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Rebuttal Testimony and Schedules  
Sharon L. Koenig

Before the North Dakota Public Service Commission  
State of North Dakota

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

Case No. PU-12-813  
Exhibit\_\_\_\_(SLK-1)

**Incentive Compensation**

August 12, 2013

## Table of Contents

I.	Introduction	1
II.	Annual Incentive Program	4
	A. Value of Incentive Compensation Programs	4
	B. Aligning Employee Total Cash Compensation with Market	8
	C. Rate Recovery of Incentive Compensation	13
III.	Nuclear Incentive Programs	15
IV.	Conclusion	21

## Schedules

Resume	Schedule 1
2012 Towers Watson Study (Non-Public) and Summary (Public)	Schedule 2

## I. INTRODUCTION

1 Q. PLEASE STATE YOUR NAME AND OCCUPATION.

2 A. My name is Sharon L. Koenig. I am Director of Compensation for Xcel  
3 Energy Services, Inc.

4

5 Q. PLEASE SUMMARIZE YOUR QUALIFICATIONS AND EXPERIENCE.

6 A. My experience includes working in the field of compensation for the last 13  
7 years of my total 23-year corporate career. I have a Bachelor of Arts degree in  
8 Business Management and Economics, and I am a Certified Compensation  
9 Professional. I have worked on both domestic and global compensation  
10 programs in the industries of public utilities, retail and wholesale companies,  
11 telecommunications, manufacturing, and recognition promotional companies.  
12 My work in recent leadership roles has primarily focused on compensation  
13 programs, the design of short-term and long-term incentives, performance-  
14 based incentives, recognition programs and execution of base pay programs.  
15 My resume is included as Exhibit\_\_\_(SLK-1), Schedule 1.

16

17 Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS PROCEEDING?

18 A. No.

19

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

21 A. I address questions regarding incentive compensation raised in the Direct  
22 Testimony of Mr. Dante Mugrace, filed on behalf of the Advocacy Staff of the  
23 North Dakota Public Service Commission (Commission). To address those  
24 questions, I build upon the Direct Testimony previously provided by  
25 Company witnesses Ms. Anne E. Heuer and Mr. Timothy J. O'Connor.

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Q. PLEASE SUMMARIZE THE COMPANY’S INITIAL REQUEST IN THIS PROCEEDING.

A. Our test year includes our Annual Incentive Program (AIP) costs subject to certain exclusions. In particular, we excluded: almost all costs for the long-term incentive portion of incentive compensation; non-corporate incentive plan costs; and all AIP costs greater than 25 percent of base pay. Although the settlement approved in our 2007 rate case excluded AIP costs above 15 percent of base pay, and that level was reflected in the settlement approved in our last rate case in 2011, the Company proposed increasing the cap to 25 percent of base pay for the current rate case. As Ms. Heuer explained, a 25 percent cap limits rate recovery associated with executive incentive compensation, but does not go so far as to limit rate recovery for incentive compensation for non-executive employees.

We also proposed recovery of certain Nuclear Operations incentive programs, including retention cash and stock programs and the long-term incentive program that takes the form of restricted stock units.

Q. WHAT KEY ISSUES REGARDING INCENTIVE COMPENSATION WERE RAISED IN RESPONSE TO THE COMPANY’S DIRECT TESTIMONY?

A. Our review of Mr. Mugrace’s Direct Testimony indicates three overall concerns regarding incentive compensation:

- Perceived lack of documentation regarding the amounts of annual incentive compensation included in the test year;
- Whether incentive compensation is necessary to attract and retain skilled employees, including employees in our Nuclear Operations; and

- 1           • Whether this Commission should disallow recovery of incentive  
2           compensation because of a ratemaking decision in one other state that  
3           we serve (Wisconsin), even though that decision is under review in a  
4           more recent rate case filing, is not typical among the jurisdictions we  
5           serve, and is part of a broader array of outcomes in that case.

6  
7           As a result of these concerns, Staff proposes excluding all incentive  
8           compensation, including our AIP and all nuclear employee incentives.

9  
10       Q. PLEASE PROVIDE AN OVERVIEW OF YOUR RESPONSE TO THESE ISSUES.

11       A. We appreciate the opportunity to discuss the importance of incentive  
12       compensation to our business. Attracting and retaining the right employees is  
13       essential to providing safe and reliable service to our customers. While  
14       employee satisfaction may not be dependent solely on total cash compensation  
15       (base pay plus incentive compensation), market-competitive total cash  
16       compensation is necessary to effectively compete within the relevant labor  
17       market to attract, engage and retain the employees needed to provide this  
18       service to customers. This is particularly critical in high-demand areas with  
19       limited pools of employees having needed skills, as in the nuclear industry. As  
20       discussed later in my testimony, independent studies establish that our  
21       incentive compensation is necessary to maintain market-competitive total cash  
22       compensation.

23  
24       It is also important to note that the documentation of incentive compensation  
25       costs provided with Ms. Heuer's Direct Testimony in our Workpapers volume  
26       is consistent with the level of support supplied and found to be acceptable in  
27       prior North Dakota rate cases. We received very few additional data requests

1 on the topic of incentive compensation. While we believe the documentation  
2 provided in our initial filing supports our incentive compensation request, we  
3 offer further discussion and support in this Rebuttal Testimony.

