BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF SOUTHWESTERN PUBLIC SERVICE COMPANY'S APPLICATION FOR REVISION OF ITS RETAIL RATES UNDER ADVICE NOTICE NO. 255,	)	**CASE NO. 15-00139-UT**
SOUTHWESTERN PUBLIC SERVICE COMPANY,	)	
APPLICANT.	)	

DIRECT TESTIMONY

of

RICHARD R. SCHRUBBE

on behalf of

SOUTHWESTERN PUBLIC SERVICE COMPANY

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GLOSSARY OF ACRONYMS AND DEFINED TERMS

Acronym/Defined Term	Meaning
ADIT	Accumulated Deferred Income Taxes
Base Period	Calendar Year 2014
Commission	New Mexico Public Regulation Commission
ERISA	Employee Retirement Income Security Act
EROA	Expected Return on Assets
FAS	Statement of Financial Accounting Standard
GAAP	Generally Accepted Accounting Principles
IBNR	Incurred But Not Reported
IRC	Internal Revenue Code
LTD	Long-Term Disability
Operating Companies	Northern States Power Company Minnesota; Northern States Power Company Wisconsin; Public Service Company of Colorado; and SPS
SPS	Southwestern Public Service Company, a New Mexico corporation
Test Year	Calendar Year 2016
VEBA	Volunteer Employee Beneficiary Association
Xcel Energy	Xcel Energy Inc.
XES	Xcel Energy Services Inc.

LIST OF ATTACHMENTS

Attachment	**Description**
RRS-1	Actuarial Report Excerpts (*Filename*: RRS-1.pdf)
RRS-2	Calculation of Actuarially Determined Pension and Benefit Amounts (*Filename*: RRS-2.xls)
RRS-3	Report of 2016 Active Health and Welfare Amounts (*Filename*: RRS-3.xlsx)
RRS-4	Calculation of Active Health and Welfare Amounts (*Filename*: RRS-4.xlsx)
RRS-5	Health Institute Report Regarding Inflation Trend for Active Health Care Costs (*Filename*: RRS-5.pdf)
RRS-6	Average Balances of Qualified and Non-Qualified Pension Fund Amounts (*Filename*: RRS-6.xls)
RRS-7	Development of Qualified Pension Asset Balance (*Filename*: RRS-7.xlsx)

Case No. 15-00139-UT
Direct Testimony
of
Richard R. Schrubbe

I. WITNESS IDENTIFICATION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Richard R. Schrubbe. My business address is 414 Nicollet Mall, Minneapolis, Minnesota 55401.

Q. On whose behalf are you testifying in this proceeding?

A. I am filing testimony on behalf of Southwestern Public Service Company, a New Mexico corporation ("SPS") and wholly-owned electric utility subsidiary of Xcel Energy Inc. ("Xcel Energy"). Xcel Energy is a registered holding company that owns several electric and natural gas utility operating companies.[1]

Q. By whom are you employed and in what position?

A. I am employed by Xcel Energy Services Inc. ("XES"), the service company subsidiary of Xcel Energy, as Director of Corporate and Benefits Accounting.

[1] Xcel Energy is the parent company of four wholly-owned electric utility operating companies: Northern States Power Company, a Minnesota corporation; Northern States Power Company, a Wisconsin corporation; Public Service Company of Colorado, a Colorado corporation; and SPS (collectively, "Operating Companies"). Xcel Energy's natural gas pipeline subsidiary is WestGas InterState, Inc. Xcel Energy also has two transmission-only operating companies, Xcel Energy Southwest Transmission Company, LLC, and Xcel Energy Transmission Development Company, LLC, both of which are regulated by the Federal Energy Regulatory Commission.

Q. Please briefly outline your responsibilities as Director of Corporate and Benefits Accounting.

A. I am responsible for accounting for all employee benefits programs, playing a liaison role with the Human Resources department, external actuaries, and senior management with benefit fiduciary roles. As part of my job responsibilities, I have become familiar with the applicable laws, regulatory rules, and ratemaking practices regarding the Operating Companies' recovery of pension and benefits costs and assets. In addition, I am responsible for:

- Xcel Energy's corporate accounting, including four core utility business unit accounting groups and multiple Xcel Energy subsidiaries;
- the oversight of the XES accounting, billing, allocations, policies and procedures, service agreements, internal audits, external audits, and external reporting to state and federal regulatory agencies;
- the publication of cost assignment and allocation manuals in each jurisdiction, where required; and
- the updating and maintenance of system processes for utility allocations, work order allocations, non-operation and maintenance allocations, and non-regulated business activity allocations for all four of Xcel Energy's Operating Companies where such allocations are necessary.

Q. Please describe your educational background.

A. I received a Bachelor of Science degree, with a major in finance, from Marquette University in 1996.

Q. Please describe your professional experience.

A. From 2000 to 2005, I was employed by the DoALL Company, first as a Staff Accountant, later as Assistant Controller, and then as Corporate Controller. From 2005 to 2007, I was employed by Wilsons Leather as a Financial Analyst. In 2007, I joined Xcel Energy as a Consultant. I became the Manager of Corporate Accounting in 2010 and the Director of Corporate and Benefits Accounting in 2013. Additionally, in 2014, I was assigned responsibilities associated with the oversight of the administration of XES, including accounting, billing, allocations, policies and procedures, service agreements, internal audits, external audits, and external reporting to state and federal regulatory agencies.

Q. Have you testified or filed testimony previously before any regulatory authorities?

A. Yes. I have testified before the Minnesota Public Utilities Commission on pension and benefit-related issues. I have also submitted pre-filed direct testimony on pension and benefit-related issues to the Public Utilities Commission of Colorado and to the Public Utility Commission of Texas.

II. ASSIGNMENT AND SUMMARY OF TESTIMONY AND RECOMMENDATIONS

Q. What is your assignment in this proceeding?

A. My testimony addresses five topics related to SPS's employee pensions and other non-cash benefits:

1. I support SPS's request to recover its reasonable and necessary qualified pension costs, non-qualified pension costs, retiree medical costs calculated under Statement of Financial Accounting Standard ("FAS") 106, and self-insured long-term disability ("LTD") costs calculated under FAS 112;
2. I support SPS's request to recover its active health and welfare costs, which include costs incurred for active health care, miscellaneous benefits, life insurance, and third-party-insured LTD benefits;
3. I support SPS's request to recover the reasonable and necessary costs incurred for workers' compensation benefits;
4. I support SPS's request to recover other reasonable and necessary costs associated with benefits such as the 401(k) match, certain benefit-related consulting costs, and deferred compensation; and
5. I quantify SPS's prepaid pension asset and support the request to include that prepaid pension asset in rate base.

Q. Please summarize your testimony and recommendations.

A. I support SPS's request for recovery of pension and other post-employment and retirement benefits expense in the Test Year,[2] and I recommend that SPS be

[2] The Test Year is calendar year 2016 ("Test Year"). The Base Period is calendar year 2014 ("Base Period").

authorized to recover $13,409,501 (total company) of pension and other post-employment and retirement benefits expense. That amount is composed of $12,993,444 of qualified pension expense, $728,856 of non-qualified pension expense, $(337,738) of FAS 106 retiree medical expense, and $24,939 of FAS 112 self-insured LTD expense.

I also support SPS's request to recover its reasonable and necessary active health and welfare costs, and I recommend that SPS be authorized to recover $16,694,570 (total company) for active health and welfare costs. That amount is composed of $15,284,681 of active health care costs, $135,306 of life insurance costs, $678,422 of miscellaneous benefit costs, and $596,162 of third-party-insured LTD costs.

I further support SPS's request to recover workers' compensation costs, and I recommend that SPS be authorized to recover $504,835 (total company) of workers' compensation costs. I also recommend that SPS be authorized to recover $3,070,133 (total company) of other costs, which include 401(k) matching expense, consulting expense, and deferred compensation.

Finally, I recommend that SPS be allowed to include its prepaid pension asset in rate base in accordance with standard ratemaking treatment of prepayments. In the absence of a return, SPS and its shareholders gain no benefit from the prepaid pension asset. In fact, without a return SPS and its shareholders suffer a detriment as a result of the prepaid pension asset because customers pay less than the true cost of service, and SPS is prohibited by federal law from withdrawing any money from the pension trust fund to make up the shortfall. Given that SPS's customers receive the benefit of the prepaid pension asset through a reduced cost of service, it is equitable for SPS to receive a return on the prepaid pension asset balance. SPS's thirteen-month average net prepaid pension asset balance is $149,380,074 on a total company basis. If SPS is not allowed to include the prepaid pension asset in rate base, the annual pension cost should be adjusted to remove the effect of a return on the prepaid pension asset.

Q. Do any other SPS witnesses address issues related to compensation and benefits?

A. Yes. Jill H. Reed discusses the reasonableness of the compensation and benefits provided as part of SPS's Total Rewards Program. In addition, Gene H. Wickes explains why it is reasonable and equitable to include SPS's prepaid pension asset in rate base and to earn a return on that asset at SPS's weighted average cost of capital.

III. PENSION AND BENEFITS OVERVIEW

Q. Please summarize the pension and other benefits that SPS offers to its eligible employees.

A. In addition to the cash compensation discussed by Ms. Reed, SPS offers the following non-cash benefits to its employees:

- Pension and other post-employment and retirement benefits, which include:
  - a defined-benefit qualified pension plan that provides eligible employees with a defined-benefit amount upon retirement;
  - a non-qualified pension restoration benefit that allows SPS to attract and retain employees who would otherwise be disadvantaged by the restrictions imposed under the qualified pension plan;
  - a retiree medical plan available to certain retired employees; and
  - LTD benefits;
- Active health and welfare benefits, which include medical, dental, pharmaceutical, vision, life insurance, and other miscellaneous benefits;
- Workers' compensation benefits, including both self-insured and third-party-insured benefits; and
- Other types of benefits, including a 401(k) defined contribution plan and certain types of deferred compensation.

Q. What are the Base Period and Test Year amounts for each of the elements of non-cash compensation offered by SPS?

A. Table RRS-1 (next page) sets forth the amounts of the Base Period and Test Year pension and benefit costs:

Table RRS-1

Total Company Pension and Benefits (in $)					
Benefit	**Base Period (12 months ended 12/31/14)**	**Adjustments to Per Book Amounts**	**Adjusted Base Period**	**Known & Measurable Adjustment**	**2016 Test Year**
Qualified Pension	$14,308,147	0	$14,308,147	$(1,314,703)	$12,993,444
Nonqualified Pension	542,083	0	542,083	186,774	728,856
FAS 106 Retiree Medical	173,603	0	173,603	(511,341)	(337,738)
FAS 112 Long-Term Disability (Self-Insured)	(15,721)	0	(15,721)	40,660	24,939
Active Health Care[3]	14,190,967	(73,903)	14,117,064	1,167,617	15,284,681
Long-Term Disability (Third-Party-Insured)	596,162	0	596,162	0	596,162
Life Insurance	135,306	0	135,306	0	135,306
Miscellaneous Benefit Programs and Costs	678,422	0	678,422	0	678,422
401(k) Match	2,649,160	0	2,649,160	159,596	2,808,756
Miscellaneous Retirement-Related Costs	261,377	0	261,377	0	261,377
Workers Compensation (Self-Insured)	(592,109)	0	(592,109)	592,109	0
Workers Compensation (Third-Party-Insured)	992,222	0	992,222	(487,387)	504,835
Total Pension and Benefits Expense	**$33,919,617**	**$(73,903)**	**$33,845,714**	**$(166,676)**	**$33,679,039**

[3] The per book amount for active health care in the Base Period is $14,190,967. That amount is an estimate, as explained in Section V of this testimony, and it must be adjusted to reflect health care claims that were incurred near the end of the Base Period but not reported until after the end of the Base Period. Adding the incurred-but-not-reported amount, which is $(73,903), to the per book amount creates an actual Base Period amount of $14,117,064.

