

**Southwestern Public Service Company
Attachment O – SPS Transmission Formula
True-Up for 2010 (2010 Projected to 2010 Actual)
Material Changes since January 1, 2010**

In compliance with the Annual Formula Rate Implementation Procedures, Section 3.a.(v), FERC Joint Open Access Transmission Tariff, Second Revised Volume No. 1, Page No. 528, Southwestern Public Service Company (SPS or the Company) has listed below the material changes that have taken effect since January 1, 2010.

(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

1. FERC accepted the Offer of Settlement and Settlement Agreement that resolved the issues regarding the classification of certain SPS transmission facilities that are to be included in, or excluded from, as appropriate, transmission rates in accordance with Attachment AI of the Southwest Power Pool Regional Open Access Transmission Tariff by order dated August 26, 2010. See *Xcel Energy Services, Inc., Order Approving Uncontested Settlement*, 132 FERC ¶ 61,170 (2010).
2. FERC Office of Energy Market Regulation accepted the Xcel Energy Operating Companies baseline Open Access Transmission Tariff submitted to comply with the directives in Order No. 714 by order issued October 25, 2010, effective July 30, 2010. See Docket No. ER10-2070. OEMR also accepted the SPS certificate of concurrence. See *Docket No. ER10-2075, FERC Accession No. 20101025-3018*.
3. FERC Office of Energy Market Regulation accepted the revised Attachment O SPS formula rate template tariff sheets consistent with the Order Approving the Settlement regarding the classification of certain SPS transmission facilities that are to be included in, or excluded from, as appropriate, transmission rates in accordance with Attachment AI of the Southwest Power Pool Regional Open Access Transmission Tariff by order dated December 21, 2010, effective January 1, 2009. See *FERC Accession No. 20101221-3035*.

(d) Accounting Policies, Practices or Procedures of SPS

I. SPS Accounting Policy/Practice Changes

1. **Bonus Depreciation** – The Small Business Jobs Act of 2010 (“SBJA”) was signed into law on September 27, 2010. This new federal law contains a provision for extending bonus depreciation to assets placed in service after December 31, 2009 and before January 1, 2011. This law extended the use of bonus depreciation for assets placed in service during 2010. Bonus depreciation is the tax expensing of 50% of the cost of an asset in the year it is placed in

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service. The Company has already recorded bonus depreciation for 2008 and 2009 allowed by the Economic Stimulus Act and the American Recovery and Reinvestment Act. For the SBJA, the depreciable base for income tax purposes is reduced by the amount of the bonus depreciation deduction and the remaining balance is depreciated in accordance with the existing tax depreciation Modified Accelerated Cost Recovery System (“MACRS”) tables, starting with the current year. For an item to qualify for bonus depreciation, it must meet these requirements:

- a) It must be property that has a MACRS recovery period of less than or equal to 20 years, is computer software subject to 36-month amortization, or is a qualified leasehold improvement.
- b) The original use of the property must commence after December 31, 2007.
- c) The property must be acquired after December 31, 2007 and before January 1, 2011 or, if self-constructed, the construction must begin after December 31, 2007 and before January 1, 2011.

The property must be placed in service before January 1, 2011, unless it qualifies as long production period property. For these long production period property, the costs incurred after December 31, 2007 and before January 1, 2011 will be eligible for the bonus depreciation in 2011, as long as the in service date is on or before December 31, 2011. This exception applies to self-constructed assets with a MACRS recovery period of 10 years or longer.

The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (“2010 Tax Relief Act”) was signed into law on December 17, 2010. The 2010 Tax Relief Act extended the 50% bonus depreciation through 2012, and expanded bonus depreciation to 100% for assets acquired and placed in service after September 8, 2010 and before January 1, 2012. On March 29, 2011, the IRS issued guidance clarifying which assets qualify for 100% bonus depreciation. The guidance stated that in addition to placing property into service, the property must also be “acquired” after September 8, 2010 and before January 1, 2012. Therefore, certain projects that begin before September 8, 2010 and were placed in service after September 8, 2010 only qualify for 50% bonus depreciation, rather than 100%. In these cases, certain components of the projects may still qualify for 100% bonus depreciation if the components were started after September 8, 2010. In addition, the guidance states that certain long-production period property (“LPPP”) for which construction begins before 2012 and is placed in service during 2012 can qualify for 100% bonus depreciation. LPPP includes property that takes more than a year to build, costs more than \$1 million and has a tax life greater than ten years.

