

**Southwestern Public Service Company
Attachment O – SPS Transmission Formula
2016 Projection
Material Accounting Changes since January 1, 2015**

In compliance with the Annual Formula Rate Implementation Procedures, Section 3.a.(v), Southwestern Public Service Company (SPS or the Company) has listed below the material changes that have taken effect since January 1, 2015. In addition, significant unusual or non-recurring income/expense items have been identified. For additional information, please refer to the Southwestern Public Service Company FERC Form 3-Q for Q2 2014, Notes to Financial Statements.

(a) FERC Uniform System of Accounts

There were no material changes.

(b) FERC Form No. 1 Reporting Requirements

There were no material changes.

(c) FERC Ratemaking Orders Applicable to the SPS Formula Rate

There were no material changes.

(d) Accounting Policies, Practices or Procedures of SPS

There were no material changes.

(e) FERC Related Items

Settlement of Matters between SPS and Certain Wholesale Production and Transmission Customers — On Aug. 28, 2015, Southwestern Public Service Company (SPS), a wholly owned subsidiary of Xcel Energy Inc., Golden Spread Electric Cooperative, Inc. (Golden Spread), Central Valley Electric Cooperative, Inc., Lea County Electric Cooperative, Inc., Farmers' Electric Cooperative of New Mexico, Inc., Roosevelt County Electric Cooperative, Inc. (the New Mexico Cooperatives), West Texas Municipal Power Agency (WTMPA), Public Service Company of New Mexico (PNM), and Tri-County Electric Cooperative, Inc. (Tri-County) filed an offer of settlement and settlement agreement with the Federal Energy Regulatory Commission (FERC) that would provide a complete and comprehensive resolution of nine pending matters in dispute at the FERC between SPS and these wholesale production and transmission customers (Global Settlement).

The following matters were settled upon:

- 2004 FERC Complaint Case between SPS and PNM and Golden Spread regarding CP allocation
- Wholesale Rate Complaints between SPS and Golden Spread, and later including the NM Cooperatives and WTMPA, regarding the ROE in the production and transmission formula rates
- 2015 formula rate template changes

In accordance with the Global Settlement, SPS has made the following changes to the Formula Rate Template for the 2016 estimated rates:

- The ROE has been changed to 10.5%. Effective on and after October 20, 2014: with respect to a filing under FPA Section 205 to change the transmission formula ROE established in the comprehensive Settlement Agreement in Docket

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No. EL15-8-000 et al. (“Settlement Agreement”), SPS will not submit a filing prior to October 31, 2019 seeking to increase the fixed ROE of 10.5 percent (which includes the SPP RTO membership adder), and will not request an effective date earlier than January 1, 2020; with respect to a filing under FPA Section 206 to change the fixed ROE of 10.5 percent, no Settling Party to the Settlement Agreement will file or support an FPA Section 206 filing to reduce the fixed ROE prior to October 31, 2019, and no Settling Party will request a refund effective date earlier than January 1, 2020.

- SPS has added a section to Worksheet B, Table 15, to include a revenue credit for any gain on the sale of transmission assets. Effective January 1, 2016, for each transmission transaction resulting in a gain recorded in Account 421.1 (gain on disposition of property), the amount of the gain included for that transaction will equal the (i) total amount of the gain for that transaction recorded in Account 421.1, (ii) multiplied by the Texas retail gain sharing percentage specified by the PUCT for that transaction. Applicable sharing will be recognized as a revenue credit.
- The provision in which SPS set the Post-Employment Benefits Other Than Pensions (PBOP) expense at a base level and did not change this value until approved by FERC, as detailed on Worksheet H, Table 28, has been deleted. The actual PBOP expense will be included in the formula rate template. In addition, as a part of the Annual Update, SPS will provide the report(s) estimating SPS’s PBOP expenses for the next rate year. Effective January 1, 2015, PBOP charges will be based on the PBOP expense amount reported in SPS’ most recent annual actual valuation report. For 2016, the projected expense is \$355,049:

	Total Expense	O&M %	O&M \$
SPS Direct Expense	(787,000)	67.4089%	(530,508)
XES - Allocated to SPS	1,499,000	11.7051%	175,460
	712,000		(355,049)

(f) GAAP-Related Items

There were no material changes.