4  
5 Finally, we are concerned by the proposal that this Commission should be  
6 guided by a decision in Wisconsin as to this one issue. As Company witness  
7 Ms. Laura McCarten discusses in her Rebuttal Testimony, the ratemaking  
8 decisions of any commission are made in the context of multiple issues and  
9 public policy decisions on a broad range of cost, revenue, and return matters.  
10 To be consistent, it would be necessary to look at Wisconsin's approach to a  
11 broader range of issues rather than isolate one decision on a single issue.

12  
13 Q. PLEASE DESCRIBE HOW YOUR TESTIMONY IS ORGANIZED.

14 A. I first address the need for the AIP as part of a market-competitive total cash  
15 compensation package for our employees. I also discuss the benefit to  
16 ratepayers of structuring a portion of our total cash compensation as incentive  
17 compensation. I then provide information regarding our nuclear incentive  
18 proposals, while Mr. O'Connor provides additional explanation regarding the  
19 need for incentive programs specific to the nuclear industry.

## 20 21 **II. ANNUAL INCENTIVE PROGRAM**

### 22 23 **A. Value of Incentive Compensation Programs**

24 Q. PLEASE DESCRIBE THE PURPOSE OF THE COMPANY'S INCENTIVE  
25 COMPENSATION PROGRAMS.

26 A. Incentive pay, such as the Company's AIP, is an effective way to motivate  
27 employee performance consistent with company objectives. In our case,

1 providing clean, safe and reliable energy to our customers at a reasonable  
2 price is most important. The AIP supports this objective by awarding  
3 incentive compensation when underlying individual, business area and  
4 corporate goals are met.

5  
6 Q. CAN YOU GIVE A HIGH-LEVEL OVERVIEW OF HOW THE AIP IS STRUCTURED?

7 A. Yes. The AIP is a performance-based component of eligible employees' total  
8 cash compensation. Collectively, base salaries and annual incentive  
9 compensation are referred to as "total cash compensation." Employees of  
10 the Company are offered market-competitive compensation through the use  
11 of both total cash compensation and other employee benefits.

12  
13 As I will describe in more detail below, AIP payout is dependent on  
14 numerous factors. First, payout is dependent on whether the Company and  
15 business areas achieve identified goals. These goals provide a number of  
16 customer benefits, such as system reliability and safety. Payout is also  
17 dependent on achievement of individual employee goals, which are aligned  
18 to business area and corporate goals. Finally, payout is dependent on the  
19 Company's ability to afford to pay the AIP to its employees.

20  
21 Q. WHY DO EMPLOYEES NEED A BONUS FOR DOING THINGS A UTILITY IS  
22 EXPECTED TO DO?

23 A. The AIP is not a bonus. A bonus is an *after-the-fact discretionary* lump-sum  
24 payment that is an addition to an employee's market level of cash  
25 compensation and virtually always results in above-market compensation. In  
26 sharp contrast, an incentive payment is tied to specific goals and expected  
27 *results that are identified at the beginning* of a performance cycle and used to drive

1 higher levels of employee performance. An incentive program is *forward-*  
2 *looking*, and is offered in addition to an employee's base pay to make the total  
3 cash compensation competitive and at market level when the incentive is  
4 paid at the target level.<sup>1</sup>

5  
6 Q. IS INCENTIVE COMPENSATION A COMMON APPROACH TO PROVIDING TOTAL  
7 CASH COMPENSATION IN THE UTILITY AND GENERAL INDUSTRIES?

8 A. Yes. The use of incentive compensation is a prevalent practice in the United  
9 States for employers, in both general industry and with other utilities and  
10 industries with which we compete for employees. In fact, 90 percent of  
11 employers used this type of performance-based award program in 2012,  
12 according to an Aon Hewitt survey<sup>2</sup> of 1,306 large U.S. companies.

13  
14 Q. WHY IS THE USE OF INCENTIVE COMPENSATION SO WIDESPREAD AMONG  
15 EMPLOYERS?

16 A. Most companies use a combination of base pay increases and performance-  
17 based cash awards for several reasons, including saving costs. The first cost  
18 savings occurs in the form of reduced cash compensation. Each merit  
19 increase in base pay becomes a permanent financial burden, effectively  
20 increasing annual fixed costs. In contrast, the employee and Company as a  
21 whole must re-earn an incentive payment every year. If expected  
22 performance is not sustained, incentive pay is reduced or simply not paid.  
23 Incentive pay, therefore, does not become a permanent fixed cost. Thus,  
24 moving a portion of each employee's pay from base pay to incentive pay

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<sup>1</sup> Target incentive opportunity is defined as base salary multiplied by the percentage of incentive pay that is market-competitive for a job. The target level is the full value if goals are met.

<sup>2</sup> Aon Hewitt, "US Salary Increase Survey," 2012.

1 reduces overall labor costs by avoiding the compounding effect of annual  
2 base pay increases.