The allowance for bonus depreciation for 2010 with a carryover effect in 2011 increases the accumulated deferred income tax balance. An increase in this balance causes a decrease in plant-related rate base.

- 2. Accounting for Transmission Formula Rates** — Transmission formula rates are set based on forecasted revenue requirements with annual true-ups reflected in future rates. Pursuant to Attachment O-SPS, a comparison of the actual 2009 revenue requirements to the forecasted revenue requirements underlying the 2009 billing rates for the SPS transmission services identified that the SPS

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transmission rates to be implemented January 1, 2011 include adjustments to lower network rates by \$932,958 and Schedule 1 rates by \$609,980 annually. Since the refund is both probable and estimable, the refund due to rate payers for the programs meet the conditions for recognition of a regulatory liability as set for in ASC 980-405-25-1 and as interpreted by the Deloitte Update. In the 4th quarter of 2010, SPS recognized these liabilities and reduced revenue accordingly. SPS began amortizing these adjustments when the transmission rates were lowered January 1, 2011.

SPS followed the same procedures for the 2010 annual true-up, which identified an adjustment to increase network rates by \$2,136,952 while decreasing Schedule 1 rates by \$472,346 annually. The 2010 adjustments to revenue were also recognized in December 2010. SPS will begin amortizing these adjustments when the transmission rates are updated in January 1, 2012.

The net effect of the 2009 and 2010 adjustments in 2010 was a \$121,668 increase in revenue (FERC 456.1), a \$2,015,285 increase in regulatory liabilities (FERC 254) and a \$2,136,952 increase in regulatory assets (FERC 182.3).

3. Accounting for Accumulated Deferred Income Taxes – Plant Related - The functionalization of the following tax classes was revised effective January 1, 2010:

- a) Excess DFIT and Prior Flow Through (i.e., the South Georgia “catch-up” deferred taxes.)
- b) Unallocated “Other” (i.e., ADIT associated with Section 174 deductions and repair expense related to energy supply.)
- c) Plant Acquisition Adjustment – Electric Distribution TNP.
- d) Plant Acquisition Adjustment - Electric Transmission TNP.
- e) Unallocated Avoided Tax.
- f) Unallocated AFUDC Debt.

II. FERC-Related Items

Materials and Supplies Change in Methodology for FERC Form 1 Reporting p. 227— Beginning in 2010, there was a change made in the methodology used to estimate the percentage of year end inventory balances that will eventually be capitalized or expensed. Materials and supplies year end inventory balances are now being estimated as either capital or expense based on how inventory costs were assigned during the previous year. The assignments are specific to operating units – Production, Transmission and Distribution. Previously, a single, estimated percentage rate was used as the basis to determine the portion of inventory that would be capitalized or expensed. The single percentage was combined across operating units.

III. GAAP-Related Items

Consolidation of Variable Interest Entities — In June 2009, the FASB issued new guidance on consolidation of variable interest entities. The guidance affects various elements of consolidation, including the determination of whether an entity is a variable interest entity and whether an enterprise is a variable interest entity's primary

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beneficiary. These updates to the ASC were effective for interim and annual periods beginning after Nov. 15, 2009. SPS implemented the guidance on Jan. 1, 2010, and the implementation did not have a material impact on its financial statements.

Fair Value Measurement Disclosures — In January 2010, the FASB issued *Fair Value Measurements and Disclosures (Topic 820) — Improving Disclosures about Fair Value Measurements (ASU No. 2010-06)*, which updates the Codification to require new disclosures for assets and liabilities measured at fair value. The requirements include expanded disclosure of valuation methodologies for fair value measurements, transfers between levels of the fair value hierarchy, and gross rather than net presentation of certain changes in Level 3 fair value measurements. The updates to the Codification contained in ASU No. 2010-06 were effective for interim and annual periods beginning after Dec. 15, 2009, except for requirements related to gross presentation of certain changes in Level 3 fair value measurements, which are effective for interim and annual periods beginning after Dec. 15, 2010. SPS implemented the portions of the guidance required on Jan. 1, 2010, and the implementation did not have a material impact on its financial statements.

IV. Significant, Unusual or Non-Recurring Income or Expense

Medicare Part D Subsidy Reimbursements — In March 2010, the Patient Protection and Affordable Care Act was signed into law. The law includes provisions to generate tax revenue to help offset the cost of the new legislation. One of these provisions reduces the deductibility of retiree health care costs to the extent of federal subsidies received by plan sponsors that provide retiree prescription drug benefits equivalent to Medicare Part D coverage, beginning in 2013. Based on this provision, SPS is subject to additional taxes and is required to reverse previously recorded tax benefits in the period of enactment.

