Customer Meeting Question 1-1: Why is the actual load divisor significantly less than estimated? This was true and about to the same extent for 2009 and 2010. What steps is SPS taking to improve its forecast of system demand? What was the forecasted divisor for calendar year 2011? Through the most recent month possible, please compare by month the 2011 forecasted divisor to the 2011 actual divisor.

Response:

SPS has investigated the issue and has not found anything fundamentally wrong with the forecast. A variety of factors such as weather and economic conditions can lead to differences between the projected and actual system loads used in the derivation of the divisor used in the formula rate.

SPS prepares a load forecast every spring ("spring forecast"). An evaluation of the spring forecast is done in September and based on that evaluation; the forecast may be updated. If it is determined the forecast needs to be updated, the updated forecast is typically finalized and available in late October ("fall forecast"). When calculating the Annual Update in the fall, SPS has used the spring forecast, regardless of if it has been updated or not, because the fall forecast is not available by October 1st when SPS is required to provide and post the Annual Update.

Using an updated forecast in future Annual Updates could, on average, lead to smaller differences in the projected and actual system loads used in developing the formula's divisor. When applicable, SPS is willing to adjust the Annual Update it provides each October 1st to include an updated forecast. SPS looks forward to discussing this with customers at this year's Annual Update customer meeting.

The spring forecast was updated in both 2009 and 2010. Please see the tables below for comparisons of the actual system loads to the original and updated forecasts. The forecasted divisor, based on the average 12 Coincident Peaks, for the rates effective calendar year 2011 is 4,706 MW.

Southwestern Public Service Company
FERC Transmission Formula Template -2010 True-Up
July 13, 2011 Customer Meeting
SPS Responses to Follow-Up Questions

SPS Peak Load Analysis

SPS Total

Month/ Year	Actual Transmission Network Load	March 2009 Forecast	Difference	October 2009 Forecast	Difference
(a)	(b)	(c)	(d)=(b-c)	(c2)	(d2)=(b-c2)
Jan-10	4,123	3,995	128	3,918	205
Feb-10	3,981	3,969	12	3,872	109
March-10	3,698	3,824	(126)	3,729	(31)
April-10	3,768	4,225	(457)	4,162	(394)
May-10	4,470	4,956	(486)	4,819	(349)
June-10	5,383	5,403	(20)	5,224	159
July-10	5,391	5,912	(521)	5,721	(330)
August-10	5,785	5,809	(24)	5,614	171
Sept-10	5,178	5,010	168	4,903	275
Oct-10	4,098	4,377	(279)	4,199	(101)
Nov-10	3,967	3,983	(16)	3,864	103
Dec-10	3,957	4,265	(308)	4,147	(190)
Total	53,799	55,728	(1,929)	54,172	(373)

SPS Peak Load Analysis

SPS Total

Month/ Year	Actual Transmission Network Load	March 2010 Forecast	Difference	October 2010 Forecast	Difference
(a)	(b)	(c)	(d)=(b-c)	(c2)	(d2)=(b-c2)
Jan-11	4,146	4,090	56	4,123	23
Feb-11	4,438	4,029	409	4,066	372
March-11	4,099	3,869	230	3,864	235
April-11	4,549	4,375	174	4,367	182
May-11	5,238	4,982	256	5,017	221
Total	22,470	21,345	1,125	21,437	1,033

Prepared by Wesley Berger, Kevin Lewis and Jeff Comer

Customer Meeting Question 1-2: Please reference the Schedule 11 point-to-point revenue credits shown on Worksheet B, Table 17, line 102, and the monthly detail shown on the Supporting Documentation on page 11. Are the reductions booked in the March, August, September, October and November production months related to 2009 or 2010?

Response:

The reductions included in the revenue credit balance are related to 2010 and are due to SPP adjustments. For example, attached is a spreadsheet from a SPS Transmission Owner Statement provided by SPP for the month of October 2010 that supports the Schedule 11 point-to-point revenue credit of $22,730.14. Please see Customer Meeting Attachment 1-2.

