

SPS Responses to

WTMPA Questions for the 2015 SPS Transmission Cost Formula Rate True-up

1. In the "07-2016---Customer Variance Packet 2015 True-Up Final" file there are expenses on row 97 of the Variance Analysis under Common. Are these costs actually A&G from the formula rate? Is there are a reason they are listed as Common in the Variance Analysis?

Response:

The \$11,125,858 expense listed as Common on row 97 of the Variance Analysis is the Balance of A&G allocated to transmission as shown on the "ARR – Actual Data" tab, Line No. 239 (excel row 125) of the formula rate true-up file. There is not a reason the costs are listed as Common in the Variance Analysis.

2. In the PDF file "06-2016---Customer Variance Packet 2015 True-up" the amount listed for Account 922 Administrative Expenses Transferred-Credit 2015 actuals is a positive \$9M. Should this be negative value as it is a transfer out of A&G? In the excel files it is listed as a negative \$9M.

Response:

Yes, the amounts listed for FERC Account 922 should be negative values. The inconsistency is between the "2015 vs 2014 Actual" and "Customer A&G" tabs of the excel file. This inconsistency was duplicated when converting the excel file to the PDF file.

This inconsistency does not appear in the "07-2016---Customer Variance Packet 2015 True-Up Final" file.

3. In the "07-2016---Customer Variance Packet 2015 True-Up Final" file the O&M analysis states that Transmission Expenses, Overhead Lines Expense (FERC 563) increased \$498K in 2015 compared to 2014. The variance is due to these dollars being inadvertently capitalized instead of expensed. This amount has now been properly reclassified to the overhead line transmission expense account. The majority of these dollars were costs relating to anti-perching devices. Did SPS recover a return on the previously capitalized \$483K in 2014 or any other costs that were incorrectly capitalized in previous years?

Response:

Yes, SPS would have earned a return on that capitalized amount in 2014. SPS reviewed previous years' variance analyses explanations and did not find any instances where costs were incorrectly capitalized. SPS is in the process of conducting additional review and will supplement this response if needed.

4. In the "07-2016---Customer Variance Packet 2015 True-Up Final" file the A&G analysis states that the A&G Expense, Administrative and General Salaries (FERC 920) increased \$3.6M in 2015 compared to 2014. Increases in A&G salaries were due to higher performance share plan costs (Increase of \$2.5M) as well as higher productive labor costs (Increase of \$1.4M). This was partially offset by lower annual incentive costs. What are the performance share plan costs? How are they determined?

Response:

The Performance Share Plan provides certain employees with the potential to earn awards based on company performance relative to peer companies on two performance measurements: Total Shareholder Return (TSR) and stock price. TSR is measured cumulatively over a three-year period and is measured against a peer group. At the end of each three-year performance period, participants receive an award that correlates the extent to which the Company's TSR out-performs or under-performs the peer group. Awards range from 30% of target for threshold performance to 200% of target for exceptional performance, and if the threshold performance is not met, then no award is paid.

5. In the "07-2016---Customer Variance Packet 2015 True-Up Final" file the A&G analysis states that the A&G Expense, Rents (FERC 931) increased \$1.6M in 2015 compared to 2014. Most of this was due to a \$1.2M increase in shared asset costs allocated to transmission primarily due to a \$10.1M increase in total network costs (across all Operating Companies) from 2014 to 2015 due to new assets. What drove the increase in total network costs?

Response:

FERC Account 931, Rents increased \$1.6 million December 2015 Year to Date (YTD) compared to December 2014 YTD due primarily to a \$1.2 million increase (25%) in shared asset costs. Increased shared asset costs were mostly due to a \$10.1 million increase (23%) in total network equipment assets (across all Xcel Energy operating companies) from December 2014 to December 2015.

A shared asset can be defined as a unit of property that is owned by one of the Xcel Energy Operating Companies (SPS, PSCo, NSPM, or NSPW) and is used by an Xcel Energy affiliate. Costs associated with these assets are charged out on an "at cost" basis in relation to usage by various entities. Examples include software, buildings and related equipment, transportable equipment and infrastructure (information systems network equipment, communication equipment, etc.). This ensures that the costs related to the assets are appropriately assigned to the Xcel Energy legal entities that are the beneficiaries of those services, similar to the allocation of labor and other costs associated with Xcel Energy Services Inc. personnel and services to all Xcel Energy affiliates. SPS both owns shared assets and uses shared assets owned by other Operating Companies.