(g) Significant Unusual or Non-Recurring Income or Expense

There were no unusual or non-recurring income or expense items.

(h) Other

Proration of Accumulated Deferred Income Taxes — The Company is assessing its calculation of the Federal and State portion of FERC Accounts 281, 282, 283 and 190, Accumulated Deferred Income Taxes (ADIT), a net offset to rate base to assure it is calculated in accordance with the proration formula in IRS regulation section 1.167(1)-1(h)(6). No estimate of the potential impact, if any, to the 2016 estimated annual transmission revenue requirement is known at this time. If the Company determines the IRS regulation affects the 2016 estimated ATRR, the Company will provide to the Customers and post on OASIS a revised 2016 estimated ATRR prior to January 1, 2016.

(i) SPP and/or Xcel Energy OATT changes that relate to SPS

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- Docket No. EL13-78, et al (consolidated). – Golden Spread Section 206 (Complaints I and II) filing where GSEC alleges the rate of return on common equity used in SPS formula rate under the Replacement Power Sales Agreement and Xcel Energy Operating Companies' Joint Open Access Transmission Tariff are unjust and unreasonable. Filed 7/19/2013. On November 26, 2014, the Chief Judge issued an order terminating settlement procedures and establishing and initial decision deadline. See description of Settlement Agreement above.
- Docket No. ER12-959 -- SPP filing to incorporate Tri County Electric Cooperative formula transmission rate into SPP OATT. Filed 1/31/2012. Tri County's transmission facilities are located within the SPS zone. FERC order issued 3/30/2012. Requests for rehearing were granted through an order issued on 2/21/2013 and an Initial Decision was issued on 4/22/2013 which concluded none of Tri County's facilities qualify as transmission under SPP Attachment AI. Requests for rehearing of the Order on Rehearing are pending. SPS appealed both orders to the D.C. Circuit Court of Appeals on April 22, 2013. On November 16, 2014, the Commission issued Opinion No. 535 which affirmed the Initial Decision that none of Tri County's facilities qualify as transmission under SPP Attachment AI. On October 30, 2014, SPP submitted a compliance filing to remove the Tri-County formula rate from the OATT and on December 5, 2014 the Commission accepted the revisions to remove the formula rate. On March 23, 2015, SPP submitted a refund report. SPS has an appeal pending in the United States Court of Appeals for the D.C. Circuit under Case No. 14-1282.
- Docket No. EL13-35 SPS Complaint - SPS complaint pleading that stated SPP should have not implemented possibly unjust and unreasonable rates for an annual update in ER12-959 (Tri-County formula rate). Order issued on February 21, 2013 setting the matter for hearing and settlement judge procedures. SPS and other parties submitted requests for rehearing, which are currently pending. This matter has been consolidated with Docket No. EL13-15. On January 10, 2014, an uncontested settlement was filed. As outlined in the settlement, SPP submitted and sponsored certain Tariff Revision Requests (TRRs 119 and 120) that went through the SPP stakeholder process. Subsequently, SPP filed the proposed revisions that came out of the stakeholder process on January 15, 2015 in Docket No. ER15-859. On March 16, 2015, the Commission issued an order accepting in part and rejecting in part the proposed revisions.
- Docket No. EL13-15 SPS Complaint – SPS complaint pleading that stated SPP should have reviewed Tri-County's compliance with Attachment AI prior to filing ER12-959 (Tri-County formula rate). SPP has filed an answer and motion to consolidate. Order issued on February 21, 2013 setting the matter for hearing and settlement judge procedures. SPS and other parties submitted requests for rehearing, which are currently pending. This matter has been consolidated with Docket No. EL13-35. On January 10, 2014, an uncontested settlement was filed. As outlined in the settlement, SPP submitted and sponsored certain Tariff Revision Requests (TRRs 119 and 120) that went through the SPP stakeholder process. Subsequently, SPP filed the proposed revisions that came out of the stakeholder process on January 15, 2015 in Docket No. ER15-859. On March 16, 2015, the Commission issued an order accepting in part and rejecting in part the proposed revisions.
- Docket No. ER13-366 - Order 1000 Compliance Filing – OATT - On February 19, 2013, SPP filed an answer in response to various comments and protests filed in response to SPP's Order No. 1000 Compliance Filings in Docket Nos. ER13-366 and ER13-367. On August 15, 2014, pursuant to the Commission's Order on Compliance Filings issued July 18, 2013, and the Commission's Notice of Extension of Time issued October 24, 2013, SPP submitted revisions to its OATT