Prepared by Ken Walsh

Customer Meeting Question 1-3: Please reference the 13-month average Plant in Service and Accumulated Reserve for Depreciation balances shown on Worksheet D.1, Table 21. It appears that there was a major plant retirement recorded in October 2010 related to Distribution Plant in Service, however, there is not a corresponding reduction to the Accumulated Reserve for Depreciation. It appears the reduction to the Accumulated Reserve for Depreciation was recorded in December 2010. Please explain this variance.

Response:

The Lubbock distribution sale was closed on October 31, 2010. SPS's general ledger does not reflect the time lag between the Distribution Plant In-Service change and the corresponding Accumulated Reserve for Depreciation change shown on Worksheet D.1, Table 21. Worksheet D.1, Table 21 was prepared incorrectly. As a result, the 13 month average Distribution Accumulated Depreciation found on Worksheet D.1, Table 21 was understated by approximately $6.8M.

Attached is a revised Worksheet D.1, Table 21. Please see Customer Meeting Attachment 1-3.

Prepared by Lisa Perkett

Customer Meeting Question 1-4: Please reference the Material Accounting Changes document, explaining the SPS Accounting Policy/Practice Change, item I.3 relating to a change in the functionalization of Accumulated Deferred Income Taxes. Please explain the reason for this change.

Response:

Basis differences and the resulting deferred taxes are maintained for both Construction-Work-In-Progress (CWIP) and Plant-in-Service (PIS). For sometime, the basis differences and resulting deferred taxes associated with CWIP were allocated to primarily one functional group. As time went on it became apparent that these items should be assigned to their proper functional group (e.g. production, transmission). At the end of 2010, we allocated CWIP basis differences and their related deferred taxes to the functional group to be consistent with what was taking place with regard to PIS. For consistency purposes and for better reporting a change was made in the functionalization of Accumulated Deferred Taxes.

Prepared by Lisa Perkett and Dave Picconi

Customer Meeting Question 1-5: Please reference the Accumulated Deferred Income Taxes recorded in FERC Account 190, shown on Worksheet E, Table 23, the items labeled "Basis Difference" and "Basis Difference – CIAC". Please provide details of these balances by the items listed in the Description column I.

Response:

Referring to the 2010 formula rate true-up, Worksheet E, Table 23, the description in column (I) for the item described as "Basis Difference – CIAC," is not correct. The correct description of this item should read: **"**This item reflects ADIT on the tax only originating timing difference for taxable Contributions in Aid of Construction (CIAC's)." Details of these items by functional group are provided in the lower portion of the table below.

Functional Group	Basis Difference Description	Actual Beg of Year Balance	Actual End of Year Balance	Actual Average Balance
Basis Difference				
Electric Distribution	Avoided Cost Interest	3,356,177	3,364,748	3,360,462
Electric General	Avoided Cost Interest	543,675	546,444	545,060
Electric Production	Avoided Cost Interest	6,396,763	5,675,475	6,036,119
Electric Transmission	Avoided Cost Interest	6,089,574	8,452,976	7,271,275
		16,386,190	18,039,643	17,212,916
Electric Distribution Plant	Benefits Capitalized	891,768	814,590	853,179
Electric General Plant	Benefits Capitalized	70,683	64,544	67,613
Electric Other Production Plant	Benefits Capitalized	346,774	324,877	335,826
Electric Transmission Plant	Benefits Capitalized	493,970	477,455	485,713
		1,803,195	1,681,467	1,742,331
Electric Distribution Plant	ESOP Dividends Capitalized	1,815,644	1,757,094	1,786,369
	Sub-Total Basis Difference	20,005,028	21,478,204	20,741,616
Basis Differences - Contribution in Aid of Construction (CIAC)				
Electric Distribution Plant	CIAC	14,714,173	14,768,279	14,741,226
Electric General Plant	CIAC	43,775	45,583	44,679
Electric Other Production Plant	CIAC	60,015	55,345	57,680
Electric Transmission Plant	CIAC	6,532,751	6,807,829	6,670,290
	Sub-Total CIAC	21,350,714	21,677,035	21,513,875
	Total FERC Account 190	41,355,742	43,155,239	42,255,491

Prepared by David Picconi, Deborah Dzik and Deborah Blair

Customer Meeting Question 1-6: Please reference the Accumulated Deferred Income Taxes recorded in FERC Account 190, shown on Worksheet E, Table 23, the item labeled "State Tax Deduction Cash vs. Accrual", in the amount of $979,425. Please explain this item and why should it be included in the transmission rates.