3  
4 Utilizing incentive compensation also tends to reduce benefit costs. An  
5 employee's base salary is a core factor in calculations that determine benefits  
6 earned under retirement programs and certain health and welfare programs.  
7 If the Company was to pay all cash compensation in base salaries, total  
8 benefit costs would increase.

9  
10 Q. IN ADDITION TO THE LABOR COST-SAVINGS BENEFITS, IS THERE ANOTHER  
11 REASON WHY THE MAJORITY OF EMPLOYERS USE INCENTIVE  
12 COMPENSATION?

13 A. Yes. Incentive compensation is also a powerful way to promote superior  
14 employee performance. The role of incentive pay is to align compensation  
15 of employees with results achieved by business operations. It is significantly  
16 superior to base pay in this respect. Research has shown that pay for  
17 performance *can* positively impact performance, but it must be seen as being  
18 *tied to performance*.<sup>3</sup> In particular, the incentive amount can be reduced or  
19 eliminated, resulting in below-market cash compensation, when performance  
20 metrics are not met.

21  
22 Q. IF THE COMMISSION DOES NOT ALLOW RECOVERY OF THE AIP COSTS,  
23 COULD THE COMPANY SIMPLY PROVIDE TOTAL CASH COMPENSATION TO ITS  
24 EMPLOYEES THROUGH A STRAIGHT BASE SALARY APPROACH?

25 A. Although the Company could pay its employees exclusively through base  
26 salary, we would lose the cost-saving benefits of incentive compensation. We

1 also would lose the employee motivational factors of pay for performance,  
2 which improves the operations of our business. Both of these factors  
3 benefit customers.

4  
5 **B. Aligning Employee Total Cash Compensation with Market**

6 Q. IS IT IMPORTANT FOR THE COMPANY TO PROVIDE COMPENSATION LEVELS  
7 THAT ARE COMPETITIVE WITH THE RELEVANT MARKET?

8 A. Yes. We continually need to attract and retain employees who have the  
9 technical expertise necessary to safely manage, operate and maintain our  
10 complex electric utility systems, such as engineers, information technology  
11 specialists, and managers. In particular, there is a focus on retaining  
12 employees who have learned our specific industry and systems, and are  
13 proficient and effective in their roles.

14  
15 Q. WHAT DOES THE TERM “RELEVANT MARKET” MEAN?

16 A. The term “relevant market” refers to the other employers with whom we  
17 compete for employees. We compete for talent within both the utility and  
18 the non-utility sectors. Utility-sector competition generally takes place for  
19 jobs specific to the generation, transmission and delivery of electric services  
20 such as power plant operators, engineers, designers and linemen. Non-  
21 utility-sector competition generally takes place for jobs that encompass a  
22 non-utility-specific skill set such as accounting, marketing, information  
23 technology, human resources and customer service.

24  

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<sup>3</sup> Green, Robert J., “Effectively Managing Base Pay: Strategies for Success,” 2010.

1 Q. IS THE COMPANY EXPERIENCING COMPETITION IN RECRUITING NEW  
2 EMPLOYEES?

3 A. Yes. Prospective employees, with the specific skill sets and training required  
4 for utility industry careers, are in very high demand. For example, there is an  
5 extremely high demand for talented employees with cyber security and  
6 compliance expertise, and turbine engineers. There is also greater  
7 competition amongst employers for prospective employees, particularly for  
8 entry-level employees, within the information technology, finance and  
9 accounting, and other technical-based training. Specifically, the nuclear  
10 industry labor market is highly competitive, as discussed further below.

11

12 Q. ARE THERE REGIONAL RECRUITING ISSUES?

13 A. Yes. The North Dakota economy is performing better than the national  
14 average due to oil and gas development within the state. Unemployment  
15 rates in North Dakota (at only 3.2 percent as of February 2013) are well  
16 below the national average, while average weekly wages in the Bakken area  
17 are up 40 percent since 2009.<sup>4</sup> It is difficult to quantify the direct effect of  
18 this demand on the Company, but it makes recruiting in North Dakota more  
19 complicated while also potentially affecting our ability to attract and retain  
20 employees in nearby states.

21

22 Q. HOW DO YOU RESPOND TO MR. MUGRACE'S CONCERN THAT CASH  
23 COMPENSATION MAY NOT BE THE MAIN DRIVER OF EMPLOYEE RETENTION?

24 A. While we would not suggest that cash compensation is the sole basis on  
25 which an employee makes employment or performance decisions, in our

1 experience it is certainly a key consideration. A 2012 report on the role of  
2 rewards to retain key talent identified the “opportunity to earn more pay  
3 elsewhere” as the primary reason key talent leaves organizations. The third  
4 most common reason was identified as “feelings that pay levels are unfair  
5 relative to others outside the organization.” The report also concluded that  
6 “cash compensation was most often identified as being the best method for  
7 retaining key employees.”<sup>5</sup>

8  
9 Incentive compensation serves as a cost-effective tool to ensure employees  
10 are paid for their contributions to the Company in a manner consistent with  
11 total cash compensation offered for the same or similar job elsewhere in the  
12 market. As a result, providing total cash compensation levels equitable to  
13 the market is a best practice, and also supports our efforts to attract, retain,  
14 and motivate talented employees.