SPS expensed approximately \$1.9 million of previously recognized tax benefits relating to Medicare Part D subsidies during the first quarter of 2010. SPS does not expect the \$1.9 million of additional tax expense to recur in future periods.

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

- ER11-3711-000 SPP filing to incorporate Tri County Electric Cooperative formula transmission rate into SPP OATT; filed 6/3/2011. Comments or protests due 6/24/11. Tri County's transmission facilities are located within the SPS zone.
- ER11-3505-000 XES eTariff Filing for changes to SPS Transmission Formula Rate Template for change to cost recovery of BPU Projects; filed 5/3/2011.
- ER11-3331-000 SPP Filing to update SPS Transmission Formula Rate for resolution to GSEC Preliminary Challenge; filed 4/11/2011; accepted by FERC order dated June 3, 2011.
- ER11-2317-000 Updated formula rate changes for OGE, NPPD, ITC, SPS and Westar; Accepted 2/10/11
- ER11-2315-000 Resident Load Revisions Filing – SPP tariff revisions to clarify treatment of grandfathered load in the Resident Load calculation; Accepted 01/31/11

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- ER11-2291-000 SPP Filing to incorporate SPS Transmission Formula Update into SPP OATT; filed 12/03/2010; accepted by FERC order dated February 10, 2011.
- ER11-2190-000 SPS executed a Network Integration service Agreement and Network Operating Agreement with SPP; Accepted 01/13/11
- ER11-2188-000 SPS executed a Network Integration service Agreement and Network Operating Agreement with SPP
- ER11-114-000 SPS Transmission Formula eTariff compliance filing; filed 10/14/2010.
- ER10-2145-000 SPP Baseline Electronic Tariff Filing – Baseline filing of governing documents. Filed 8/05/10; Accepted by FERC order dated 10/13/2010
- ER10-2070-000 Public Service Company of Colorado (PSCo) Baseline eTariff filing of Xcel Energy Joint OATT; filed 7/30/2010; accepted by FERC order dated September 24, 2010. SPS Certificate of Concurrence accepted in ER10-2075-000. PSCo is the designated filing entity for revisions to the Xcel Energy OATT per FERC Order No. 714.
- ER10-1960-000 SPP Baseline eTariff filing of SPP OATT; filed 7/26/2010; accepted by FERC order dated October 28, 2010.
- ER10-1269-000 SPP Filing to incorporate Integrated Transmission Plan into SPP OATT; filed 5/17/10; conditionally accepted by FERC order dated July 15, 2010.
- ER10-1069-000 SPP Highway-Byway Regional Transmission Upgrade Cost Allocation Methodology Filing 04/19/2010; accepted by FERC order dated June 17, 2010.
- ER10-829-000 SPP Filing Revised NITSA and NOA between SPP and SPS to Update Delivery Points (new Central Valley delivery point) and Direct Charge References - SA 543R4 03/03/2010
- ER10-664-000 SPP Amendatory Filing to Include Revisions to Section 34.1 of SPP OATT- SPS Formula Rate Update 02/19/2010
- ER10-760-000 SPP Filing Notice of Cancellation of PTP Transmission Service Agreement between SPP and SPS - SA 1185 02/16/2010
- ER10-754-000 SPP Filing NITSA and NOA between SPP and SPS to move SPS retail load under the SPP OATT - SA 1910 02/05/2010
- ER10-692-000 SPP Filing GSEC (South Plains) NITSA between GSEC and SPP and NOA between SPP, GSEC and SPS - SA 1907 02/01/2010
- ER10-672-000 SPS Filing Revised GSEC NITSA to Update Delivery Points and Direct Charge References – SA 151 01/29/10
- ER10-664-000 SPP Filing for SPS Formula Rate Update 01/28/2010
- ER05-652-000 Informational Report – Report discusses SPP cost allocation plan and criteria for Base Plan Upgrades; Filed 12/30/10

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

In the 2010 True-up, SPS uses the Radial Line Study populated with end of year 2010 balances.

There were two radial line configuration changes due to changes in normal open switch configurations that occurred in August of 2010. First, switch 4757 is now closed. As a result, Capitan will be directly assigned to SPS retail. The change to the Capitan assignment has been captured in the 2010 True Up. Second, switch 2827 is now normally open. As a result, the

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Howard sub is a radial line and will be added, but because there are multiple non-affiliated customers on the line there is no direct assignment.