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to comply with one Commission directive set forth in the July 2013 Order. SPP requested an effective date of January 1, 2015. On October 16, 2014, the Commission issued an order granting in part and denying in part various requests for rehearing in the case as well as accepting in part SPP's proposed tariff revisions subject to conditions and directing further revisions to the OATT. On December 15, 2014, SPP filed further revisions as directed. On April 16, 2015, the Commission issued an order directing SPP to submit a further compliance filing which SPP did on May 18, 2015.

- Docket EL14-21 - SPP Complaint Against MISO – JOA Violation. On January 28, 2014, SPP filed a Complaint and Request for Fast Track Processing and Motion to Consolidate. SPP submitted the Complaint for an order finding that the Midcontinent Independent System Operator, Inc. is violating the Joint Operating Agreement ("JOA") between SPP and MISO and SPP's Tariff, requiring MISO to compensate SPP for use of SPP's transmission system in accordance with the SPP Tariff. In the event the Commission does not so find, SPP alternatively requests that the Commission find 1) that the JOA is no longer just, reasonable, and not unduly discriminatory to the extent it does not provide a mechanism by which SPP may assess charges for MISO's use of the SPP transmission system to integrate the former Energy Operating Companies; and 2) that the compensation mechanism set forth herein is the just, reasonable, and not unduly discriminatory rate for MISO's use of the SPP transmission system. SPP requested that Docket Nos. ER14-1174, EL11-34 and EL14-21 be consolidated. On March 28, 2014, the Commission issued an order consolidating the dockets and establishing hearing and settlement procedures. The settlement process is ongoing.
- Docket ER14-1174 - SPP-MISO Joint Operating Agreement Dispute – This docket addresses the integration of MISO South (Entergy) into MISO and the transmission service charges for use of SPP's transmission system for transactions between MISO and MISO South. SPP requested that Docket Nos. ER14-1174, EL11-34 and EL14-21 be consolidated. On March 28, 2014, the Commission issued an order consolidating the dockets and establishing hearing and settlement procedures. The settlement process is ongoing.
- Docket ER14-2570 - SPP submitted revisions to its OATT in compliance with Order No. 792 in Docket No. ER14-2570. On March 26, 2015, the Commission issued a letter order accepting the revisions to be effective August 1, 2014.
- Docket ER15-42 - On October 3, 2014, SPP filed an informational filing to notify the Commission of SPP's implementation of the year-three reallocation of revenue requirements in accordance with the Balanced Portfolio process described in Attachments J and O of the Tariff. SPP implemented the year-three reallocation of revenue requirements on October 1, 2014, which is consistent with the Commission's order in Docket No. ER12-2387, wherein the Commission approved an October 1st effective date for the initial reallocation of revenue requirements and for all subsequent reallocations for years two through five. On April 22, 2015, the Commission issued a letter order accepting SPP's implementation of the year-three reallocation of revenue requirements.
- Docket ER15-10 - SPP submitted revisions to its OATT amending interest requirements on certain refunds and other payments. On November 26, 2014, the Commission issued an order accepting the revisions to be effective December 1, 2014.
- Docket ER14-2751 – Xcel Energy Southwest Transmission Company ("XEST") – On August 29, 2014, XEST submitted a transmission formula rate filing for ultimate inclusion in the SPP OATT. XEST is a transmission-only company established by Xcel Energy Inc. in May 2014. Several interventions, some including comments and/or protests, were filed in September 2014. On