SPS also seeks approval to include its prepaid pension asset in rate base, which is discussed in Section VIII of my testimony.

IV. RECOVERY OF CURRENT PENSION AND OTHER POST-EMPLOYMENT AND RETIREMENT BENEFITS EXPENSE

Q. What topic do you discuss in this section of your testimony?

A. I discuss the amounts requested for pension and other post-employment and retirement benefits expense, which includes qualified pension expense, non-qualified pension expense, FAS 106 retiree medical expense, and FAS 112 LTD benefits.

A. Qualified Pension

Q. How are qualified pension costs determined?

A. Pension costs are determined under FAS 87, Employers' Accounting for Pensions.[4]

Q. Please describe SPS's qualified pension plan and the nature of the costs of the plan.

A. The qualified pension plan is a traditional defined benefit pension plan, which promises employees a choice of either a lump sum payout or a monthly pension annuity based upon their level of pay and years of service. Under a defined benefit pension plan, the promised pensions are a commitment by SPS.

[4] In 2009, FAS 87 was renamed Accounting Standards Codification 715-30, but for the sake of convenience I will refer to it in this testimony as "FAS 87." Mr. Wickes describes FAS 87 in more detail.

Q. Do accounting rules and laws determine the cost for SPS's pension plan?

A. Yes. SPS accounts for the cost of its pension plan under the rules set forth in FAS 87, which prescribes the rules that companies must follow in determining whether their pension costs comply with Generally Accepted Accounting Principles ("GAAP"). However, FAS 87 does not dictate how a company must fund the plan. The funding of the plan is determined based upon prudent business practices, with constraints imposed by the requirements of the Internal Revenue Code ("IRC") and the Employee Retirement Income Security Act ("ERISA"), as amended by the Pension Protection Act of 2006. Mr. Wickes discusses the differences between pension accounting and pension funding requirements in more detail.

Q. Does SPS calculate its annual pension cost in accordance with actuarial standards?

A. Yes. The actuarial exhibits supporting the Base Period and Test Year pension costs are included in Attachment RRS-1 to my testimony.

Q. What amount of qualified pension expense did SPS incur during the Base Period?

A. The Base Period qualified pension expense was $14,308,147 (total company).

Q. Is SPS proposing a known and measurable adjustment to the Base Period Year level of qualified pension expense?

A. Yes.

Q. What is the requested amount of qualified pension expense for the Test Year?

A. SPS is requesting $12,993,444 on a total company basis for qualified pension expense in the Test Year, which is $1,314,703 lower than the Base Period. The adjustment is based on an actuarial calculation provided by Towers Watson in February 2015 to reflect the most recent assumptions for 2016 costs. Both the Base Period and Test Year amounts are reflected in Attachment RRS-2.

Q. Why has the qualified pension amount decreased from the Base Period to the Test Year?

A. The primary reasons for the decrease in qualified pension costs from the Base Period to the Test Year are:

- A decrease in the asset loss amortization;
- An increased asset base, which result in a higher return on assets; and
- Changes in the expected return on assets ("EROA") assumption.

Those reductions are partially offset by a decrease in the discount rate and by increases attributable to mortality table updates.

Q. Please describe the recent decrease to the asset loss amortization, and explain why it is leading to reduced pension expense.

A. The asset loss amortization is a legacy of the sharp downturn in the national economy during 2008. The financial turmoil in 2008 caused nearly all pension trusts to lose a significant part of their value, and SPS's pension trusts were no exception. SPS's pension plans lost approximately 26 percent of their value as a result of the severe recession in 2008. SPS did not reflect all of those losses in its annual pension cost immediately, however. Instead, as allowed by FAS 87, SPS phased the asset losses in over a five-year period, beginning in 2009. That five-year phase-in period for the 2008 market losses ended in 2013, so the amount of asset losses began declining in 2014 and continues through 2016.

Q. Please describe how the increased asset base resulted in higher asset earnings and explain why it decreased pension expense.

A. Because of funding requirements mandated by the Pension Protection Act of 2006, SPS has made significant contributions to the pension trust funds in recent years. Those contributions increase the assets upon which SPS earns a return, and those returns are an offset to annual pension cost. Thus, the increase in the asset base helps to reduce annual pension cost.

Q. Please describe the long-term EROA assumption and explain why the change decreased pension expense.

A. The EROA is determined based on the long-term expected rates of return as dictated by the requirements of FAS 87. The EROA is multiplied by the value of the assets in the pension trust, and the result is offset against the elements comprising the annual pension cost. Therefore, the higher the EROA, the more return there is to offset the annual pension cost.

Q. How does SPS establish the EROA?

A. SPS establishes the EROA by breaking down the overall pool of plan assets into individual fund types. The target portfolio investment mix is then matched with expected long-term returns provided by SPS's investment consultant, Pacific Global Advisors, for each of the investment classes within the portfolio. The expected long-term returns developed by Pacific Global Advisors are compared with expected returns by asset class provided by Towers Watson, and the results of those investment returns are aggregated to arrive at a reasonable single average long-term rate-of-return assumption by plan.

Q. Is the EROA a static number?

A. No. The EROA may change depending on the asset allocation in the pension trust. The long-term return-on-asset assumption has been changed for one of the pension plans that affect SPS's pension cost, as shown in the table below:

Table RRS-2

Plan	2014	2015	2016
SPS Bargaining	6.85%	7.25%	7.25%
NCE[5] Non-Bargaining	7.10%	7.10%	7.10%
Xcel Energy Pension Plan	7.25%	7.25%	7.25%

Q. Has the asset mix in the pension trust changed in recent years?

A. Yes. The pension trustee recently increased the percentage of plan assets held in stocks and decreased the percentage invested in bonds and other fixed-income securities. Because stocks typically have higher average returns, the EROA for the SPS bargaining portfolio increased. As discussed earlier, an increase to the long-term return-on-asset assumption increases the EROA component of pension cost, which in turn decreases total pension cost.

[5] NCE refers to New Century Energies ("NCE"), which merged with Northern States Power Company in 2000 to create Xcel Energy.

Q. Please describe the mortality table updates and explain why they increased pension expense.

A. In October 2014, the Society of Actuaries' Retirement Plans Experience Committee published updated base mortality table and mortality improvement scales. These tables reflect longer lives, and thus longer periods in which former employees are likely to collect pensions and other post-employment and retirement benefits. The new mortality tables increased expense beginning in 2015.

Q. Please describe how changes in the discount rate can increase pension expense.

A. Changes to discount rates create liability gains or losses. If the discount rate decreases, it causes a liability loss because the lower discount rate increases the amount that must be set aside to satisfy future pension liabilities. Conversely, if the discount rate increases, it causes a liability gain because it reduces the amount that must be set aside to satisfy future pension liabilities.

Q. Did the discount rate change for 2015 and 2016 as compared to 2014?

A. Yes. There was a decrease in the discount rate for 2015 and 2016 when compared to 2014, which causes an increase in costs. Table RRS-3 below compares the 2014, 2015, and 2016 discount rates used to determine pension cost:

Table RRS-3

Plan	2014	2015	2016
SPS Bargaining	5.00%	4.21%	4.21%
NCE Non-Bargaining	4.32%	3.84%	3.84%
Xcel Energy Pension Plan	4.74%	4.09%	4.09%

Q. How does SPS determine the discount rate?

A. Each year SPS determines the actual discount rate based on a rigorous actuarial analysis of the pension obligations. The study matches SPS's annual pension obligations to discount rates that are appropriate for those obligations. This analysis includes performing a bond-matching study and validating the results against the Citigroup pension liability curve and the Citigroup above-median curve.

Q. Have you provided the numbers and assumptions that SPS used to determine its qualified pension expense adjustment from the Base Period to the Test Year?

A. Yes. My Attachment RRS-1 contains the assumptions that Towers Watson used to calculate the qualified pension cost for both 2014 and 2016. For example, page 9 of that exhibit contains the service cost, interest cost, EROA, prior service costs, and prior-period gains and losses for each of the three plans: the SPS Bargaining Plan; the NCE Non-Bargaining Plan; and the XES Plan. That page also shows the discount rate used for each plan, along with the salary assumption, the EROA, and the mortality assumptions. Page 13 of Attachment RRS-1 contains the same information for 2016. A comparison of these two pages shows how the assumptions changed between the two periods.

B. Non-Qualified Pension

Q. What is the purpose of a non-qualified pension plan?

A. A non-qualified pension plan is designed to provide comparable benefits to certain employees whose compensation exceeds the limits provided by tax law for deducting pension-related expense.

Q. How does a non-qualified pension plan differ from a qualified pension plan?

A. Qualified plans are those that "qualify" under Section 400 of the IRC, which confers significant tax advantages on both the employer and employee. Those advantages include:

- The employer receives a current tax deduction for contributions to the plan;
- The employee is not taxed on the contributions, but instead is taxed only when he or she receives benefits;
- The plan assets accumulate tax-free until they are distributed; and
- The plan assets are placed in a trust that is beyond the reach of creditors.

In exchange for those advantages, the employer and employee must strictly follow the restrictions set forth in the IRC, which include limits on the amount of annual benefits awarded to the employee. Currently, the IRC limits the maximum annual benefit that can be paid through a defined benefit plan to $210,000 per year. In addition, the maximum amount of compensation that can be included in determining benefits in a qualified pension plan is $265,000.

In contrast, there is no statutory restriction on the amount of the benefit that may be offered under a non-qualified pension plan, which is used to restore the amount of retirement benefits that employees lose as a result of the limitations on the qualified plans.

Q. How are non-qualified pension costs determined?

A. Non-qualified pension costs are determined under the same standard as qualified pension costs, which is FAS 87. Unlike the qualified pension, however, the non-qualified pension does not have trust assets set aside for the payment of the benefit.

Q. What amount of expense did SPS incur during the Base Period for non-qualified pension expense?

A. The Base Period non-qualified pension expense is $542,083 (total company).

Q. Is SPS proposing a known and measurable adjustment to the Base Period level of expense for non-qualified pension?

A. Yes.

Q. What is the requested amount of non-qualified pension expense for the Test Year?

A. SPS is requesting $728,856 on a total company basis for non-qualified pension expense for the Test Year, which is $186,774 higher than the Base Period. The adjustment is based on an actuarial calculation provided by Towers Watson in February 2015 to reflect the most recent assumptions for 2016 costs. Both the Base Period and Test Year amounts are reflected in Attachment RRS-2.

Q. Why has the amount increased from the Base Period to the Test Year?

A. The increase in nonqualified pension costs is mainly due to the decrease in the discount rate. As discussed earlier, a decrease in the discount rate increases cost.

Q. Have you provided the numbers and assumptions that SPS used to develop its non-qualified pension expense adjustment from the Base Period to the Test Year?

A. Yes. My Attachment RRS-1 contains the assumptions that Towers Watson used to calculate the non-qualified pension cost for both 2014 and 2016. Page 10 of that exhibit contains the service cost, interest cost, prior service costs, and prior-period gains and losses for both SPS and XES.[6] That page also shows the discount rate and salary assumption used for both plans. Page 14 of Attachment RRS-1 contains the same information for 2016. A comparison of these two pages shows how the assumptions changed between the two periods.

[6] Because there are no assets sitting in a pension trust for the non-qualified plan, the EROA element of the FAS 87 calculation is inapplicable.