Response:

The ADIT item labeled "State Tax Deduction Cash vs. Accrual" is a Schedule M temporary timing difference between the state income taxes accrued and the actual state income taxes paid in a given year. The difference times 35% is the ADIT amount. If the ADIT balance for this Schedule M temporary difference is a debit balance, the amount is recorded in Account 190, if the amount is a credit balance, it is recorded in Account 283. In any given year, the balance could switch between these two accounts.

For purposes of calculating the transmission formula template, it is appropriate to include this ADIT item in the ATRR because the composite tax rate is being used in the calculation of income taxes.

Prepared by Deborah Blair

Customer Meeting Question 1-7: Please reference the 2010 versus 2009 year-end variance analysis, FERC Account 560, line 31, and the explanation provided. Please explain why labor and consulting services increased in 2010 over 2009.

Response:

Operation Supervision & Engineering (FERC 560) increased approximately $488,000 in 2010. In 2010, there was a $200,000 increase in labor for substation supervision and engineering to support compliance of NERC electric reliability standards. There was also a $140,000 increase for the addition of a Transmission Planning Engineer. System Planning needed the additional engineer to perform work on studies for new delivery points for retail and wholesale customers, NERC compliance studies, and to work with SPP on issues that arise during the SPP Planning Process. In addition, there was a $120,000 increase in transmission line surveys and re-ratings to support transmission planning and new NERC Facility Ratings Methodology standard number FAC-008 compliance.

Prepared by Deanne Mencimer and Kelly Gustner

Customer Meeting Question 1-8: Please reference the 2010 versus 2009 year-end variance analysis, FERC Account 566, line 40, and the explanation provided. Please explain why labor, consulting services, and contract labor increased in 2010 over 2009. Please provide a list of transmission studies that occurred in 2010 that did not occur in 2009.

Response:

Misc. Transmission Expense (FERC 566) increased $802,000 over prior year in 2010. The $346,000 increase in labor, consulting and contract labor is due to NERC compliance documentation, transmission business process improvements and strategy support. The $269,000 increase in transmission studies was mainly due to prior year required transmission studies that were not invoiced until 2010. These studies are a requirement to receive the transmission service that is necessary to meet SPS' load responsibilities. A breakdown of these studies is provided in the table below.

Study Start Date	Amount
2007	$9,025
2008	$32,474
2009	$27,098
2009	$138,433
2010	$8,869
2010	$52,652
	$268,552

Prepared by Deanne Mencimer, Kelly Gustner and Joe Taylor

Customer Meeting Question 1-9: Please reference the 2010 versus 2009 year-end variance analysis, FERC Account 154, Transmission Materials and Supplies, line 24. Please explain the reduction in the 2010 balance as compared to the 2009 balance.

Response:

In 2010, there was a $643,000 decrease in the Transmission material and supplies O&M expense. This change is mainly due to a 53% higher capital allocation in 2010, which was a result of a change in the methodology used to estimate the percentage of year end inventory balances.

Transmission Summary			
Year	**2010**	**2009**	**Variance**
Plant Material & Supplies Total	$ 6,203,306	$ 4,941,771	$ 1,261,535
Transmission %	29.08%	25.02%	4.05%
Transmission Plant M&S	**$ 1,803,655**	**$ 1,236,662**	**$ 566,994**
Capital Allocation	96.69%	43.21%	53.48%
Capital Amount	$ 1,743,954	$ 534,313	$ 1,209,641
O&M Amount	**$ 59,701**	**$ 702,349**	**$ (642,648)**

The supporting documentation for years 2009 and 2010 is provided as Customer Meeting Attachment 1-9.