15  
16 Q. HOW DOES THE COMPANY ENSURE THAT THE TOTAL CASH COMPENSATION  
17 PROVIDED TO EMPLOYEES IS COMPETITIVE WITH THE RELEVANT MARKET?

18 A. We utilize a well-structured job evaluation process that follows best practices  
19 by matching jobs to applicable market surveys to ensure an appropriate  
20 comparative base. For non-bargaining positions, the process includes  
21 matching common industry jobs with external market survey data. A variety  
22 of market compensation surveys are used, including general and utility-  
23 specific, function-specific, non-exempt, professional and executive specific.

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<sup>4</sup> <http://www.foxbusiness.com/economy/2013/02/11/north-dakota-oil-boom-driving-economic-development/>; <https://www.shrm.org/Publications/hrmagazine/EditorialContent/2013/0613/Pages/0613-boomtown.aspx>.

<sup>5</sup> Scott, D., McMullen, T., and Royal, M., “Retention of Key Talent and the Role of Total Rewards,” 2012.

1 The use of multiple surveys and survey resources helps ensure valid and  
2 independent information.

3  
4 This process of matching common jobs to the relevant market is referred to  
5 as “benchmarking.” Once a job is benchmarked, the Company utilizes the  
6 median of the compensation levels reported in the market surveys to  
7 determine placement of a job within our pay structures. This ensures pay is  
8 reasonable by being competitive with the relevant market.

9  
10 Q. HOW COMMON IS IT TO USE MARKET COMPENSATION SURVEYS TO ESTABLISH  
11 COMPENSATION LEVELS?

12 A. According to WorldatWork,<sup>6</sup> the use of market compensation surveys is a  
13 best practice in determining compensation levels as well as annual  
14 compensation budgets for base pay increases.

15  
16 Q. IS THERE EVIDENCE DEMONSTRATING THE COMPANY’S TOTAL CASH  
17 COMPENSATION APPROACH IS COMPETITIVE WITH THE RELEVANT MARKET?

18 A. Yes. Towers Watson<sup>7</sup> completed a study comparing our total cash  
19 compensation levels to two sets of data (2012 Towers Watson Study). I  
20 provide the 2012 Towers Watson Study (non-public) and a summary of the  
21 study (public) as Exhibit\_\_\_\_(KLS-1), Schedule 2. The first set of comparison  
22 data was a national sample, reflecting a large majority of U.S. electric and gas  
23 companies. The second set of comparison data reflected data from U.S.

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<sup>6</sup> WorldatWork is a not-for-profit organization providing education, conferences and research focused on global human resources issues including compensation, benefits, work-life and integrated total rewards to attract, motivate and retain a talented workforce. Founded in 1955, WorldatWork has nearly 30,000 members in more than 100 countries.

<sup>7</sup> Towers Watson, a nationally recognized consulting leader for the utility market, helps organizations improve performance by providing compensation surveys, data and financial modeling.

1 electric and gas companies similar in size to the Company. The 2012 Towers  
2 Watson Study showed that our total cash compensation is below the relevant  
3 market by 0.8 and 6.7 percent, respectively, when base salary and the AIP are  
4 considered. Without the AIP, our total cash compensation trails the relevant  
5 market by 14.1 to 19.6 percent.

6  
7 Q. WHY DO YOU RELY ON THE 2012 TOWERS WATSON STUDY?

8 A. The 2012 Towers Watson Study is a specific comparison of our  
9 compensation to the industry in general and confirms the validity of our  
10 market-competitive assessment process. It demonstrates our overall cash  
11 compensation levels are nearly identical to the relevant market when the AIP  
12 is included. Without the AIP, our compensation levels would be nearly 20  
13 percent below utilities of similar size.

14  
15 Q. DO YOU AGREE WITH MR. MUGRACE'S SUGGESTION THAT A WORKER  
16 SATISFACTION STUDY WOULD BE HELPFUL TO ASSESS THE COMPANY'S CASH  
17 COMPENSATION LEVELS?

18 A. No. Employee satisfaction is highly personal and subjective, and can also be  
19 impacted by many other factors employees face in their workplace (i.e.  
20 work/life balance, leadership effectiveness, development opportunities, etc.)  
21 beyond his or her level of cash compensation. As a result, these types of  
22 satisfaction studies are of limited use in determining an objective viewpoint  
23 about pay treatment. We believe it is important to focus on objective  
24 standards, such as comparing total cash compensation data found in  
25 compensation surveys.

26

1 Q. WHAT DO YOU CONCLUDE REGARDING THE TOTAL CASH COMPENSATION  
2 PROVIDED TO COMPANY EMPLOYEES?

3 A. Our process for establishing total cash compensation levels is consistent  
4 with industry best practices. The Company uses the median of compensation  
5 data, thereby establishing cash compensation levels that are towards the  
6 middle of other employers' pay practices. The reasonableness of our process  
7 is confirmed by the 2012 Towers Watson Study, which shows our total cash  
8 compensation levels to be consistent with the relevant market.

