



414 Nicollet Mall  
Minneapolis, MN 55401

**PUBLIC DOCUMENT  
TRADE SECRET DATA EXCISED**

December 6, 2013

— VIA E-MAIL & FEDERAL EXPRESS —

Darrell Nitschke  
Executive Secretary  
North Dakota Public Service Commission  
State Capitol Building  
600 East Boulevard, Dept. 408  
Bismarck, ND 58505-0480

RE: NORTHERN STATES POWER COMPANY FOR  
ELECTRIC RATE INCREASE APPLICATION  
LATE FILED EXHIBITS  
CASE NO. PU-12-813

Dear Mr. Nitschke:

During technical hearings, additional information was requested by various parties. These items were identified for the record and pre-admitted as “late-filed exhibits”. We submit Exhibit E as follows:

Ex. E            Demonstration of Cost Savings by Having Annual  
                         Incentive Plans

Certain information in Exhibit E has been marked as Trade Secret consistent with our Trade Secret Application in this case. The Company will provide the trade secret versions of Exhibit E via Federal Express. The public version of Exhibit E is being provided via electronic mail.

We regret the untimely nature of this filing and apologize to the Commission for not providing it sooner. Please contact me if you have any questions regarding the information included in the exhibits. I can be reached at [debra.j.paulson@xcelenergy.com](mailto:debra.j.paulson@xcelenergy.com) or 612-330-7571.

Darrell Nitschke  
December 6, 2013  
Page 2 of 2

Sincerely,

/s/

DEBRA J. PAULSON  
MANAGER, RATE CASES  
NORTHERN STATES POWER COMPANY

cc: Via Electronic Mail Only:  
Bonny M. Fetch, Administrative Law Judge  
Illona Jeffcoat-Sacco, NDPSC Advisory Staff  
Ryan Norrell, NDPSC Advocacy Staff  
Kari Valley, NSP  
Rick Johnson, Moss & Barnett  
Denise Andahl, Emenith & Associates

### **Comparison of Compensation Costs Between a Base Salary/Annual Incentive Plan (AIP) framework and a Base Salary/No AIP Framework**

During the evidentiary hearing in this matter, Advocacy Staff requested a late-filed exhibit to demonstrate that a base salary and annual incentive program (AIP) cash compensation framework is more cost-effective than rolling AIP costs into base salaries (Transcript Vol. 1, p. 226-230). In particular, Advocacy Staff requested a document that demonstrates savings in the forms of (i) reduced cash compensation and (ii) reduced benefit costs broken down by employee groups. The parties agreed this document would be submitted as late-filed Exhibit E (*Id.* at p. 230). The Company respectfully submits the attached document as late-filed Exhibit E.

The “Current Compensation” segment of Exhibit E depicts the Company’s total current base salaries for employees eligible for AIP, with cost information broken down by employee group. This segment then computes certain benefit costs associated with those base salaries.

The section entitled “Future State Model - All AIP is Added to Base Salary” shows the higher levels of benefit costs that would be payable to employees if AIP costs were rolled into base salary. This segment demonstrates that because in most cases benefits are calculated as a percentage of base salary, certain benefit costs would increase if AIP were rolled into base salary. The annual cost difference for those benefits listed is just under \$600,000.

Finally, the section of Exhibit E entitled “Additional Impact Over Time of Increasing Base Salary by AIP Amount” demonstrates the total additional compensation costs that would be incurred if AIP were rolled into base salaries over a period of five years. First, the row entitled “Incremental Base Salary if AIP is eliminated and rolled into base salary” illustrates that because annual merit increases in salary are applied to base salaries but not AIP, rolling AIP into base salaries substantially increases future incremental cash compensation over time. Applying an annual 3% merit increase assumption (here calculated solely on the difference between base salaries including AIP and base salaries excluding AIP) results in aggregated base salary cost increases of \$6,277,043. The difference in total cash compensation could be slightly higher or lower depending on whether the AIP payout is lower or higher than current year target in any given year. The “Total Cost Difference” shows that the total compensation cost difference increases to \$6,351,681 when certain benefit cost increases (arising from the higher base salaries) are included in the calculation.