Prepared by Deanne Mencimer, Kelly Gustner and Joe Taylor

Customer Meeting Question 1-10: Please reference the Material Accounting Changes document, explaining the Significant, Unusual or Non-Recurring Income or Expense, item IV relating to Medicare Part D Subsidy Reimbursements. Please provide the FERC Accounts where this expense was recorded.

Response:

The SPS Medicare Part D Subsidiary Reimbursements write-off was booked to FERC 190 Accumulated Deferred Income Taxes and FERC 410 Provisions for Deferred Income Taxes.

Prepared by Naomi Koch

Customer Meeting Question 1-11: Please reference the Regulatory Commission Expense, FERC Account 928, as shown on Worksheet H, Table 28, line 17, related to the rate case expenses from FERC Docket No. ER08-313-000. Have these expenses been deferred and amortized? If yes, please provide the total amount deferred? What is the amortization period? Please provide an amortization schedule supporting the amounts expensed in 2010.

Response:

The rate case expenses associated with Docket No. ER08-313-000 have been deferred. The Company began amortizing these expenses in July 2008, when the formula rates were placed into effect, subject to refund, and is being amortized over a three year period ending June 30, 2011. An amortization schedule is provided as Customer Meeting Attachment 1-11.

Prepared by Deanne Mencimer

Customer Meeting Question 1-12: Please reference the SPS Transmission Peak Load and the Generation Peak Load as reported in the FERC Form No. 1 on pages 401 and 401b, respectively. Please reconcile the differences in the reported Peak Loads, by month.

Response:

The monthly transmission peak loads on SPS' 2010 FF1, p400, col. (b), are net system loads. The source for these net system loads is the Daily Report of Operations (DRO). The DRO peaks are measured using the output of all generation in the control area (net of station power) plus the net inflow or outflow.

The monthly peak loads reported on SPS' 2010 FF1, p. 401b, col. (d), sometimes referred to as the generation peaks, are calculated by adjusting the transmission peak loads to properly reflect the maximum megawatt loads SPS is serving during the peak hour.

Specifically, SPS made two adjustments to calculate the generation peak each month. First, the amount of power scheduled to PNM during the peak hour is added. This adjustment is necessary because the PNM sale is outside the control area, and as noted above, this outflow is subtracted from the DRO peak. Second, the amount of Golden Spread's total load is subtracted, and the amount of power sold to Golden Spread during the peak hour is added. This adjustment is done so that the generation peak includes the Golden Spread load that SPS is responsible for serving. Please see the table below for the calculations.

Month/ Year	FF1 Trans. Peak[1]	PNM Int. Load	GSEC Total Load	GSEC Purch from SPS	FF1 Rqmts. Load[2]
(a)	(b)	(c)	(d)	(e)	(g)=(b+c-d+e)
January	3,913	125	406	505	4,137
February	3,771	125	377	505	4,024
March	3,488	100	344	505	3,749
April	3,558	125	475	505	3,713
May	4,260	125	500	505	4,390
June	5,173	125	875	525	4,948
July	5,181	125	1,001	525	4,830
August	5,575	125	1,140	525	5,085

September	4,968	125	815	525	4,803
October	3,888	125	464	525	4,074
November	3,757	52	429	525	3,905
December	3,747	100	445	525	3,927

(1) SPS 2010 FF1, p. 400.

(2) SPS 2010 FF1, p. 401b.

Prepared by Wesley Berger and Jeff Comer

Customer Meeting Question 1-13: Please provide the date and time of the monthly 2011 generation peak and of the monthly 2011 transmission peak.

Response:

Day and Hour of Peaks

	Transmission		Generation	
2011	Date	Hour Ending	Date	Hour Ending
January	11th	8:00	11th	8:00
February	8th	21:00	8th	21:00
March	30th	8:00	9th	8:00
April	22nd	18:00	22nd	18:00
May	28th	18:00	28th	18:00
June				
July				
August				
September				
October				
November				
December				

Prepared by John Eichelmann