9

10 **C. Rate Recovery of Incentive Compensation**

11 Q. IN ADDITION TO OVERALL QUESTIONS REGARDING THE NEED FOR  
12 INCENTIVE COMPENSATION, DID STAFF'S DIRECT TESTIMONY QUESTION  
13 THE AMOUNT OF THE COMPANY'S PROPOSED AIP LEVELS?

14 A. Yes. Mr. Mugrace suggests that no amount of incentive compensation  
15 should be included in rate recovery. He further suggests that, "The  
16 Company has not provided any documentation in its rate case application to  
17 support its incentive compensation in its revenue requirement proposal,"  
18 and recommends that the Commission wholly disallow rate recovery so long  
19 as any state commission regulating the Company disallows incentive  
20 compensation recovery in rates.

21

22 Q. HOW DO YOU RESPOND TO THE CONTENTION THAT THE COMPANY'S RATE  
23 CASE DOES NOT INCLUDE DOCUMENTATION OF ITS INCENTIVE  
24 COMPENSATION?

25 A. Ms. Heuer's Direct Testimony identified our Test Year Workpapers, Section  
26 VIII Adjustments, Tab A27, as including support for our test-year incentive  
27 compensation amounts. These workpapers include a detailed schedule of

1 budgeted 2013 incentive compensation costs by each business area and unit,  
2 and identify whether the budgeted cost for each unit is “in” or “out” of the  
3 test-year budget. These workpapers further provide the jurisdictional  
4 allocation calculation, and demonstrate the calculation for the adjustments to  
5 cap the AIP at 25 percent of base pay. They also show the exclusion of  
6 long-term incentive costs outside the Nuclear Operations area, and of non-  
7 corporate incentive plan costs.

8  
9 To the extent Mr. Mugrace is concerned that the Company has not provided  
10 documentation to support the “various incentive programs” included in its  
11 overall compensation package, I would note that Ms. Heuer described the  
12 nuclear retention and restricted stock unit incentive programs as well as the  
13 AIP, and clarified that any other long-term incentive programs are not  
14 included in our test year. Mr. O’Connor further expanded upon the nuclear  
15 programs, and I provide additional detail here.

16  
17 Q. HAS THE COMPANY PROVIDED ANY OTHER INFORMATION TO STAFF’S  
18 CONSULTANTS THAT WOULD SUPPORT THE LEVELS OF TEST-YEAR INCENTIVE  
19 COMPENSATION?

20 A. Yes, we have. In addition to the detail in this Rebuttal Testimony, in  
21 discovery we provided a list of all nuclear employees receiving long-term  
22 incentive compensation, and an alternate AIP calculation for all employees.  
23 No other documentation was requested in discovery. As a result, Mr.  
24 Mugrace's Direct Testimony was the first time we learned that additional  
25 documentation may be desired.

1 **III. NUCLEAR INCENTIVE PROGRAMS**

2  
3 Q. IS THE COMPANY SEEKING TO RECOVER THE COSTS OF ANY COMPENSATION  
4 PROGRAMS SPECIFIC TO NUCLEAR EMPLOYEES?

5 A. Yes, we are seeking to recover the costs associated with:

- 6 • *Nuclear Restricted Stock Units* – this is the Company’s long-term incentive  
7 program offered to any nuclear employee that meets certain eligibility  
8 criteria. We are only seeking to recover the costs for offering long-term  
9 incentive to nuclear employees.
- 10 • *Nuclear Cash Based Retention Program* – this program is a specific time and  
11 performance based retention program, paid in cash, and entered into  
12 with critical resources for our Nuclear Business unit.
- 13 • *Nuclear Stock Based Retention Program* – this program provides critical  
14 nuclear employees with a stock award that would vest approximately  
15 three years from the time of the award if earned.

16  
17 The Nuclear Cash Based Retention Program and Nuclear Stock Based  
18 Retention Program are available to employees who are in “Key Positions,” as  
19 defined by the nuclear industry and as documented in the Institute of Nuclear  
20 Power Operations (INPO) guidelines.

21  
22 Q. WHY IS THE COMPANY PROVIDING THE NUCLEAR RESTRICTED STOCK UNITS  
23 PROGRAM?

24 A. The Nuclear Restricted Stock Units are our long-term incentive program,  
25 which helps us attract and retain the talented individuals we need to operate  
26 our entire nuclear business. This compensation will also assist us in meeting

1 the long-term recruiting and retention challenges presented by the unique  
2 attributes of the nuclear industry labor market.

3  
4 Q. WHY DID THE COMPANY DEVELOP THE NUCLEAR CASH BASED RETENTION  
5 AND NUCLEAR STOCK BASED RETENTION PROGRAMS?

6 A. We developed these programs to address the significant turnover in key  
7 leadership positions we experienced during 2012. Specifically, in September  
8 2012, two key leadership positions were vacated within two weeks, as the  
9 Chief Nuclear Officer and then the Prairie Island Site Vice President both  
10 resigned. We then experienced difficulty recruiting to replace these positions.  
11 To address our pressing need at Prairie Island, we brought in a very  
12 experienced, loaned executive from INPO as an interim Site Vice President  
13 and to assist with talent development at the plant. The INPO executive was  
14 the third person to hold the Site Vice President position during 2012. As a  
15 direct result of losing these key employees, and in order to stabilize the  
16 existing leadership team and other critical positions with responsibility for the  
17 Company's nuclear operations and management, the Company developed the  
18 retention program.

