

Southwestern Public Service Company

Attachment O - Transmission Formula Rate 2015 True-Up

Golden Spread Information Request No. 2

September 21, 2016

The following questions pertain to the SPS responses that were provided in connections with GSEC's first set of information requests.

GSEC 2-1. In reference to SPS's response to GSEC 1-2, please provide the following for each of the cancelled capital projects identified in the data response:

- a. Describe the general nature of the project.
- b. Indicate whether the project was abandoned, cancelled or suspended.
- c. Identify the specific FERC Accounts where the write-offs were recorded during 2015.
- d. Identify all regulatory or accounting approvals or guidance received from a regulatory agency that justify writing-off the cancelled capital projects to an O&M account.

Response:

Eddy County to Kiowa, \$213K

- a) This was a 345kV green field line and associated substation upgrades in response to load growth in SE New Mexico and grid reliability concerns.
- b) This project was suspended beyond the capital asset policy period of 12 months.
- c) This was written off to FERC Account 566, Transmission Miscellaneous expense.
- d) Cancelled/ suspended capital project costs are moved to O&M because there isn't an asset to support the cost on the balance sheet. This treatment is consistent with specific guidance provided for FERC Account 183, Preliminary Survey and Investigation, which requires that any costs that do not result in construction be credited from the balance sheet and debited to FERC Account 426.5, Other Deductions, or to the appropriate operating expense account. Although the costs in question here were incurred to FERC Account 107, Construction Work in Progress, it is reasonable to conclude that similar treatment is appropriate as is prescribed for Preliminary Survey and Investigation costs.

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Midland to Lea County, \$106K

- a) This was an asset renewal project to upgrade the relays that were past their end of life on the terminals.
- b) This project was cancelled due to a sale of the line to Sharyland.
- c) This was written off to FERC Account 566, Transmission Miscellaneous expense.
- d) See response above.

Tuco to East New Deal, \$94K

- a) This was a 345kV line to solution the overload in the Lubbock area in response to NTC 200184, PID 1140, UID 11502 issued on 4/9/2012 from SPP.
- b) This project was cancelled due to SPP cancelling the NTC.
- c) This was written off to FERC Account 566, Transmission Miscellaneous expense.
- d) See response above.

Harrington to Randall, \$197K

- a) This project was to add a second 230kV line and absolve the concern of severe problems if the 1st line was tripped.
- b) This project was cancelled due to a shift in need for the area.
- c) This was written off to FERC Account 566, Transmission Miscellaneous expense.
- d) See response above.

River Birch Wind, \$178K

- a) River Birch Wind was a customer-funded wind farm project.
- b) This was cancelled by the customer.
- c) The expenses were written off to FERC Accounts 562 and 563; corresponding to the functional activity of the departments that incurred the charges. Customer funding created a revenue off-set to the expense in FERC Accounts 560 and 562 according to the CIAC schedule, making this a \$0 impact on the income statement. The final impact to FERC Accounts was:

560	(\$140,121)
562	\$115,185
563	\$24,936

- d) See response above.

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GSEC 2-2. In reference to the attachment that was provided in connection with SPS's response to GSEC 1-18, please explain the meaning of the abbreviation "EE" that is used in the description of many of the expense items shown under the column heading "Posting Account Description."

Response:

The abbreviation "EE" used in the description of the expense items stands for "Employee."

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The following questions pertain to the spreadsheet file “06-2016---Attachment_O-SPS_2015_True-Up_Formula_Rate”:

GSEC 2-3. In reference to the tab labeled “WsE Rate Base Adj,” row 297 – Deferred Compensation Plan, please provide the justification for allocating this item to transmission based on the “Labor” ratio instead of based on “Other” given that this line item is related to SERP (Supplemental Executive Retirement Plan), which is typically not recoverable under wholesale rates as it is recognized as above customary and normal.

Response:

The approved SPS transmission formula template does not remove the costs associated with the Xcel Energy Deferred Compensation Plan. The expenses associated with the Compensation Plan are included in FERC Account 920, therefore it is appropriate to include the deferred impacts of this account. The “Labor” allocator was used since these were labor-related costs.

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GSEC 2-4. In reference to the tab labeled “WsE Rate Base Adj,” row 300, Electric Vehicle Credit, please provide an explanation as to why this “credit” is shown as a positive amount in Account 190.

Response:

The Electric Vehicle Credit is a positive number because those dollars are shown in a deferred asset account. These dollars will be used at a later time when SPS has a federal income tax liability to offset.

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GSEC 2-5. In reference to the tab labeled “WsE Rate Base Adj,” please provide the supporting workpapers showing the derivation of the following line items in order to justify the allocator used in the formula rate:

- a. Row 306 – Federal Only NOL – Production in the amount of \$16,464,301.
- b. Row 307 – Federal Only NOL – Transmission in the amount of \$42,022,080.
- c. Row 308 – Federal Only NOL – General in the amount of \$6,707,415.
 - i. In addition, please provide the justification for allocating the General Plant related NOL to transmission based on the “Plant” ratio instead of based on the “Labor” ratio consistent with the allocation of General Plant throughout the formula rate.
- d. Row 309 – Federal Only NOL – Distribution in the amount of \$11,895,248.