C. Retiree Medical

Q. How are retiree medical costs determined?

A. Retiree medical costs are determined under FAS 106, Employers' Accounting for Post-Retirement Benefits Other Than Pensions. The components and calculation are identical to FAS 87, with one exception: The pension asset gains and losses are phased into the loss amortization calculation by 20% each year, while retiree medical asset gains and losses are not.

Q. Please describe SPS's retiree medical plan and the plan expenses.

A. SPS's plan consists primarily of retiree medical benefits, but it also includes retiree life and dental insurance. SPS eliminated those benefits for all active non-bargaining employees more than ten years ago. Moreover, SPS bargaining employees hired on or after January 1, 2012 no longer receive retiree medical benefits. Thus, the current expense for retiree medical benefits is a legacy of the prior programs.

Q. What amount of retiree medical expense did SPS incur during the Base Period?

A. The SPS retiree medical expense was $173,603 (total company) for the Base Period.

Q. Is SPS proposing a known and measurable adjustment to the Base Period level of retiree medical expense?

A. Yes.

Q. What is the requested amount of retiree medical expense for the Test Year?

A. SPS is requesting $(337,738) on a total company basis for retiree medical expense for the Test Year, which is $511,341 lower than the Base Period. The adjustment is based on an actuarial calculation provided by Towers Watson in February 2015 to reflect the most recent assumptions for 2016 costs. Both the Base Period and Test Year amounts are reflected in Attachment RRS-2.

Q. Why has the amount decreased from the Base Period to the Test Year?

A. The major drivers for the decrease in expense are:

- Favorable claims experience; and
- Plan design changes.

Those elements of costs are offset by the following factors, which increased expense:

- Changes in the EROA assumption;
- Mortality table updates; and
- A decrease in the discount rate.

Q. Please describe SPS's favorable claim experience and explain why it decreased retiree medical expense.

A. The claims experience for retirees continues to be lower than the assumed trend increase. That is likely because the plan design changes implemented by SPS in recent years have been more effective than anticipated.

Q. Briefly explain any retiree medical benefit changes and what affects they have on expense.

A. Effective January 1, 2012, newly hired bargaining employees are no longer eligible for retiree medical. In addition, existing retirees were moved to individual market Medicare plans. Both of these events have reduced costs.

Q. Please describe the change in the long-term EROA assumption and explain why it decreased retiree medical expense.

A. The long-term EROA assumption has been changed for both the bargaining unit and non-bargaining unit plans, which are called Voluntary Employee Beneficiary Associations ("VEBA"). The EROAs for the VEBAs are shown in Table RRS-4 below:

Table RRS-4

Plan	2014	2015	2016
VEBA Bargaining	7.25%	5.80%	5.80%
VEBA Non-bargaining	6.75%	5.80%	5.80%

Because SPS's VEBAs are adequately funded, SPS elected to reduce the risk in the plans as part of the investment strategy, thus reducing the EROA to 5.80 percent. This was accomplished by decreasing the percentage of plan assets held in stocks and increasing the percentage invested in bonds and other fixed-income securities. Because bonds and other fixed-income securities typically have lower average returns, the average return for the portfolio decreased. A decrease to the long-term EROA decreases the "return on asset" component of retiree medical cost, which in turn increases total retiree medical cost.

Q. Did the mortality table updates and changes in the discount rate increase retiree medical expense?

A. Yes, for the same reasons explained in the qualified pension section.

Q. Have you provided the numbers and assumptions that SPS used to determine its retiree medical expense adjustment from the Base Period to the Test Year?

A. Yes. My Attachment RRS-1 contains the assumptions that Towers Watson used to calculate the retiree medical expense for both 2014 and 2016. For example, page 11 of that exhibit contains the service cost, interest cost, EROA, prior service costs, and prior-period gains and losses for both SPS and XES. That page also shows the discount rate used for each plan, along with the medical trend, the EROA, and the mortality assumptions. Page 15 of Attachment RRS-1 contains the same information for 2016. A comparison of these two pages shows how the assumptions changed between the two periods.

D. Self-Insured Long-Term Disability

Q. Please describe LTD in more detail and explain how it is accounted for.

A. The LTD costs are attributable to benefits provided by SPS to former or inactive employees after employment but before retirement. The LTD plan provides employees with income protection by paying a portion of an employee's income while he or she is disabled by a covered physical or mental impairment.

SPS has two types of LTD – a self-insured benefit and a third-party-insured benefit. In a third-party-insured plan, which I will discuss in more detail later in this testimony, SPS purchases an insurance plan from an outside insurance provider that assumes the risk. In a self-insured plan, SPS provides the benefits to the covered individuals and therefore effectively acts as the insurer. For the self-insured piece, SPS is required to accrue for LTD costs under FAS 112, Employers' Accounting for Postemployment Benefits. The FAS 112 accrual represents the expected disability benefit payments for employees that are not expected to return to work.

Q. Which groups of employees are covered under the self-insured plan and which groups are covered under the third-party-insured plan?

A. Within the LTD benefit, all employees disabled before January 1, 2008 are covered under the self-insured plan, and all employees disabled on and after January 1, 2008 are covered under a third-party-insured plan.

Q. What amount of expense did SPS incur during the Base Period for self-insured LTD benefits?

A. The self-insured LTD benefit costs in the Base Period were $(15,721) (total company).

Q. Is SPS proposing a known and measurable adjustment to the Base Period level of expense for self-insured LTD benefits?

A. Yes.

Q. What is the requested amount of self-insured LTD benefits expense for the Test Year?

A. SPS is requesting $24,939 on a total company basis for self-insured LTD benefits expense for the Test Year, which is $40,660 higher than the Base Period. The adjustment is based on an actuarial calculation provided by Towers Watson in February 2015 to reflect the most recent assumptions for 2016 costs. Both the Base Period and Test Year amounts are reflected in Attachment RRS-2.

Q. Why has the amount increased from the Base Period to the Test Year?

A. The increase in costs is mainly due to the decrease in the discount rate. As discussed earlier, a decrease in the discount rate increases cost.

Q. Have you provided the numbers and assumptions that SPS used to determine its self-insured LTD adjustment from the Base Period to the Test Year?

A. Yes. My Attachment RRS-1 contains the assumptions that Towers Watson used to calculate the self-insured LTD cost for both 2014 and 2016. For example, page 12 of that exhibit contains the discount rate used to calculate the cost. Page

16 of Attachment RRS-1 contains the same information for 2016. A comparison of these two pages shows how the assumptions changed between the two periods.

E. Reasonableness of SPS's Pension and Other Post-Employment and Retirement Benefits Expense

Q. Are the amounts of SPS's pension and other post-employment and retirement benefits expense reasonable?

A. Yes. SPS follows a well-established, objective, and verifiable process to determine the assumptions used within the actuarial calculations that yield the pension and other post-employment and retirement benefits expense amounts for the Test Year. The assumptions and the actuarially calculated total cost amounts are reflected in my Attachment RRS-1, which are the actuarial exhibits for 2014 and 2016. In addition, the reasonableness of Xcel Energy's Total Rewards Program design, which includes pension and other post-employment and retirement benefits, is discussed in the direct testimony of Ms. Reed.

V. ACTIVE HEALTH AND WELFARE COSTS

Q. What topics do you discuss in this section of your testimony?

A. I discuss four types of active health and welfare costs, which are: (1) active health care costs; (2) fully-insured LTD costs; (3) life insurance costs; and (4) miscellaneous benefit costs.

A. Active Health Care

Q. What types of costs are included in active health care?

A. Active health care costs are all costs associated with providing health care coverage to employees. The costs include medical, pharmacy, dental and vision claims, administrative fees, employee withholdings, pharmacy rebates, Health Savings Account contributions, transitional reinsurance fees, trustee fees, and interest income.

Q. What was the Adjusted Base Period amount of active health care expense?

A. The Adjusted Base Period amount of active health care expense was $14,117,064 on a total company basis.

Q. Does the Base Period amount match the per book amount of active health care costs?

A. No. The per book numbers for active health care amounts include estimates because there is generally an average lag of approximately 30 days between when health care is provided and when SPS receives a bill for that care.[7] Therefore, the actual amount of active health care expense was not available at the time SPS recorded its per book amount at year-end 2014. Because SPS needs to close its books before it receives all of those health care claims, it takes the actual amounts recorded through a certain point in the year and estimates the additional amount that will be incurred but not reported by the end of the year, which is the Incurred but not Reported ("IBNR") reserve. During the following year, SPS receives the actual amounts attributable to care provided in the last part of the prior year, and at that time it trues up the IBNR estimate to the actual incurred expense.

Q. What is the amount of the adjustment to the per book amount?

A. The adjustment to the per book amount is a decrease of $73,903 (total company). This adjustment is necessary to reflect the claims costs on an incurred basis. As

[7] The difference between the estimated amount and the actual amount is generally not material enough to restate SPS's GAAP books when the actual amount becomes known.

mentioned above, as claims that are incurred in a prior year become known in the following year, a true-up to the IBNR reserve is recorded. Incurred adjustments to per book amounts are necessary so that the amount reflects the actual claims incurred and not the estimated claims that were accrued in the period.

Q. Is SPS proposing any other adjustment to the Base Period amount?

A. Yes.

Q. What amount is SPS proposing for the Test Year active health care costs?

A. SPS is requesting $15,284,681 on a total company basis for active health care expense for the Test Year, which is $1,167,617 higher than the Base Period. This amount is set forth in Attachment RRS-4, which is an actuarial calculation performed by Towers Watson for SPS's 2016 active health care costs. This increase represents an increase of eight percent over two years or approximately four percent per year.

Q. How was the 2016 active health care amount determined by Towers Watson?

A. In April 2015, Towers Watson calculated the 2016 health care amount by using the actual experience from 2013 and 2014, with 2013 weighted at 20% and 2014 at 80%, consistent with actuarial standards and SPS's practice in prior years. Towers Watson then adjusted for changes in plan design, regulations, administrative fees, etc., and it trended the data forward to 2016. These costs are calculated at a plan level, meaning all Xcel Energy companies with employees in that plan are calculated together. Towers Watson then adjusts to account for actual claims experience by company. Please refer to Attachment RRS-3 for the 2016 active health care total cost amounts and to Attachment RRS-4 for the conversion of these total cost amounts to SPS total company expense.

Q. Is an annual increase of four percent for active health care costs reasonable?

A. Yes. The Health Research Institute of PricewaterhouseCoopers has projected the cost increase from 2014 to 2015 to be 6.8% (please refer to Attachment RRS-5). SPS's proposed increase of approximately 4% per year is reasonable, as evidenced by the fact that the percentage is considerably lower than the national medical trend escalation rate reflected in the Pricewaterhouse Coopers forecast.

B. Third-Party-Insured Long-Term Disability

Q. Please describe the third-party-insured LTD costs that SPS incurs.

A. As explained earlier, SPS offers long-term disability coverage that provides benefits to former or inactive employees after employment but before retirement. The LTD plan provides employees with income protection by paying a portion of an employee's income while he or she is disabled by a covered physical or mental impairment. In a third-party-insured plan, SPS purchases an insurance plan from an outside insurance provider that assumes the risk, and the cost of the third-party-insured piece is simply the cost of the insurance premium incurred each year along with any other miscellaneous costs.

Q. What groups of employees are covered under the third-party-insured benefit?

A. As noted earlier, all employees disabled on and after January 1, 2008 are covered under the third-party-insured plan.

Q. What amount of expense did SPS incur during the Base Period for third-party-insured LTD benefits?

A. SPS incurred $596,162 on a total company basis for third-party-insured LTD benefits.

Q. Is SPS proposing a known and measurable adjustment to the Base Period level of expense for self-insured LTD benefits?

A. No.

C. Life Insurance

Q. Please describe the life insurance cost that SPS incurs.

A. The life insurance category consists of life insurance premiums and offsetting employee life insurance withholdings. Life insurance is provided to non-bargaining employees at 100% of base pay and to SPS bargaining employees at 50% of base pay. Employees also have the option to purchase additional life insurance.