19  
20 Q. WHAT MAKES THE NUCLEAR INDUSTRY LABOR MARKET UNIQUE?

21 A. The nuclear industry is experiencing a sizeable constraint in the supply of  
22 individuals who possess the necessary educational, technical qualifications,  
23 certifications and skills to work in a nuclear generating facility. There are  
24 several factors contributing to this constraint:

- 1           • *Aging Workforce* – according to a 2010 Nuclear Energy Institute (NEI)  
2           analysis, approximately 39 percent of nuclear industry employees will be  
3           eligible for retirement by 2016.<sup>8</sup>
- 4           • *Gap in Experience Levels* – due to a lack of nuclear higher educational  
5           programs in prior decades, there is a drop-off in experienced resources  
6           between the ages of 32 and 47.
- 7           • *Lack of Entry Level Candidates* – in addition to a lack of graduates from  
8           nuclear programs, higher education nuclear programs are not  
9           widespread.
- 10          • *Size of Market* – With only 67 nuclear generating facilities in the United  
11          States, the domestic market is small and tightly knit, creating a highly-  
12          competitive market for resources.

13  
14          At the same time, the demand for qualified and skilled resources has increased  
15          dramatically over the past 10 years. The NEI projects approximately 25,000  
16          employees will need to be hired into the nuclear industry by 2015 just to  
17          maintain the current workforce. In addition to meeting day-to-day needs, the  
18          nuclear industry in the United States is in its first state of construction since  
19          1979. Initial projections suggest these new facilities will require as many as  
20          400 to 700 permanent new jobs once a plant is operational and between 1,400  
21          and 2,400 jobs during construction.<sup>9</sup> Lastly, several other countries, such as  
22          Poland, India and China, are vigorously pursuing growth opportunities in their  
23          respective nuclear industries.<sup>10</sup>

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<sup>8</sup> U.S. Commercial Nuclear Energy Work Force Update, available at  
[http://nuclearfoundation.org/events\\_files/McAndrew-Benavides\\_FNS\\_Jobs\\_Presentation.pdf](http://nuclearfoundation.org/events_files/McAndrew-Benavides_FNS_Jobs_Presentation.pdf)

<sup>9</sup> Morris, Lindsay, “Preparing the Next Generation of Nuclear Workers”, Power Engineering at  
<http://power-eng.com/articles/npi/print/volum-6/issue-1/nucleaus/preparing-the-next-generation-of-nuclear-workers.html>.

<sup>10</sup> *Id.*

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Q. HAS THE COMPANY EXPERIENCED ADDITIONAL RETENTION CONCERNS RECENTLY?

A. Yes. When we consider all of our employees within the Nuclear Business Unit, as of August 2013 we are approximately 94 full-time positions down from a full staffing level. This is even with the Company's significant hiring efforts.

We are also having difficulty recruiting the talent resources we need to support our nuclear operations. We are seeing candidates decline our offers to pursue better compensation opportunities with other companies, a growing number of open positions within the Nuclear Business Unit, and longer periods of time to fill those positions when compared to the rest of the Company.

Q. HOW DO YOU ADDRESS MR. MUGRACE'S CONCERN THAT THE AMOUNT OF THE NUCLEAR INCENTIVES MAY BE OVERLY GENEROUS?

A. Similar to other compensation programs, the Company utilizes median market competitive data to aid in establishing its long-term incentive program, including long-term incentive offered to nuclear employees. The long-term incentive market rates are based on data from surveys conducted by Towers Watson and are based on data for specific jobs and/or groupings of jobs with similar base salaries (sometimes referred to as our pay structure).

We developed the Nuclear Cash Based Retention Program and Nuclear Stock Based Retention Program by carefully considering both our experience with retention agreements and what is offered in the industry. For example, the Company used retention agreements, with good success, during the period of transitioning management and operations of our nuclear fleet from the

1 Nuclear Management Company to the Company in the fall of 2008. In  
2 addition, the national nuclear industry has commonly used retention  
3 agreements to hold talent in Key Positions in place for designated periods of  
4 time. As a result, we have been able to discern appropriate levels of incentives  
5 to achieve continuity goals without overpaying employees.

6  
7 Q. ARE YOU AWARE OF ANY EXPERIENCE THAT WOULD INDICATE THE  
8 COMPANY'S NUCLEAR OPERATIONS INCENTIVE PROGRAMS ARE OVERLY  
9 GENEROUS?

10 A. No – to the contrary. Even with the recent addition of our Nuclear Cash  
11 Based Retention and Nuclear Stock Based Retention programs, we continue to  
12 see market challenges in attracting and retaining skilled employees capable of  
13 working on specialized nuclear projects. By way of example, the Kewaunee  
14 Nuclear Power Plant announced it was closing after our Nuclear Cash Based  
15 Retention and Nuclear Stock Based Retention programs were established in  
16 September 2012. We contacted Dominion Resources to explore human  
17 resource opportunities from Kewaunee, and also hosted a private job fair in  
18 Green Bay, Wisconsin to generate interest in our employment opportunities  
19 among individuals working at Kewaunee.