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November 26, 2014, the Commission issued an order accepting and suspending the filing and establishing hearing and settlement procedures. The November 26 order also required XEST to submit a compliance filing. The Settlement process is ongoing and the next settlement conference is being held October 22, 2015. On September 22, 2015, the Commission issued a deficiency letter directing XEST to submit additional information.

- Dockets ER14-2850 and ER14-2851 – SPP’s filing to integrate the WAPA Integrated System into SPP. On November 10, 2014, the Commission issued an order conditionally accepting in part, rejecting in part, accepting and suspending filings in part, establishing hearing and settlement procedures, and directing compliance filing. The settlement process is ongoing and the next settlement conference is currently scheduled for October 23, 2015.
- Docket ER15-279 - Southwest Power Pool, Inc. (SPP) submitted tariff revisions to its OATT to implement a stated rate to accommodate the recovery of the Annual Transmission Revenue Requirements for the Central Nebraska Public Power and Irrigation District to be included in the Nebraska Public Power District Zone 17 pricing zone under the OATT. On March 10, 2015, SPP and the Central Nebraska Public Power and Irrigation District filed and unopposed Settlement resolving all issues set for hearing and settlement procedures. On June 25, 2015 the Commission issued a letter order approving the settlement.
- Docket ER15-307 - Southwest Power Pool, Inc. (SPP) submitted revisions to its OATT to stipulate that Base Plan Upgrades approved for construction after June 19, 2010 shall be considered in the three-year review of the Highway/Byway cost allocation methodology pursuant to Section III.D of Attachment J. On December 22, 2014, FERC issued an order accepting the tariff revisions to stipulate that Base Plan Upgrades approved for construction after June 19, 2010 shall be considered in the three-year review of Highway/Byway cost allocation methodology pursuant to Section III.D of Attachment J.
- Docket ER15-763 - SPP submitted tariff revisions to implement a design change for the allocation of over-collected losses in SPP’s Integrated Marketplace. On March 31, 2015, the Commission issued an order conditionally accepting the tariff revisions, to be effective April 1, 2015, subject to a compliance filing. SPP submitted a compliance filing on April 29, 2015 and the Commission issued a letter order accepting the submittal on June 29, 2015.
- Docket EL15-8 - Section 206 (Complaint III) filing where GSEC, WTMPA and the NM Cooperatives allege the rate of return on common equity used in SPS formula rate under the Replacement Power Sales Agreement and Xcel Energy Operating Companies’ Joint Open Access Transmission Tariff are unjust and unreasonable. Filed on 10/20/2014. On January 29, 2015, the Commission issued an order establishing hearing and procedures. The hearing commences on October 7, 2015. See description of Settlement Agreement above.
- Docket ER15-492 – On November 26, 2014, SPP submitted a petition for waiver of certain provisions in Attachment O of its OATT to enable SPP to modify the study schedule for its ITP process. On April, 20, 2015 the Commission issued an order granting the waiver request, to be effective January 1, 2105.
- Docket ER15-752 – On December 30, 2014, SPS submitted and Amended Operating Procedure to the RPSA between SPS and Golden Spread. The Amended Operating Procedure amended the original procedure that established a bilateral settlements schedule, a resource hub, and a candidate ARR process for Golden Spread relating to the partial requirements firm power commitment under the RPSA. On February 24, 2015, the Commission issued a letter order accepting the amendments, to be effective January 1, 2015.
- Docket ER15-990 – On February 4, 2015, SPP submitted a petition for waiver of certain provisions in Attachment AE of its OATT to recognize the establishment

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of certain resource hubs in SPP's Integrated Marketplace. On May 14, 2015, the Commission issued an order granting the waiver request.