Q. What amount of expense did SPS incur during the Base Period for life insurance benefits?

A. SPS incurred $135,306 in costs on a total company basis for life insurance benefits.

Q. Is SPS proposing an adjustment to the Base Period level of expense for life insurance benefits?

A. No.

D. Miscellaneous Benefits

Q. What types of miscellaneous benefit programs does SPS offer to its employees?

A. The types of costs included in the miscellaneous benefit programs and costs category are:

- Tuition reimbursement,
- Employee Assistance Program costs,
- Wellness program costs,
- Costs incurred by the HR Service Center to answer employee retirement or benefit questions,
- Health and welfare plan actuarial and audit fees,
- Administrative fees for short-term and long-term disability plans, and
- Administrative fees for employee flexible spending and health savings accounts.

Q. What amount of expense did SPS incur during the Base Period for miscellaneous benefits?

A. SPS incurred $678,422 on a total company basis for miscellaneous benefits during the Base Period.

Q. Is SPS proposing an adjustment to the Base Period level of expense for miscellaneous benefits?

A. No.

E. <u>Reasonableness of Health and Welfare Costs</u>

Q. Are the amounts of SPS's health and welfare expense reasonable?

A. Yes. It is appropriate for the Test Year cost of service to include these benefits because they reflect a reasonable and necessary level of expense. As Ms. Reed explains in more detail, Xcel Energy's compensation plans and benefits are required for Xcel Energy and its subsidiaries to attract, retain, and motivate employees needed to perform the work necessary to provide quality services for SPS customers. Without these benefits, SPS and XES would have to pay significantly higher current compensation to attract employees.

VI. WORKERS' COMPENSATION COSTS

Q. Is SPS seeking recovery of the costs associated with workers' compensation benefits?

A. Yes. SPS is seeking recovery of both self-insured workers' compensation benefits and third-party-insured workers' compensation benefits.

A. Self-Insured Workers' Compensation

Q. Please briefly describe SPS's self-insured workers' compensation program.

A. Xcel Energy provides workers' compensation benefits under the FAS 112 accounting standard to employees who are former or inactive employees after employment, but before retirement. Post-employment benefits are all types of benefits provided to former or inactive employees, beneficiaries, and covered dependents. Those benefits include, but are not limited to, salary continuation, supplemental unemployment benefits, severance benefits, and disability-related benefits (including workers' compensation).

Q. How are self-insured workers' compensation amounts determined?

A. SPS's workers' compensation costs are calculated using actuarial assumptions such as mortality tables and discount rates. An excerpt of the actuarial report from which SPS's self-insured workers' compensation expense is derived is attached to my testimony as Attachment RRS-1.

Q. What amount of expense did SPS incur during the Base Period for self-insured workers' compensation benefits?

A. SPS incurred $(592,109) on a total company basis for self-insured workers' compensation benefits during the Base Period.

Q. Why is the self-insured workers' compensation amount negative for the Base Period?

A. The negative expense is due to no future claims being expected under the self-insured workers' compensation plan. As a result, the liability was reduced to zero and expense was decreased.

Q. Is SPS proposing an adjustment to the Base Period level of expense for self-insured workers' compensation benefits?

A. Yes.

Q. What amount of expense is SPS requesting for self-insured workers' compensation benefits for the Test Year?

A. SPS is requesting $0 on a total company basis for self-insured workers' compensation benefits for the Test Year.

Q. Why has the amount increased from negative expense to zero from the Base Period to the Test Year?

A. Because SPS does not expect any future claims under the self-insured workers' compensation plan, the Test Year amount has been adjusted to zero.

B. Third-Party-Insured Workers' Compensation

Q. Please briefly describe SPS's third-party-insured workers' compensation program.

A. For employees who are injured on or after August 1, 2001, all workers' compensation benefits are covered under an insured program. The only cost to Xcel Energy for this benefit cost is the insurance premium. In a third-party-insured plan, SPS purchases an insurance plan from an outside insurance provider that assumes the risk, and the cost of the third-party-insured piece is simply the cost of the insurance premium incurred each year along with any other miscellaneous costs.

Q. How are third-party-insured workers' compensation amounts determined?

A. The costs are calculated by actuaries of the vendor from whom SPS purchases the insurance. The actuaries presumably base the costs on company-specific historical loss data and payroll to determine exposure related to the policy period.

Q. What amount of expense did SPS incur during the Base Period for third-party-insured workers' compensation benefits?

A. SPS incurred $992,222 on a total company basis for third-party-insured workers' compensation benefits.

Q. Is SPS proposing an adjustment to the Base Period level of expense for third-party-insured workers' compensation benefits?

A. Yes.

Q. What amount of expense is SPS requesting for third-party-insured workers' compensation benefits for the Test Year?

A. SPS is requesting $504,835 on a total company basis for third-party-insured workers' compensation benefits for the Test Year. This represents a decrease of $487,387 from the Base Period.

Q. Why has the amount decreased from the Base Period to the Test Year?

A. Each year when the premiums are being calculated, the actuaries look at three years of loss history. The most recent premium renewal received at the end of 2014 reflected a significant decrease in the three-year loss history, thus resulting in lower premiums. This most recent premium renewal is the basis for the Test Year level of costs.

C. Reasonableness of Workers' Compensation Benefit Costs

Q. Is it reasonable for the Test Year cost of service to include the self-insured and third-party-insured workers' compensation costs incurred by SPS?

A. Yes. It is appropriate for the Test Year cost of service to include these benefits because they reflect a reasonable and necessary level of expense. Xcel Energy's workers' compensation plans and benefits are required for Xcel Energy and its subsidiaries to attract, retain, and motivate employees needed to perform the work necessary to provide quality services for SPS customers. Without these benefits, SPS and XES would have to pay significantly higher current compensation to attract employees.

VII. OTHER BENEFIT COSTS

Q. Is SPS seeking recovery of any retirement benefits in addition to the ones discussed earlier?

A. Yes. SPS is seeking recovery of 401(k) match costs and miscellaneous retirement-related costs.

A. 401(k) Match

Q. Please briefly describe SPS's 401(k) match plan.

A. SPS's retirement income plan is based on a combination of a defined benefit pension plan and a 401(k) plan, which is a defined contribution plan. Unlike some defined benefit pension plans, SPS's defined benefit pension plan is not intended to provide an employee's total retirement income. Rather, the defined benefit pension plan and 401(k) plan are designed so that the two plans in combination provide retirement income to SPS and XES employees.

Q. How are the 401(k) match costs determined?

A. The 401(k) plan is a defined contribution plan to which employees must contribute in order to obtain employer matching. It is based on the amount that employees contribute as a percentage of their salary with a maximum match of 4%. For the majority of SPS's workforce, the employee must contribute 8% of eligible income for SPS to contribute the maximum match of 4% of eligible income. The remaining employees, who are in the Traditional Plan, receive a maximum match of $1,400.

Q. What amount of expense did SPS incur during the Base Period for 401(k) match benefits?

A. SPS incurred $2,649,160 on a total company basis for 401(k) benefits.

Q. Is SPS proposing an adjustment to the Base Period level of expense for 401(k) benefits?

A. Yes. SPS is requesting $2,808,756 on a total company basis for 401(k) match benefits for the Test Year, which is an increase of $159,596. Because the 401(k) match is based on the amount that employees contribute as a percentage of their salary, an escalation of 3% per year has been applied. For justification of the 3% merit increase, please refer to Ms. Reed's direct testimony.

B. Miscellaneous Retirement-Related Costs

Q. What costs are included in miscellaneous retirement-related costs?

A. This category includes costs such as 401(k) plan administration fees, compensation consulting and survey costs, retirement plan actuarial and audit fees, and a small amount for the deferred compensation plan.

Q. What amount of expense did SPS incur during the Base Period for miscellaneous retirement-related benefits?

A. SPS incurred $261,377 on a total company basis for miscellaneous retirement-related benefits.

Q. Is SPS proposing an adjustment to the Base Period level of expense for miscellaneous retirement-related benefits?

A. No.

C. Reasonableness of Other Benefit Costs

Q. Is it reasonable for the Test Year cost of service to include the 401(k) match and miscellaneous retirement-related costs incurred by SPS?

A. Yes. It is appropriate for the Test Year cost of service to include these benefits because they reflect a reasonable and necessary level of expense. Xcel Energy's compensation plans and benefits are required for Xcel Energy and its subsidiaries to attract, retain, and motivate employees needed to perform the work necessary to provide quality services for SPS customers. Without these benefits, SPS and XES would have to pay significantly higher current compensation to attract employees.

VIII. SPS'S PREPAID PENSION ASSET

Q. What topic do you discuss in this section of your testimony?

A. I quantify SPS's prepaid pension asset and explain that it should be included in rate base.

Q. Is any other SPS witness addressing the prepaid pension asset?

A. Yes. As noted earlier, Mr. Wickes describes how a prepaid pension asset arises and explains why it is necessary to include the prepaid pension asset in rate base to make SPS whole. Mr. Wickes also identifies the other regulatory jurisdictions that allow the prepaid pension asset to be included in rate base.

Q. Why are the cumulative qualified pension contributions and costs different in any given year?

A. As Mr. Wickes explains in more detail, the annual pension cost calculation is governed by FAS 87, but the contributions are driven by federal law requirements under the ERISA and the IRC. The calculations of both pension cost and pension contributions are performed using accrual methodologies, but the assumptions, attribution methods, and periods of time over which the costs and contributions are required to be recognized are different. Thus, the cumulative contributions and the cumulative recognized pension cost are nearly always different.

Q. Can the utility withdraw the prepaid pension asset and use it to fund capital requirements or to pay for operation and maintenance expense?

A. No. Federal law prohibits the withdrawal of any amounts from the pension trust fund except for the payment of benefits and plan expenses. After the contributions are made, they are essentially locked away.

Q. Do utility customers benefit from the prepaid pension asset?

A. Yes. Even though the utility cannot withdraw the prepaid pension asset or otherwise use it, the earnings on the asset reduce the annual pension cost, which in turn reduces the revenue requirement.

Q. Please quantify the reduction in annual pension cost as a result of the prepaid pension asset.

A. As shown in Table RRS-5, SPS's Test Year pension cost will be reduced by $10,773,584 on a total company basis because of earnings on the prepaid pension asset:

Table RRS-5

Pension Plan	Date	Prepaid Pension Asset Test Year 13-Month Average	EROA	Cost Reduction from Prepaid Pension Asset
NCE Non-Bargaining	Dec 2015 to Dec 2016	$37,647,776	7.10%	$2,672,992
SPS Bargaining	Dec 2015 to Dec 2016	$111,732,297	7.25%	$8,100,592
Total		**$149,380,074**		**$10,773,584**

Although the earnings reduce SPS's revenue requirement by nearly $10.8 million, SPS cannot withdraw the earnings from the trust, and thus SPS will not be made whole unless the prepaid pension asset is included in rate base.

Q. Please explain SPS's request regarding its prepaid pension asset.

A. SPS is requesting that the Test Year qualified prepaid pension asset of $149,380,074 (total company) be included in rate base to provide a corresponding return to shareholders.[8] The prepaid pension asset represents assets that are delivering a direct benefit to customers because the investment income on those assets lowers the pension expense under FAS 87. It is therefore appropriate to include the prepaid pension asset in rate base. The calculation to support the prepaid pension asset thirteen-month Test Year average can be found in my Attachment RRS-6, and the cumulative qualified prepaid pension asset balance since the adoption of FAS 87 can be found in my Attachment RRS-7.