20  
21 Q. WHAT DIFFICULTIES HAS THE COMPANY EXPERIENCED WITH HIRING FROM  
22 KEWAUNEE?

23 A. Dominion Resources, like other companies that operate a nuclear generation  
24 facility, had already executed retention agreements with employees critical to  
25 shutting down the plant, such as plant operators, engineers and senior  
26 leadership. The retention agreements will be in effect for several more years,  
27 meaning these individuals are either not interested in working for us until the

1 retention agreements expire or are asking for additional compensation to help  
2 buy out their retention agreements. During 250 interviews with Kewaunee  
3 employees, we encountered employees who were simply not interested in our  
4 positions due to existing retention agreements, as well as enhanced severance  
5 packages that were cost prohibitive for us to buy out. Even though 32  
6 individuals have accepted offers (out of 54 offers made), many have yet to  
7 begin working for us and have asked for several extensions to their start date  
8 because of their existing retention agreements with Dominion Resources. In  
9 short, retention programs similar to what we propose in this case are being  
10 used by other nuclear facilities to good effect, as they are precluding the  
11 Company from attracting skilled nuclear employees bound by those  
12 agreements. Other difficulties include the availability of better opportunities  
13 and an unwillingness to relocate to the location of our nuclear facilities.  
14

15 Q. DO THE NUCLEAR CASH BASED RETENTION AND NUCLEAR STOCK BASED  
16 RETENTION PROGRAMS PROVIDE PARTICULAR BENEFITS TO RATEPAYERS?

17 A. Yes, I believe these programs provide several benefits:

- 18 • *Alignment of Interests* – the programs align the interests of eligible  
19 employees with specific nuclear operational and safety goals for our  
20 nuclear generating facilities.
- 21 • *Reduce Costs* – the programs maintain the Company’s key nuclear  
22 resources. By doing so we believe we can save costs by avoiding  
23 staffing issues during time-sensitive periods for critical projects  
24 currently underway at our nuclear generating facilities and avoid the  
25 cost of recruiting, hiring, and training replacement individuals.
- 26 • *Assure Stability* – the programs retain the Company’s knowledge base  
27 not only for projects currently underway but potentially into the future.

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Q. DO YOU AGREE WITH MR. MUGRACE’S RECOMMENDATION TO DISALLOW THE COMPANY’S NUCLEAR INCENTIVE COSTS?

A. No, I respectfully disagree. The Nuclear Restricted Stock Units program is consistent with what is provided in the market, and therefore is necessary for us to compete for this scarce human resource. It is also the most cost-effective, impactful way for us to address the long-term retention and recruiting challenges presented by the uniqueness of the nuclear industry labor market. The Nuclear Cash Based Retention and Nuclear Stock Based Retention programs have been the most meaningful human resource tools for stabilizing our Nuclear Business Unit after several critical resources left the Company at difficult times to pursue other opportunities.

**IV. CONCLUSION**

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. Our employees are essential to providing safe and reliable service to our customers. In order to attract, retain and motivate employees, it is necessary for the Company to provide our employees with market-competitive levels of compensation. This is particularly critical in high-demand areas with limited pools of employees having needed skills, as in the nuclear industry. The 2012 Towers Watson Study shows our total cash compensation, including AIP, is competitive with the relevant market. Because the level of total cash compensation provided to our employees is comparable to what other utilities offer, it is a reasonable cost of providing electric service and should be eligible for cost recovery.

- 1 Q. DOES THIS CONCLUDE YOUR PRE-FILED REBUTTAL TESTIMONY?
- 2 A. Yes, it does.

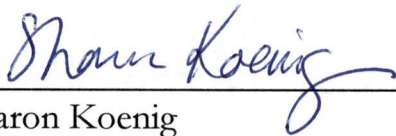
1 STATE OF NORTH DAKOTA  
2 BEFORE THE  
3 PUBLIC SERVICE COMMISSION  
4

5  
6 In the Matter of the Application of Northern )  
7 States Power Company, a Minnesota Corporation )  
8 For Authority to Increase Rates for Electric Service )  
9 in North Dakota )

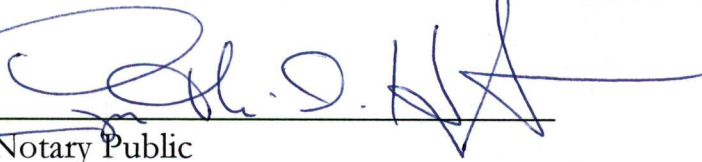
Case No. PU-12-813

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13 **AFFIDAVIT OF**  
14 **Sharon Koenig**  
15

16  
17 I, the undersigned, being duly sworn, depose and say that the foregoing is  
18 the Rebuttal Testimony of the undersigned, and that such Rebuttal Testimony and  
19 the exhibits or schedules sponsored by me to the best of my knowledge,  
20 information and belief, are true, correct, accurate and complete, and I hereby adopt  
21 said testimony as if given by me in formal hearing, under oath.  
22

23  
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25 \_\_\_\_\_  
26 Sharon Koenig  
27