**Current Compensation**

Description	AIP Target %	Employees (6/20/2013)	Avg Base Salary	Aggregate Base Salaries	Aggregate AIP Avg \$ at Target
Individual contributors - entry level		333		\$20,571,407	
Engineers - entry level		250		\$17,820,637	
Engineers - intermediate		130		\$12,422,152	
Individual contributors - career		1562		\$127,652,928	
Engineers - career		176		\$20,600,722	
Individual contributors - Senior and Management		1408		\$157,435,046	
Management		192		\$31,958,598	
Management - Senior		17		\$3,465,035	
<b>Total</b>		<b>4,068</b>		<b>\$391,926,525</b>	<b>\$50,012,765</b>

Incentive Eligible Base salaries Total

\$ 391,926,525

Employer - match on 401(k)

\$ 564,374

assumes 80% enrollment of which 6% of base salaries for those employees is contributed and matched by the employer at 3%

Employer contribution - Pension

\$ 44,193,929

assume 10% of 1x of base salary and AIP

Employer - 1x Basic Life Insurance benefit

\$ 62,708

Employer - premium for LTD

\$ 2,508,330

Employer - cash for PTO sell back to company

\$ 2,187,470

Paid as cash to employees who elect to sell PTO to the company

Total Non-Base Salary Costs

\$ 49,516,811

**Future State Model - All AIP is Added to Base Salary**

Description	AIP Target %	Employees (6/20/2013)	Avg Base Salary	Aggregate Base Salaries	Aggregate AIP Avg \$ at Target	Base Salary + Aggregate AIP
Individual contributors - entry level		333		\$20,571,407		
Engineers - entry level		250		\$17,820,637		
Engineers - intermediate		130		\$12,422,152		
Individual contributors - career		1562		\$127,652,928		
Engineers - career		176		\$20,600,722		
Individual contributors - Senior and Management		1408		\$157,435,046		
Management		192		\$31,958,598		
Management - Senior		17		\$3,465,035		
<b>Total</b>		<b>4,068</b>		<b>\$391,926,525</b>	<b>\$50,012,765</b>	<b>\$441,939,290</b>

Base Salaries Total

\$ 441,939,290

Employer - match on 401(k)

\$ 636,393

assumes 80% enrollment of which 6% of base salaries for those employees is contributed and matched by the employer at 3%

Employer contribution - Pension

\$ 44,193,929

assume 10% of 1x of base salary and AIP

Employer - 1x Basic Life Insurance benefit

\$ 70,710

Employer - premium for LTD

\$ 2,828,411

Employer - cash for PTO sell back to company

\$ 2,382,053

Paid as cash to employees who elect to sell PTO to the company

Total Non-Base Salary Costs

\$ 50,111,496

Difference in Annual Non-Base Salary Labor Costs:

\$ 594,685 (If AIP was instead reflected as part of base salary)

**Additional Impact Over Time of Increasing Base Salary by AIP Amount**

(Assumes 3% annual salary increases)	Year 1	Year 2	Year 3	Year 4	Year 5	Additional Costs over 5 year period
Incremental Base Salary if AIP is eliminated and rolled into base salary	\$ 50,012,765	\$ 51,513,148	\$ 53,058,543	\$ 54,650,299	\$ 56,289,808	\$6,277,043
Employer - match on 401(k)	\$ 72,018	\$ 74,179	\$ 76,404	\$ 78,696	\$ 81,057	\$9,039
Employer contribution - Pension	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Employer - premium for 1x Basic Life Insurance benefit	\$ 8,002	\$ 8,242	\$ 8,489	\$ 8,744	\$ 9,006	\$1,004
Employer - premium for LTD	\$ 320,082	\$ 329,684	\$ 339,575	\$ 349,762	\$ 360,255	\$40,173
Employer - cash for PTO sell back to company	\$ 194,583	\$ 200,420	\$ 206,433	\$ 212,626	\$ 219,005	\$24,422
<b>Total Cost Difference</b>	<b>\$ 50,607,450</b>	<b>\$52,125,673</b>	<b>\$ 53,689,444</b>	<b>\$ 55,300,127</b>	<b>\$ 56,959,131</b>	<b>\$ 6,351,681</b>

Note: The above information was based on actual employee data, however it was shown for illustrative purposes only.