- Docket ER15-1139 – On February 27, 2015, SPP filed proposed revisions to Attachment J of its OATT to include a list of potential remedies that SPP may recommend to alleviate imbalanced cost allocations identified through its RCAR process. On April 30, 2015, the Commission issued an order rejecting SPP's filing.
- Docket ER15-1152 – On March 2, 2015, SPP filed proposed revisions to its OATT to implement a process for allocating ARRs to transmission owners in the process of incorporating existing transmission facilities into the SPP transmission system under the OATT as well as other entities with firm transmission service on those facilities. On May 1, 2015, the Commission issued an order conditionally accepting the revisions, to be effective May 1, 2015, subject to a compliance filing. On June 1, 2015, SPP submitted its compliance filing and on July 1, 2015 the Commission issued a letter order accepting the filing.
- Docket ER15-1797 – On May 28, 2015, SPP submitted a notice of termination of an interconnection agreement between Tres Amigas and SPS. On July 27, 2015, the Commission issued an order accepting the notice of termination.
- Docket ER15-2235 – On July 21, 2015, SPP submitted revisions to Attachment AE of its OATT to clarify that resources, regardless of their synchronized status, will be eligible for start-up cost reimbursement to the extent that they are cancelled prior to the reliability unit commitment period, and to modify the procedures by which SPP provides real-time balancing market start-up cost reimbursement for resources that are cancelled by SPP prior to reliability unit commitment period. On September 28, 2015 the Commission issued a letter order accepting the revisions to be effective October 1, 2015.
- Docket ER15-2265 – On July 24, 2015, SPP submitted revisions to its OATT to establish separate procedures for the establishment, modification, and termination of trading hubs and resource hubs in its Integrated Marketplace. On September 22, 2015, the Commission issued an order conditionally accepting the revisions, effective September 23, 2015, subject to a compliance filing.
- Docket ER15-2268 – On July 24, 2015, SPP submitted revisions to its OATT that propose to revise the costs to be included in mitigated energy offer curve, start-up offers, and no-load offers submitted by market participants under the SPP Market Power Mitigation Plan. On September 22, 2015, the Commission issued an order rejecting the revisions.
- Docket ER15-2291 – On July 28, 2015, SPP submitted revisions to Attachments H, O, and T of its OATT to implement an annual transmission revenue requirement on behalf of Harlan Municipal Utilities. On September 28, 2015, the Commission issued a letter order accepting the revisions to be effective October 1, 2015.
- Docket ER15-2350 – On July 31, 2015, SPP filed revisions to its OATT to support the implementation, accounting, and settlement of the Federal Service Exemption when WAPA-Upper Great Plains Region joins SPP and begins taking service. On September 28, 2015, the Commission issued a letter order accepting the revisions to be effective October 1, 2015.
- Docket ER15-2594 – On September 1, 2015, South Central MCN filed for a transmission formula rate and transmission rate incentives. Several parties have filed interventions in the proceeding. Xcel Energy Service, on behalf of SPS, included a protest with their intervention.

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(j) Classification or Reclassification of Facilities from Transmission to Radial or from Radial to Transmission

In the Annual Update for rates to be effective January 1, 2016 through December 31, 2016, SPS uses the Radial Line Study populated with end of year 2014 balances.

As reflected in the 2014 True-Up, there was one change to the classifications of radials directly assigned to wholesale customers in 2014. Specifically, a third party wind farm began commercial operation in June 2014 thereby eliminating a direct assignment to South Plains at the Pleasant Hill tap. There were five radial changes that occurred in 2014 for direct assignments to SPS retail where three retail assignments became invalid effective March 2014 and two new lines were assigned to SPS retail effective May 2014. These changes are reflected in the current Annual Update. In addition, there are two new direct assignments to Lighthouse for facilities that went into service around May of 2015.