[8] This amount is effectively reduced by the accumulated deferred federal income taxes ("ADIT") associated with the prepaid pension asset. That ADIT amount, which is approximately $54 million, reduces the actual amount on which SPS earns a return to approximately $96 million on a total company basis.

Q. If SPS had an unfunded accrued pension cost instead of a prepaid pension asset, would you be recommending that amount be subtracted from rate base?

A. Yes. In fact, that is the situation with SPS's non-qualified retirement plan. For that plan, historic pension cost under FAS 87 has exceeded cumulative contributions, and therefore SPS has a corresponding unfunded pension liability on its balance sheet. SPS has made a corresponding reduction in rate base in this rate case in the amount of $1,605,603 (total company). The net prepaid pension asset for both the qualified and non-qualified plans is $147,774,471 (total company). The calculation to support these balances can be found in Attachment RRS-6.

Q. Is the prepaid pension asset any different from other types of timing differences, such as ADIT or insurance prepayments?

A. No. Like ADIT, the prepaid pension asset results from timing differences. ADIT is an asset or liability that reflects the timing difference between the recognition of expense on an accrual basis and the actual cash flow to the Internal Revenue Service for tax payment. The prepaid pension asset is an asset that reflects the timing difference between the pension expense as recognized on an accrual basis and the actual cash flow to the pension plan in the form of cash contributions.

Q. If the New Mexico Public Regulation Commission does not accept your recommendation to include the prepaid pension asset in rate base, do you have a secondary recommendation?

A. Yes. If the New Mexico Public Regulation Commission does not allow SPS shareholders to earn a return on the prepaid pension asset balance, the earnings on the prepaid pension asset should be excluded from the calculation of annual pension cost for purposes of setting rates. It would be inequitable to give customers the benefit of the prepaid pension asset without allowing SPS to earn a return on that asset. Mr. Wickes explains this alternate proposal in more detail.

Q. How would it affect SPS's annual pension cost if the earnings on the pension trust assets were excluded from the cost of service?

A. SPS's annual pension cost would increase by $10,773,584 (total company) if the earnings on the pension trust assets were excluded from the cost of service. Because pension costs are passed through to customers on a dollar-for-dollar basis, SPS's revenue requirement would increase by the same amount.

IX. CONCLUSION

Q. Were Attachments RRS-2, RRS-3, RRS-4, RRS-6 and RRS-7 prepared by you or under your direct supervision and control?

A. Yes.

Q. Are Attachments RRS-1 and RRS-5 true and correct copies of the documents referenced in your testimony?

A. Yes.

Q. Does this conclude your pre-filed direct testimony?

A. Yes.

VERIFICATION

STATE OF MINNESOTA)
) ss.
COUNTY OF HENNEPIN)

RICHARD R. SCHRUBBE, first being sworn on his oath, states:

I am the witness identified in the preceding direct testimony. I have read the testimony and the accompanying attachments and am familiar with their contents. Based upon my personal knowledge, the facts stated in the testimony are true. In addition, in my judgment and based upon my professional experience, the opinions and conclusions stated in the testimony are true, valid, and accurate.

RICHARD R. SCHRUBBE

SUBSCRIBED AND SWORN TO before me this 20th day of May, 2015.

VIRGINIA J SAILOR
NOTARY PUBLIC - MINNESOTA
MY COMMISSION EXPIRES 1/31/16

Virginia J Sailor
Notary Public, State of Minnesota
My Commission Expires: 1/31/16

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May 7, 2015

Mr. Richard R. Schrubbe
Director, Corporate and Benefits Accounting
Xcel Energy Inc.
414 Nicollet Mall
4th Floor
Minneapolis, MN 55401

Subject: 2015 Valuation Results and 2016-2020 Contribution and Cost Estimates

Dear Rick:

This letter summarizes the results of the 2015 plan year IRS funding valuations for Xcel Energy's qualified pension plans. Also included are costs for the Long-Term Disability (LTD) and Workers' Compensation plans that have been updated from the February 2, 2015 results to reflect 2015 census data and the final 2015 discount rate developed using cash flows based on the 2015 census data. Costs for all other plans are unchanged from February 2, 2015.

Attached to this letter are updated PBGC variable premium and IRS funded status forecasts followed by the previously provided benefit cost exhibits and updated LTD and Workers' Compensation exhibits. Also included is a new exhibit that provides plan specific details of the cost reconciliations for the qualified pension plans.

PENSION PLAN FUNDING

Summary of Key Results

The key results for each plan are provided in the following table:

($ in Millions)	Xcel Energy Pension Plan	NCE Nonbargaining Plan	SPS Bargaining Plan	PSCo Bargaining Plan
Effective Interest Rate	6.12%	6.00%	6.26%	6.23%
Contributions				
Minimum Required Contribution as of January 1, 2015 for the 2015 Plan Year Before Funding Balance	$ 77.8	$ 7.9	$ 0.0	$ 0.0
Minimum Required Contribution as of January 1, 2015 for the 2015 Plan Year After Funding Balance	$ 0.0	$ 0.0	$ 0.0	$ 0.0
PBGC Premiums				
PBGC Variable Premiums	$ 0.8	$ 0.4	$ 0.0	$ 1.9

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Funded Status

A plan's funded status is measured by comparing the present value of plan benefits to the value of plan assets. The following table summarizes the 2015 plan year funded percentages:

($ in Thousands)	Xcel Energy Pension Plan	NCE Nonbargaining Plan	SPS Bargaining Plan	PSCo Bargaining Plan
1. Target Liability as of January 1	$1,522,741	$254,392	$284,186	$841,138
2. Actuarial Value of Assets as of January 1	$1,615,708	$271,480	$330,643	$953,126
3. Funding Balance as of January 1	$117,337	$14,933	$24,862	$86,767
4. Funded Percentage before funding balance reduction from plan assets [(2) / (1)]	106.1%	106.7%	116.3%	113.3%
5. Funded Percentage with funding balance reduction from plan assets (FTAP) [((2) – (3)) / (1)]	98.3%	100.8%	107.5%	102.9%

Benefit Restrictions

Based on the 2015 funding results, no benefit restrictions will apply for the 2015 plan year since the preliminary AFTAP for each plan exceeds 80.0%. We will provide our certification of the funded status for the plans prior to the September 30, 2015 deadline.

Funding Balances

The following summarizes the credit balance activity for the Xcel Energy pension plans.

($ in Millions)	Xcel Energy Pension Plan	NCE Non-bargaining Plan	SPS Bargaining Plan	PSCo Bargaining Plan
Funding Balances at January 1, 2014	$ 132.9	$ 19.4	$ 16.5	$ 70.8
Credit Balances used during 2014	(53.5)	(11.4)	0.0	0.0
Excess contributions elected to be added to funding balance	29.7	8.7	7.0	10.0
Interest adjustments	5.8	0.6	1.4	6.0
Amount of funding balance forfeited for AFTAP purposes	0.0	0.0	0.0	0.0
Funding balance transferred as a result of the non-deminimis asset transfer	2.4	(2.4)	0.0	0.0
Funding Balances at January 1, 2015	$ 117.3	$ 14.9	$ 24.9	$ 86.8

PBGC Premiums

The PBGC variable premium amounts for the Xcel Energy Pension Plan and the SPS Bargaining Plan are based on the Alternative Premium Funding Target, determined without regard to MAP-21 interest rates. The variable premium amounts for the NCE Nonbargaining and PSCo Bargaining Plans are based on the Standard Premium Funding Target.

The Xcel Energy Pension Plan, NCE Nonbargaining Plan, and PSCo Bargaining Plan can eliminate variable premium with September 15, 2015 contributions of $35.8 million,$19.7 million and $82.6 million, respectively. We will review alternatives for reducing PBGC variable premium amounts prior to the October 15, 2015 filing deadline.

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LONG-TERM DISABILITY AND WORKERS' COMPENSATION RESULTS

The combined 2015 Workers' Compensation (WC) and Long-Term Disability (LTD) cost/(income) is $3.4 million, a $0.8 million decrease from our February cost estimate of $4.2 million for the plans combined. Updating the BOND:Link model results to use the cash flows from the 2015 valuations increases the discount rate from an estimated rate of 3.85% to 3.86%.

The decrease in LTD cost from $2.5 million in the February 2nd cost estimates to the final 2015 result of $2.4 million is due to favorable demographic experience during 2014.

The decrease in WC cost from $1.7 million in the February 2nd cost estimates to the final 2015 result of $1.0 million is due to lower projected December 31, 2015 liabilities from updated demographic experience.

RESULTS EXHIBITS

Pension contribution and PBGC variable premium forecasts are attached to the end of this letter. The planned funding schedule provided by Xcel Energy is projected to sufficiently cover all minimum required contributions. Contribution and PBGC premium forecasts include 5% liability increases starting in 2017 to estimate the impact of potential mortality updates. Benefit cost forecasts for all plans except LTD and Workers' Compensation have not been updated from the forecasts provided on February 2, 2015. Estimates of 2016-2020 benefit costs summarized by legal entity are also presented in the attached exhibits as follows:

- Exhibit I: Benefit Cost Estimates – Qualified Pension Plans
- Exhibit II: Benefit Cost Estimates – Nonqualified Pension Plans
- Exhibit III: Benefit Cost Estimates – Retiree Medical and Life Insurance Plan
- Exhibit IV: Liabilities – LTD and Workers' Compensation
- Exhibit V: Claims and Expenses – LTD and Workers' Compensation
- Exhibit VI: Benefit Cost Estimates – LTD and Workers' Compensation
- Exhibit VII: Benefit Cost Reconciliation Details – Qualified Pension Plans

Plans Valued

The attached exhibits include estimates for the following employee benefit plans maintained by Xcel Energy Inc. (Xcel Energy):

- Xcel Energy Pension Plan
- Xcel Energy Inc. Nonbargaining Pension Plan (South) [NCE Nonbargaining Plan]
- New Century Energies Inc. Retirement Plan for SPS Bargaining Unit Employees and Former Nonbargaining Unit Employees [SPS Bargaining Plan]
- New Century Energies Inc. Retirement Plan for PSCo Bargaining Unit Employees and Former Nonbargaining Unit Employees [PSCo Bargaining Plan]
- Xcel Energy Nonqualified Defined Benefit Plan
- Xcel Energy SERP
- SPS SERP
- Employment Agreements
- Fort St. Vrain Nuclear Operations Personnel Plan
- NMC SERP Part A
- Xcel Energy Retiree Medical and Life Insurance Plan (including Executive Life Insurance)
- Xcel Energy Workers' Compensation
- Xcel Energy Long-Term Disability (LTD) Income

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FORECAST RESULTS

The following provides a reconciliation of actual 2015 costs to 2016 estimated costs, prior to regulatory effects:

Reconciliation of Benefit Costs (prior to regulatory effects)

($ in Millions)	Qualified Pension	Nonqualified Pension	Retiree Medical	Long Term Disability	Workers' Compen-sation
Final 2015[1]	See Exhibit VII	**$6.3**	**($4.5)**	**$2.4**	**$1.0**
Historical asset performance	See Exhibit VII	0.0	0.0	0.0	0.0
Expected liability, asset, and loss amortization changes	See Exhibit VII	(0.3)	(0.7)	(1.8)	(0.5)
Initial 2016 Estimate[1]	See Exhibit VII	**$6.0**	**($5.2)**	**$0.6**	**$0.5**

[1] Does not include potential settlement charges. Current estimates indicate settlement charges in the nonqualified plan of $3.2 million in 2015 for payments expected to be made to Mr. Sparby and $1.6 million in 2016 for payments expected to be made to Mr. Connelly.

