current Responsibilities

As Director of Human Resources Operations and Retirement, I oversee the following areas: HR Operations, which oversees the human resources call center, benefits and payroll delivery functions as well as employer-sponsored qualified pension and saving programs, and non-qualified/supplemental executive retirement programs. I provide leadership and have strategic responsibility for designing, developing and implementing cost effective, employee-valued retirement programs that align with market and enhance our ability to attract, motivate, and retain talent at all levels throughout the organization. In addition, I am responsible for ensuring that our HR programs and services are delivered accurately, cost effectively and efficiently while delivering on established and related priorities identified by the business areas and corporation.

Previous Employment

Xcel Energy, Direct of Human Resources Operations and Retirement (February 2010– current)
Xcel Energy, Director of Employee Compensation and Retirement (February 2009 – February 2010)
Xcel Energy, Director of Employee Retirement (December, 2000 – January 2009)
Medtronic, Inc. – Human Resources (June 1983 – November 2000)
The Pillsbury Company, Minneapolis, MN – Human Resources (December 1980 – May 1983)
Methodist Hospital, Minneapolis, MN – Business Office (January 1979 – November 1980)

Education

CEBS Designation, CEBS Fellow Designation:

International Foundation of Employee Benefit Plans and Wharton School of The University of Pennsylvania:

1992: Certified Employee Benefits Specialist Designation
1993–2008: Certified Employee Benefits Specialist Fellowship Designation

University of Wisconsin–Stout: B.S. General Business Administration, Public Relations Concentration (1978)

Professional Positions

Twin Cities ISCEBS Chapter: Co-Chair of Education Committee (1997 – 2000)

**NSP Minnesota Company Base Incentive Compensation
Amount Paid Compared to 100% of Target Amounts**

\$ in 000

Year	Amt. Paid	100% of Target	% Paid to Target
2005	\$5,046	\$13,580	37%
2006	\$16,334	\$12,773	128%
2007	\$14,720	\$12,665	116%
2008	\$0	\$13,655	0%
2009	\$27,891	\$24,708	113%
4 Year Average Payout (2009 through 2006)			89%
4 Year Average Payout (2008 through 2005)			70%

**2010 Non-Bargaining Annual Incentive
 Program Weights**

2010 Salary Tiers/Grades	Individual	Business Area	Corporate
Non-exempt; Exempt M, N, O; Project Director 1; T1; T2	75%	15%	10%
Exempt P, Q; Project Director 2; TRD; T3	50%	30%	20%
Exempt R, S, T; Project Director 3; TRS	40%	30%	30%
Exempt U, V	20%	30%	50%
Managing Director	0%	50%	50%
Business Unit Vice President	0%	40%	60%
Executives	0%	0%	100%