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30 Subscribed and sworn to before me, this 24<sup>th</sup> day of August, 2013.  
31

32   
33 \_\_\_\_\_  
34 Notary Public

35 My Commission Expires: 1-31-2015  
36



**Resume of Sharon L. Koenig  
Director, Compensation**

Xcel Energy Services, Inc.  
414 Nicollet Mall  
Minneapolis, Minnesota 55401

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**Current Responsibilities**

Since March 2013, I have held the position of Director, Compensation for Xcel Energy Services, Inc. The responsibilities of my position are outlined below:

- Ensure that the Company's compensation programs strive towards the goals of attracting key talent, maintaining retention of employees and motivating employee behaviors that align with the Company's business goals
- Provide leadership and management of the Compensation Department, including developing of staff
- Responsible for the day-to-day administration of all compensation programs and systems for effectiveness, including base pay programs, annual incentives, long-term incentives and the annual salary planning and merit process; provide consultation to business leaders and HR
- Accountable to lead competitive market research to establish pay practices, job analysis, structures, program and policy design, and to monitor market trends
- Ensure competitive practices through participation in salary/compensation surveys; research best practices; plan, develop and implement new and revised compensation and incentive programs, policies, and procedures as needed to be responsive to the Company's business plans and strategic objectives
- Manage compensation practices to ensure they are operationally effective and efficient in processes, compliant with state and/or federal regulations, and align to sound business practices

**Previous Employment Since 1996**

**Supervalu Inc.**

Director, Corporate Compensation: February 2010 – February 2013

Manager, Executive Compensation: March 2007 – February 2010

**ADC Telecommunications, Inc.**

Manager, Global Assignments & Stock Compensation: July 2000 – March 2007

Senior Stock Program Analyst: March 2000 – July 2000 (Rehired)

Senior Corporate & Securities Law Paralegal in Legal Department: February 1996 – July 1999

**Jostens, Inc.**

Senior Corporate & Securities Paralegal/Stock Plan Administrator: July 1999 – March 2000

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**Education and Certification**

Certified Compensation Professional (CCP) October 2009  
World at Work Organization

Bachelor of Arts, Business Management Major and Economics Minor  
Hamline University, St. Paul, MN, May 1990

**Current Testimony**

North Dakota – Incentive Compensation Rebuttal Testimony (August 12, 2013)

**PUBLIC DOCUMENT**  
**TRADE SECRET INFORMATION EXCISED**

Northern States Power Company  
Electric Utility - State of North Dakota

Case No. PU-12-813  
Exhibit\_\_\_(KSL-1), Schedule 2  
Page 1 of 2

**2012 Towers Watson Study Summary**

Towers Watson, an independent human resource consulting firm, performed a study to compare our total cash compensation program to programs offered by all utilities as well as similarly-sized utilities. The 2012 study shows that Xcel Energy's total cash compensation levels are below, but generally comparable to, those of other utilities. Below we provide a public summary of the confidential report.

**Comparison Groups:** The Study compared Company compensation levels to two sets of data.

- The first set of comparison data was national data reflecting a large majority of U.S. electric and gas companies (with median revenues of \$3.6 billion).
- The second set of comparison data was data reflecting U.S. electric and gas companies similar in size to Xcel Energy Inc. (with median revenues of approximately \$10.0 billion). The second set of data is significant, because managerial positions in larger organizations typically have greater complexity, and therefore they require more skill, which in turn increases the compensation requirement.

**Data Used:** The study reflects pay rates as of March 1, 2012, which is the most recent information available. This allows fair comparisons between the test-year level of costs and the market comparisons.

**Results:** The findings of the study are as follows:

- The level of annual total compensation for which we are seeking recovery (salaries plus the annual incentive target levels subject to a cap at 25 percent

**PUBLIC DOCUMENT**  
**TRADE SECRET INFORMATION EXCISED**

Northern States Power Company  
Electric Utility - State of North Dakota

Case No. PU-12-813  
Exhibit\_\_\_(KSL-1), Schedule 2  
Page 2 of 2

of base salary) for all positions is two percent below the market median for all other utilities, and nine percent below the market median for similar-sized utilities.

- The Company's total cash compensation levels without AIP would further erode to 14 percent below the market median compared to all other utilities. When compared to similar-sized utilities, the Company's total cash compensation levels without AIP would fall significantly below the competitive market median 20 percent.
- The Company's annual incentive targets are well aligned with other utilities. The Company's annual incentive targets are approximately two percent below competitive levels when compared to the market median for both the overall market of other utilities and similar-sized utilities.

**Company Input:** The Company had no involvement or input into the specific comparison or study data used by Towers Watson. We requested that Towers Watson make comparisons to different benchmarks including: our target total cash levels, capped AIP levels, and compensation levels without any AIP plan.

**Company Use of the Survey Results:** The Company regularly compares its total cash compensation levels and plans to other firms using the data provided by numerous third-party surveys, including the Towers Watson study. The Company selects benchmark positions that are representative of positions within each salary range and compares the Company's salaries to the external market data from the surveys. Once a job is placed within the structure, individual pay is determined by employee performance.