DATA, ASSUMPTIONS, METHODS AND PLAN PROVISIONS

The 2015 benefit costs, 2015 funding results and estimated 2016-2020 costs reflect the following data, assumptions, methods and plan provisions:

Data

2015 benefit cost results and results for 2016-2020 are based on participant data as of January 1, 2014 projected to the end of the year based on status, compensation and benefit changes through November 30, 2014 and known retirements for December 2014. Actual new entrants through November 30, 2014 and expected new entrants through December 31, 2014 are included. See our February 2, 2015 letter for more details. 2015 pension funding, Workers' Compensation and Long-Term Disability results are based on data as of January 1, 2015.

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Economic Assumptions

The key assumptions used to determine the actual 2015 and estimated 2016 - 2020 benefit cost results are provided below. The assumptions used to calculate the cost under the aggregate funding method are the same as used to prepare the ASC 715 results, except as noted. Actual asset returns are assumed to equal the expected return on assets assumptions throughout the forecast period.

	May 7, 2015 results
Benefit Cost	
Discount Rate – ASC 715	
– Xcel Energy Pension Plan	4.09%
– NCE Nonbargaining Pension Plan	3.84%
– SPS Bargaining Pension Plan	4.21%
– PSCo Bargaining Pension Plan	4.15%
– Nonqualified Pension Plan	3.90%
– Retiree Medical and Life Insurance Plan	4.08%
– Workers' Compensation and LTD	3.86%
Expected Return on Assets Assumption – Pension	
– Xcel Energy Pension Plan	7.25%
– NCE Nonbargaining Pension Plan	7.10%
– SPS Bargaining Pension Plan	7.25%
– PSCo Bargaining Pension Plan	6.75%
– *Weighted Average Expected Return*	7.09%
Expected Return on Assets Assumption – VEBA (Bargaining/Nonbargaining)	5.80%
Discount Rate – Aggregate Cost	7.25%
Salary Scale	3.75%
Initial Medical Trend	6.50%
Ultimate Medical Trend	4.50%
Year Ultimate Trend is Reached	2019

[1] Weighted average of age-graded table (nonbargaining) and service-graded table (bargaining)

- The interest rate for converting lump sums to annuities and annuities to lump sums is 4.00% in all years. The pre-PPA lump sum conversion interest rate is 3.00%.
- The HRA trend assumption is 2.0%.

We have assumed Xcel Energy continues to use the 24-month average of the three-segment interest rates as of September in the year prior to the valuation date. The underlying three-segment rates from the end of April 2015 were assumed to remain constant throughout the forecast period. This methodology produces the following effective interest rates:

	Year					
	2015	2016	2017	2018	2019	2020
Xcel Energy Pension Plan	6.12%	5.93%	5.74%	5.25%	4.80%	4.40%
NCE Nonbargaining Plan	6.00%	5.81%	5.62%	5.13%	4.68%	4.28%
SPS Bargaining Plan	6.26%	6.07%	5.89%	5.39%	4.94%	4.53%
PSCo Bargaining Plan	6.23%	6.04%	5.85%	5.36%	4.90%	4.50%

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Demographic Assumptions

- Active participant counts are assumed to remain level throughout the forecast period.
- The mortality assumption is the RP-2014 tables (blue collar for bargaining participants and white collar for nonbargaining participants, as adjusted for 2014 Xcel Energy mortality study) projected with generational mortality improvements using an adjusted SOA MP-2014 methodology.
- The mortality assumption for converting lump sums to annuities or annuities to lump is a combined annuitant and non-annuitant RP-2014 table projected with scale MP-2014 to the commencement year plus an additional 10 years.
- Retirement decrements reflect 25% to 35% reductions from the 2014 rates due to lower than expected retirements over the last five years as well as the expectation that average retirement ages will continue to increase in the future.

Pension Contributions

The forecasts reflect actual 2015 contributions of $90 million made on January 15, 2015 and planned contributions provided by Xcel Energy of $90 million in 2016 and $85 million in 2017 through 2020. The table below summarizes the amounts assigned to each plan over the forecast period:

	Year					
	2015	2016	2017	2018	2019	2020[1]
Xcel Energy Pension Plan	$ 58.0	$ 60.0	$ 56.0	$ 56.0	$ 55.0	$ 55.0
NCE Nonbargaining Plan	15.0	10.0	9.0	9.0	8.0	8.0
SPS Bargaining Plan	7.0	7.0	7.0	7.0	8.0	8.0
PSCo Bargaining Plan	10.0	13.0	13.0	13.0	14.0	14.0
Total Contribution	**$ 90.0**	**$ 90.0**	**$ 85.0**	**$ 85.0**	**$ 85.0**	**$ 85.0**

[1] Current projections indicate that an additional $50 million (approximately $48 million in the Xcel Energy Pension Plan and $2 million in the NCE Nonbargaining Plan) of contributions may be required in 2020 to meet the minimum requirements.

- Contributions in 2015 and beyond are assumed to be paid on January 15th and assigned to the prior plan year.

PBGC Premiums

- The PBGC Variable Premium estimates reflect the increase in premium rates under MAP-21, actual December 31, 2014 asset values, demographic experience, the additional increases under the 2013 Budget Act and 5% liability increases starting in 2017 to estimate the impact of potential mortality updates. This increase is larger than the Xcel Energy specific assumption increase of 3.4% because we do not expect the IRS to make the same adjustments to the RP-2014/MP-2014 tables as Xcel Energy. The estimates also assume the Xcel Energy Pension Plan and the SPS Bargaining Plan continue to use the alternative interest rate method, and the NCE Nonbargaining Plan and the PSCo Bargaining Plan continue to use the standard interest rate method.

Retiree Medical and Life Insurance Plan – Effects of Health Care Reform

- The calculation of the APBO includes an estimate of the PPACA excise tax for current and future retirees in the M/M plan. The amount was determined separately for Medicare and Non-Medicare retirees.

Plan Changes

- All plan provisions remain the same as provided in the December 31, 2014 year-end disclosure and 2015 benefit cost appendices provided on March 10, 2015.

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ACTUARIAL CERTIFICATION

As requested by Xcel Energy Inc., this report provides results of the actuarial valuations of the Xcel Energy Inc. employee benefit plans indicated above. This report should not be used for other purposes, distributed to others outside Xcel Energy Inc. or relied upon by any other person without prior written consent from Towers Watson Delaware Inc. Except where we expressly agree in writing, this report should not be disclosed or provided to any third party, other than as provided below. In the absence of such consent and an express assumption of responsibility, no responsibility whatsoever is accepted by us for any consequences arising from any third party relying on this report or any advice relating to its contents.

Xcel Energy Inc. may make a copy of this report available to auditors or appropriate governmental agencies of the plan or the plan sponsor, but we make no representation as to the suitability of this report for any purpose other than that for which it was originally provided and accept no responsibility or liability to the auditors in this regard. Xcel Energy Inc. should draw the provisions of this paragraph to the attention of the auditors or appropriate governmental agencies when providing this report to them.

In preparing this valuation, we have relied upon information and data provided to us by Xcel Energy Inc. and other persons or organizations designated by Xcel Energy Inc. An audit of the financial and participant data provided was not performed, but we have checked the data for reasonableness as appropriate based on the purpose of the valuation. The results presented in this report are directly dependent upon the accuracy and completeness of the underlying data and information. Any material inaccuracy in the data, assets, plan provisions or other information provided to us may have produced results that are not suitable for the purposes of this report and such inaccuracies, as corrected by Xcel Energy Inc., may produce materially different results that could require that a revised report be issued.

This valuation reflects our understanding of the relevant provisions of the Pension Protection Act of 2006. The IRS has yet to issue final guidance with respect to certain aspects of this law. It is possible that such guidance may conflict with our understanding of the law and could therefore affect results shown in this report.

The results summarized in this report involve actuarial calculations that require assumptions about future events. We believe the assumptions and methods used in this report are reasonable and appropriate for the purposes for which they have been used. In our opinion, all methods, assumptions and calculations are in accordance with requirements of the Internal Revenue Code and ERISA, and the applicable financial accounting standards, including ASC 712 and 715 and the procedures followed and presentation of results are in conformity with generally accepted actuarial principles and practices.

Assumptions for determining benefit cost results were selected by Xcel Energy Inc. Xcel Energy Inc. uses the standards set out in ASC 715 to calculate pension cost for each plan in total; pension cost for the subsidiaries is calculated based on plan assets allocated to each subsidiary in proportion to the PBO for each subsidiary. Beginning in fiscal 2010, Discontinued Operations is allocated assets in proportion to its PBO, similar to non-discontinued operations. The gain/(loss) amortization is allocated to each subsidiary in proportion to the gain/(loss) balance for each subsidiary (excluding deferred asset gains and losses). This methodology is consistent with former NSP's methodology since 1998 and has been applied to the former NCE pension plans since January 1, 2001. A similar methodology is used for the ASC 715 costs for the Retiree Medical and Life Plan, except separate asset accounts are used for each subsidiary.

Except as otherwise provided herein, the results presented are based on the data, assumptions, methods and plan provisions outlined in the actuarial valuation reports to determine accounting requirements for the plan for the plan year ending December 31, 2015 and beginning January 1, 2015 to be delivered in the next few weeks. Therefore, the descriptions of the data, assumptions, methods, plan provisions and limitations of the valuation and its use should be considered part of this letter report.

The undersigned consultants with actuarial credentials meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. Our objectivity is not impaired by any relationship between the Xcel Energy Inc. and our employer, Towers Watson Delaware Inc.

NEXT STEPS

If you have any questions or would like to discuss, please contact Jim at 952-842-6354 or Mark at 952-842-6445.

Sincerely,

James W. Shaddy, ASA
Consulting Actuary

Mark A. Afdahl, FSA
Consulting Actuary

http://natct.internal.towerswatson.com/clients/609084/RETActuarial-2015/Documents/Valuations/L_05072015_Schrubbe_2015_Cost_Funding_Final.docx

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XCEL ENERGY INC. - Qualified Pension Plans
Cost Estimates by Legal Entity
($ in Thousands)

2014	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	Aggregate Cost Compensation Method	Aggregate Cost 20-year Amortization Method	January 1 Prepaid (Accrued)	Contribution
Xcel Energy Pension Plan (XEPP)										
Xcel Services[2]	20,993	24,087	(32,085)	245	13,749	26,989	N/A	N/A	88,822	26,161
NCE Non-Bargaining Pension Plan										
SPS	3,122	3,905	(5,460)	54	5,351	6,972	N/A	N/A	43,365	4,431
SPS Bargaining Plan										
SPS	6,062	16,539	(20,719)	-	7,975	9,857	N/A	N/A	124,408	-
Total SPS	6,062	16,539	(20,719)	-	7,975	9,857	N/A	N/A	124,408	-

[2] Includes Eloigne

Assumptions

Discount Rate - U.S. GAAP	
XEPP	4.74%
NCE	4.32%
SPS	5.00%
PSCo	4.89%
Discount Rate - Aggregate Normal Cos	7.25%
Salary Scale	3.75%
Expected Return on Assets	
XEPP	7.25%
NCE	7.10%
SPS	6.85%
PSCo	6.75%
Assumed Mortality Table	
Bargaining Participants	RP-2000 Blue Collar projected with scale AA to 2021 for retirees and 2029 for other participants
Non-bargaining Participants	RP-2000 White Collar projected with scale AA to 2021 for retirees and 2029 for other participants

See May 7, 2014 letter for additional information on data, assumptions, methods and plan provisions.
Contributions already made are allocated in accordance with the January 14, 2014 contribution directives provided by Xcel Energy.