Response:

Please see the table below for calculations of amounts. (a,b,c,d)

<u>Function</u>	<u>Allocation %</u>	<u>Act Beg Year</u>	<u>Act End Year</u>	<u>Average Bal</u>
Production	0.21357511	\$ 13,144,801	\$ 19,783,802	\$ 16,464,301
Transmission	0.54511092	\$ 33,549,669	\$ 50,494,490	\$ 42,022,080
Distribution	0.15430530	\$ 9,496,951	\$ 14,293,545	\$ 11,895,248
General Plant	0.08700866	\$ 5,355,080	\$ 8,059,751	\$ 6,707,415
NOL Total per G/L		<u>\$ 61,546,500</u>	<u>\$ 92,631,587</u>	

The allocation percentage used in the above calculation is based on the amount of bonus depreciation taken by functional class for each year that SPS has been in an Net Operating Loss (“NOL”) position (since 2011) over the total amount of bonus depreciation taken for the applicable years. Please see Attachment SPS-GSEC 2-5.

- c. i. Row 308 – Federal Only NOL – General was inadvertently allocated using “Plant” instead of “Labor”. This will be corrected.

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GSEC 2-6. In reference to the tab labeled “WsE Rate Base Adj,” Row 310 – Fuel Tax Credit – Income Addbacks, please provide the justification for allocating this line item to transmission based on the “Plant” ratio instead of based on “Other.”

Response:

The Fuel Tax Credit line item adds back to income the amount of the credit claimed for federal tax paid on fuels used in off-road equipment, including equipment used in transmission operation which is why the line item is allocated on the plant ratio.

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GSEC 2-7. In reference to the tab labeled “WsE Rate Base Adj,” Row 316 – Non-Qualified Pension Plans, please provide the justification for allocating this item to transmission based on the “Labor” ratio instead of based on “Other” given that this item is related to supplemental compensation for executives, which is typically not recoverable under wholesale rates as it is recognized as above customary and normal.

Response:

The approved SPS transmission template does not remove the costs associated with Non-Qualified Pension Plans. The expenses associated with the Non-Qualified Pension Plan are included in FERC Account 926, therefore it is appropriate to include the deferred impacts of this account. The “Labor” allocator was used since these were labor-related costs.

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GSEC 2-8. In reference to the tab labeled “WsH – Misc Exp,” Line 7, Account 928 – Transmission Related in the amount of \$432,090, please provide a detailed listing and description of all entries that total this amount.

Response:

The Transmission Related amount of \$432,090 was associated with the Transmission ROE Complaint (Docket Nos. EL12-59-000, EL13-78-000 (consolidated), and EL15-8-000).

ROE Complaint	\$ 430,950.00
November 2015 Adjustment	\$ (6,100.00)
December 2015 Adjustment	\$ 7,240.00
Total Costs - ROE Complaint	\$ 432,090.00

The costs were split 50/50 between the SPS transmission and production.

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GSEC 2-9. In reference to SPS's 2015 FERC Form 1, Page 323, Line 181, please provide a detailed tabulation of the items booked to Account 920 – Administrative and General Salaries, including name, description of cost item and amount.

Response:

Please see the table below.

SPS FERC Account 920

2015

<u>Account</u>	<u>Account Description</u>	<u>Amount</u>
711142	Productive Labor	\$ 16,849,351.89
711143	Reg Labor Loading-NonProductive	2,640,934.89
711150	Premium Time	960.10
711160	Reg Labor Load-Incentive	2,333,318.54
711176	Incentive-Non-Loading	(223,653.16)
711190	Overtime	204,051.60
711230	Incentive	2,797.14
711231	Performance Share Plan	3,128,209.13
711232	Restricted Stock Units	2,459,465.66
711270	Other Compensation	280,864.13
Total		<u>\$ 27,676,299.92</u>

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GSEC 2-10. In reference to SPS's 2015 FERC Form 1, Page 323, Line 182, please provide a detailed tabulation of the items booked to Account 921 – Office Supplies and Expenses, including name, description of cost item and amount.

Response:

Please see Attachment SPS-GSEC 2-10.

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GSEC 2-11. In reference to SPS's 2015 FERC Form 1, Page 323, Line 184, please provide a detailed tabulation of the items booked to Account 923 – Outside Services Employed, including name, description of cost item and amount.

Response:

Please see the table below.

SPS FERC Account 923

2015

<u>Account</u>	<u>Account Description</u>	<u>Amount</u>
712110	Contract Labor	\$ 1,730,136.68
713000	Consulting/Prof Svcs-Other	3,378,998.96
713050	Contract LT Outside Vendor	768,107.63
713100	Consulting/Prof Svcs-Legal	1,177,722.67
713120	Consult/Legal - Regulatory	215,450.49
713150	Consulting/Prof Svcs-Acctg	938,126.37
Total		<u>\$ 8,208,542.80</u>