XCEL ENERGY INC. - Nonqualified Pension Plans
U.S. GAAP Cost Estimates by Legal Entity
($ in Thousands)

2014	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	FAS 88 Settlement	Net Cost	January 1 Prepaid (Accrued)	Expected Benefit Payments
SPS	19	118	-	-	97	-	234	(1,783)	351
Xcel Services[3]	1,033	991	-	240	974	-	3,238	(11,447)	2,331

[3] Includes Eloigne

Assumptions

Discount Rate	4.56%
Salary Scale	3.75%

See May 7, 2014 letter for additional information on data, assumptions, methods and plan provisions.

XCEL ENERGY INC. - Postretirement Benefits
U.S. GAAP Budget Estimates by Legal Entity
($ in Thousands)

2014	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Transition (Asset)/Obligation	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	January 1 Prepaid (Accrued)	Contribution
SPS[3]	1,246	2,572	(3,247)	-	(401)	(321)	(151)	(17,421)	-
Xcel Services[3]	74	1,479	(44)	-	(549)	1,319	2,279	(13,292)	1,738

[3]Includes Executive Life Insurance benefits

Assumptions

Discount Rate	4.82%
Expected Return on Assets	
Bargaining	7.25%
Nonbargaining	6.75%
Medical Trend	
Initial (2014)	7.00%
Ultimate	4.50%
Year Ultimate Reached	2019
Assumed Mortality Table	
Bargaining	RP-2000 Blue Collar projected with scale AA to 2021 for retirees and 2029 for other participants
Non-bargaining	RP-2000 White Collar projected with scale AA to 2021 for retirees and 2029 for other participants

Contributions for PSCo and SPS are assumed equal to the net cost, but not less than zero. Contributions for other legal entities are assumed equal to the expected benefit payı
See May 7, 2014 letter for additional information on data, assumptions, methods and plan provisions.

Xcel Energy Inc.
U.S. GAAP Cost
($ in Thousands)

Fiscal Year Ending	2014
U.S. GAAP	Actual
Discount Rate- Workers' Compensation	5.08%
Former NSP - Workers' Compensation [1]	
Deductible States - Workers' Compensation	
Deductible States - SPS (KS, OK, NM, and TX)	(903)
Discount Rate - LTD Income	5.08%
LTD Income	
SPS	(24)
Xcel Services	1

XCEL ENERGY INC. - Qualified Pension Plans
Benefit Cost Estimates by Legal Entity
($ in Thousands)

2016	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	Aggregate Cost Compensation Method	Aggregate Cost 20-year Amortization Method	January 1 Prepaid (Accrued)	Contribution	PBO
Xcel Services[1]	22,528	23,703	(35,165)	245	14,209	25,520	N/A	N/A	61,395	18,688	604,994
NCE Non-Bargaining Pension Plan											
SPS	3,188	3,610	(5,873)	-	4,055	4,980	N/A	N/A	37,267	3,110	97,634
SPS Bargaining Plan											
SPS	7,610	16,776	(23,893)	-	9,635	10,128	N/A	N/A	110,335	7,000	408,374
Total SPS	7,610	16,776	(23,893)	-	9,635	10,128	N/A	N/A	110,335	7,000	408,374

Assumptions

Discount Rate - ASC 715	
XEPP	4.09%
NCE	3.84%
SPS	4.21%
PSCo	4.15%
Discount Rate - Aggregate Normal Cost	7.25%
Salary Scale	3.75%
Expected Return on Assets	
XEPP	7.25%
NCE	7.10%
SPS	7.25%
PSCo	6.75%
Assumed Mortality Table	
Bargaining Participants	RP-2014 Blue Collar projected with generational mortality improvements using an adjusted SOA MP-2014 methodology
Non-bargaining Participants	RP-2014 White Collar, as adjusted for 2014 Xcel Energy mortality study, projected with generational mortality improvements using an adjusted SOA MP-2104 methodology

See February 2, 2015 letter for additional information on data, assumptions, methods and plan provisions.
Contributions are allocated based on PBO for each legal entity.

XCEL ENERGY INC. - Nonqualified Pension Plans
Benefit Cost Estimates by Legal Entity
($ in Thousands)

2016	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	FAS 88 Settlement[4]	Net Cost	January 1 Prepaid (Accrued)	Expected Benefit Payments
SPS	42	113	-	-	139	-	294	(1,628)	335
Xcel Services[3]	1,895	1,038	-	240	1,295	1,800	6,269	(14,566)	4,820

[3] Includes Eloigne

Assumptions

Discount Rate 3.90%

Salary Scale 3.75%

Assumed Mortality Table RP-2014 White Collar, as adjusted for 2014 Xcel Energy mortality study, projected with generational mortality improvements using an adjusted SOA MP-2014 methodology

Estimates reflect a 5% load on the projected liabilities to reflect the potential for demographic experience that is less favorable than expected.

See February 2, 2015 letter for additional information on data, assumptions, methods and plan provisions.

XCEL ENERGY INC. - Postretirement Benefits
Benefit Cost Estimates by Legal Entity
($ in Thousands)

2016	Service Cost	Interest Cost	Expected Return on Assets	Amortizations: Transition (Asset)/Obligation	Amortizations: Prior Service Cost	Amortizations: Net (Gain)/Loss	Net Cost	January 1 Prepaid (Accrued)	Contribution
SPS[3]	839	1,764	(2,505)	-	(401)	(684)	(787)	(16,214)	-
Xcel Services[3]	44	1,180	(24)	-	(549)	848	1,499	(13,477)	1,548

[3]Includes Executive Life Insurance benefits.

Assumptions

Discount Rate	4.00%
Expected Return on Assets	5.80%
Medical Trend	
Initial (2015)	6.50%
Ultimate	4.50%
Year Ultimate Reached	2019
Assumed Mortality Table	
Bargaining:	RP-2014 Blue Collar headcount-weighted table adjusted for Xcel Energy mortality study, projected with generational mortality improvements using an adjusted SOA MP-2014 methodology.
Non-bargaining:	RP-2014 White Collar headcount-weighted table adjusted for Xcel Energy mortality study, projected with generational mortality improvements using an adjusted SOA MP-2014 methodology.

Contributions for PSCo and SPS are assumed equal to the net cost, but not less than zero. Contributions for other legal entities are assumed equal to the expected benefit payments.
See February 2, 2015 letter for additional information on data, assumptions, methods and plan provisions.

Xcel Energy Inc.
Benefit Cost by Legal Entity
($ In Thousands)

Fiscal Year Ending		2016
U.S. GAAP		Budget
Discount Rate- Workers' Compensation		3.85%
Deductible States - Workers' Compensation		
Deductible States - SPS (KS, OK, NM, and TX)		-
Total Xcel Energy Workers' Compensation		
Discount Rate - LTD Income		3.85%
LTD Income		
SPS		35
Xcel Services		16

Southwestern Public Service Company

Calculation of Actuarially Determined Pension and Benefit Amounts

Total Cost Amounts from Actuarial Reports

	QUALIFIED PENSION 2014	QUALIFIED PENSION 2016	OPEB RETIREE MEDICAL 2014	OPEB RETIREE MEDICAL 2016
SPS-NCE	6,972,000	4,980,000		
SPS-Barg	9,857,000	10,128,000		
SPS Total	16,829,000	15,108,000	(151,000)	(787,000)
Xcel Service	26,989,000	25,520,000	2,279,000	1,499,000
	(1)	(5)	(3)	(7)

Calculation of Total Cost Amounts to Cost of Service Amounts

	QUALIFIED PENSION			OPEB RETIREE MEDICAL			TOTAL PENSION & OPEB RETIREE MEDICAL		
	Test Year 12 Months Ending 12/31/14	2016 Test Year	Known & Measurable Incr/(Decr) from Test Year	Test Year 12 Months Ending 12/31/14	2016 Test Year	Known & Measurable Incr/(Decr) from Test Year	Test Year 12 Months Ending 12/31/14	2016 Test Year	TOTAL Known & Measurable Incr/(Decr) from Test Year
SPS									
SPS-NCE Total Cost	6,972,000	4,980,000	(1,992,000)				6,972,000	4,980,000	(1,992,000)
SPS-Barg Total Cost	9,857,000	10,128,000	271,000				9,857,000	10,128,000	271,000
Total SPS	16,829,000	15,108,000	(1,721,000)	(151,000)	(787,000)	(636,000)	16,678,000	14,321,000	(2,357,000)
Percent to SPS O&M FERC 926	65.76%	65.76%		65.77%	65.77%		65.76%	65.76%	
Amount to SPS O&M FERC 926	11,066,334	9,934,647	(1,131,687)	(99,310)	(517,594)	(418,284)	10,967,024	9,417,053	(1,549,971)
Xcel Service									
Xcel Service Total Cost	26,989,000	25,520,000	(1,469,000)	2,279,000	1,499,000	(780,000)	29,268,000	27,019,000	(2,249,000)
Percent to SPS O&M FERC 926	11.99%	11.99%		12.00%	12.00%		11.99%	11.99%	
Amount to SPS O&M FERC 926	3,234,870	3,058,797	(176,073)	273,443	179,856	(93,587)	3,508,313	3,238,653	(269,660)
Affiliate Charges	6,943	-	(6,943)	(530)	-	530	6,413	-	(6,413)
Total									
Amount to SPS O&M	**14,308,147**	**12,993,444**	**(1,314,703)**	**173,603**	**(337,738)**	**(511,341)**	**14,481,750**	**12,655,706**	**(1,826,044)**

1) Attachment RRS-1, Exhibit I Page 1 of 6
3) Attachment RRS-1, Exhibit III Page 1 of 6
5) Attachment RRS-1, Exhibit I Page 2 of 6
7) Attachment RRS-1, Exhibit III Page 2 of 6

Southwestern Public Service Company

Calculation of Actuarially Determined Pension and Benefit Amounts

Total Cost Amounts from Actuarial Reports

	NON-QUALIFIED PENSION		FAS 112 LONG-TERM DISABILITY		FAS 112 WORKERS COMPENSATION	
	2014	2016	2014	2016	2014	2016
SPS	234,000	294,000	(24,000)	35,000	(903,000)	-
Xcel Service	3,238,000	4,468,000	1,000	16,000	-	-
	(2)	(6)	(4)	(8)	(4)	(8)

Calculation of Total Cost Amounts to Cost of Service Amounts

	NON-QUALIFIED PENSION			FAS 112 LONG-TERM DISABILITY			FAS 112 WORKERS COMPENSATION			TOTAL NON-QUALIFIED PENSION, FAS 112 LONG-TERM DISABILITY & FAS 112 WORKERS COMPENSATION		
	Test Year 12 Months Ending 12/31/14	2016 Test Year	Known & Measurable Incr/(Decr) from Test Year	Test Year 12 Months Ending 12/31/14	2016 Test Year	Known & Measurable Incr/(Decr) from Test Year	Test Year 12 Months Ending 12/31/14	2016 Test Year	Known & Measurable Incr/(Decr) from Test Year	Test Year 12 Months Ending 12/31/14	2016 Test Year	Known & Measurable Incr/(Decr) from Test Year
SPS												
SPS Total Cost	234,000	294,000	60,000	(24,000)	35,000	59,000	(903,000)	-	903,000	(693,000)	329,000	1,022,000
Percent to SPS O&M FERC 926	65.76%	65.76%		65.77%	65.77%		65.57%			65.51%	65.76%	
Amount to SPS O&M FERC 926	153,873	193,327	39,455	(15,784)	23,019	38,803	(592,081)	-	592,081	(453,993)	216,346	670,339
Xcel Service												
Xcel Service Total Cost	3,238,000	4,468,000	1,230,000	1,000	16,000	15,000	-	-	-	3,239,000	4,484,000	1,245,000
Percent to SPS O&M FERC 926	11.99%	11.99%		12.00%	12.00%					11.99%	11.99%	
Amount to SPS O&M FERC 926	388,103	535,529	147,426	120	1,920	1,800	-	-	-	388,223	537,449	149,226
Affiliate Charges	107	-	(107)	(57)	-	57	(28)	-	28	22	-	(22)
Total												
Amount to SPS O&M	**542,083**	**728,856**	**186,774**	**(15,721)**	**24,939**	**40,660**	**(592,109)**	**-**	**592,109**	**(65,748)**	**753,795**	**819,543**

2) Attachment RRS-1, Exhibit II Page 1 of 6
4) Attachment RRS-1, Exhibit VI
6) Attachment RRS-1, Exhibit II Page 2 of 6. Excludes FAS 88 settlement costs.
8) Attachment RRS-1, Exhibit VI

Southwestern Public Service Company

Report of 2016 Active Health and Welfare Amounts

Provided by Towers Watson:

Projected 2016 Medical/Rx Cost by Legal Entity
Adjusted for experience by legal entity

MEDICAL / PHARMACY	Xcel Services	SPS
	Enrollment: 3,090	Enrollment: 1,150
Claims	$35,510,139	$16,038,876
Medical	$29,138,770	$12,824,497
Pharmacy	$6,371,370	$3,214,378
Administration Fees	$2,081,264	$774,580
Transitional Reinsurance	$164,288	$61,143
Pharmacy Rebates	($628,877)	($234,048)
HSA Incentives	$828,490	$341,958
Subtotal	$37,955,305	$16,982,509
Employee Contributions	$3,346,860	$1,431,295
Xcel Energy Cost	$34,608,445	$15,551,214

Projected 2016 Active Dental/Vision Cost by Legal Entity

DENTAL	Xcel Services	SPS
	Enrollment: 3,207	Enrollment: 1,169
Claims	$2,625,668	$919,692
Administration Fees	$103,907	$37,876
Subtotal	$2,729,575	$957,568
Employee Contribution	$683,076	$250,233
Xcel Energy Cost	$2,046,499	$707,335

VISION	Xcel Services	SPS
	Enrollment: 2,631	Enrollment: 1,100
Claims	$395,118	$197,781
Administration Fees	$41,675	$17,424
Subtotal	$436,793	$215,205
Employee Contribution	$436,793	$100,861
Xcel Energy Cost	$0	$114,344

Calculated by SPS:
Additional Active Health Care costs

	XES	SPS
Shared Savings admin fees	235,290	82,451
Facility Reasonable Charge (R&C) admin fees	63,506	22,254
HSA admin fees	29,032	10,855
Trustee fees and interest income	5,000	4,000
Total	**332,828**	**119,560**

TOTAL:

	XES	SPS
TOTAL Active Health Care Total Cost Amount	**36,987,772**	**16,492,453**

Southwestern Public Service Company

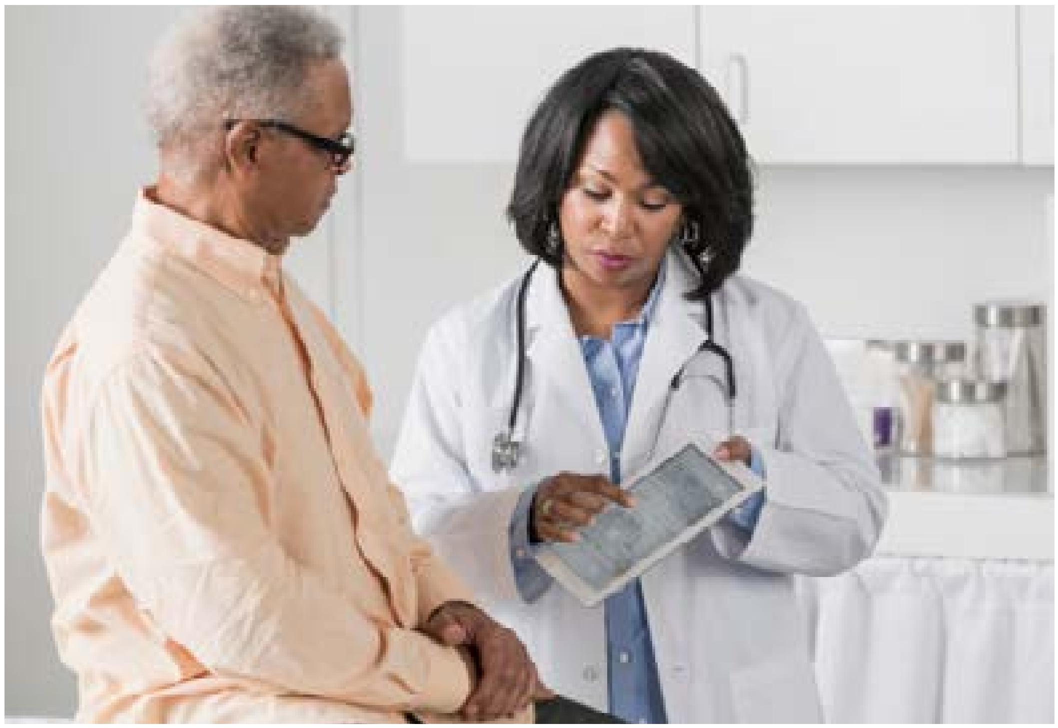
Calculation of Active Health and Welfare Amounts

Calculation of Total Cost Amounts to Cost of Service Amounts

	ACTIVE HEALTH CARE			MISC BENEFIT PROGRAMS AND LIFE INSURANCE			TOTAL HEALTH AND WELFARE		
	Test Year 2014 Actual	2016 Test Year	Known & Measurable Incr/(Decr) from Test Year	Test Year 2014 Actual	2016 Test Year	Known & Measurable Incr/(Decr) from Test Year	Test Year 2014 Actual	2016 Test Year	Known & Measurable Incr/(Decr) from Test Year
SPS									
Total Cost Per Book Amount	14,975,180						14,975,180		
Adjust to Incurred Basis	105,081						105,081		
Total Cost on Incurred Basis	15,080,261	16,492,453		1,129,476	1,129,476		16,209,737	17,621,929	
Percent to SPS O&M FERC 926	65.77%	65.77%		65.77%	65.77%		65.77%	65.77%	
Amount to SPS O&M FERC 926	9,917,978	10,846,748	928,770	742,833	742,833	-	10,660,812	11,589,581	928,770
Xcel Service									
Total Cost Per Book Amount	34,724,511						34,724,511		
Adjust to Incurred Basis	(1,191,931)						(1,191,931)		
Total Cost on Incurred Basis	33,532,580	36,987,772		5,555,634	5,555,634		39,088,214	42,543,406	
Percent to SPS O&M FERC 926	12.00%	12.00%		12.00%	12.00%		12.00%	12.00%	
Amount to SPS O&M FERC 926	4,023,366	4,437,933	414,567	666,586	666,586	-	4,689,952	5,104,519	414,567
Affiliate Charges	6,315	-	(6,315)	470	470	-	6,785	470	(6,315)
Misc adjustment (offset in data above)	169,404	-	(169,404)	-	-	-	169,404	-	(169,404)
Total									
Amount to SPS O&M FERC 926	**14,117,065**	**15,284,681**	**1,167,617**	**1,409,889**	**1,409,889**	**-**	**15,526,954**	**16,694,571**	**1,167,617**

Medical cost trend: Behind the numbers 2015
Chart pack

Health Research Institute
2014 June



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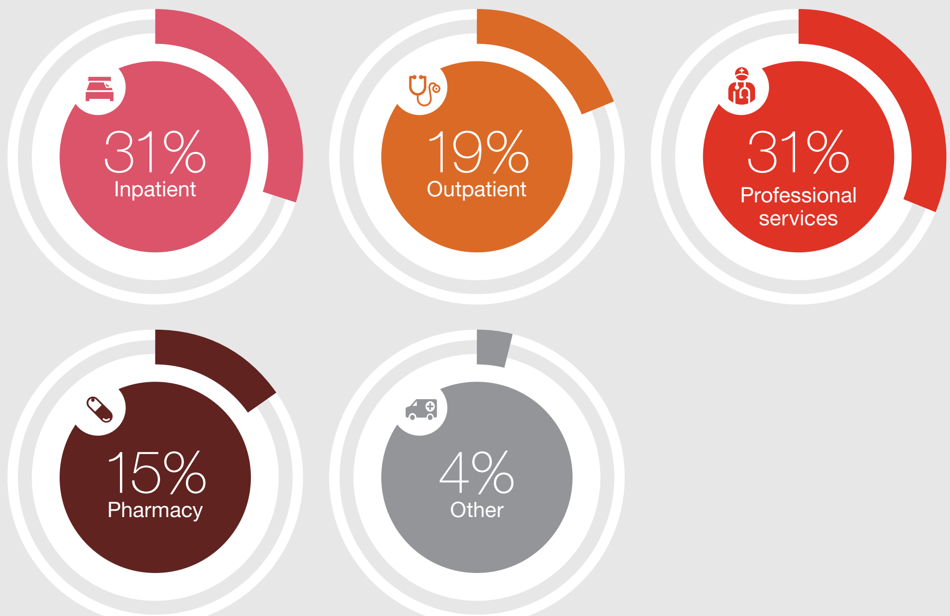
HRI projects 2015's medical cost trend to be 6.8%—a modest increase over our 2014 projection of 6.5%. As more people gain insurance under the Affordable Care Act (ACA), more money is spent—but this is not the same as higher costs per person. Inpatient and professional services account for the largest amount of private health insurance spending.

Inpatient and professional services account for the largest amount of private health insurance spending

Projected 2015 private health insurance spending by medical category



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For more information, please visit:
pwc.com/us/medicalcosttrend

Source: PwC Health Research Institute, *Medical cost trend: Behind the numbers 2015,* June 2014, analysis based on the *2014 Milliman Medical Index*

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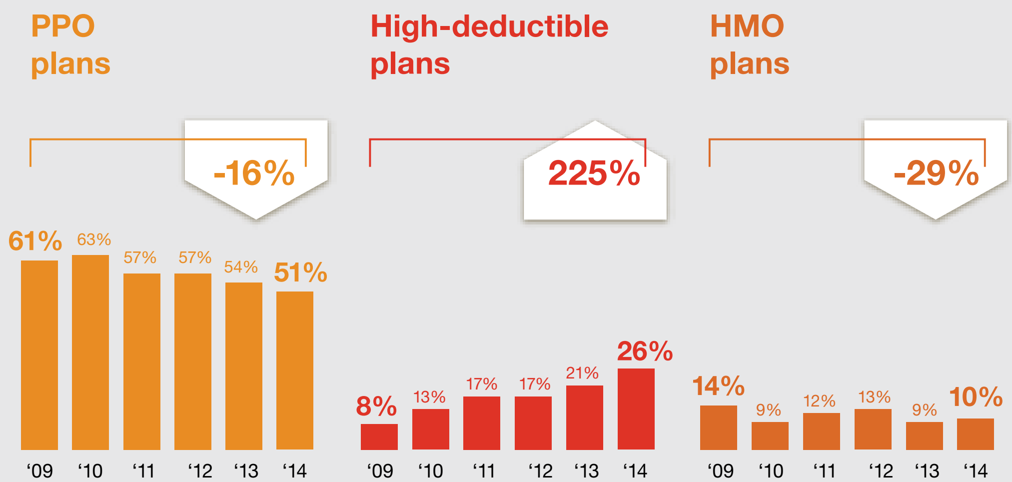
Since enrollment in high-deductible plans has tripled since 2009, consumers have taken a greater stake in the health system: demanding more value for their dollar.

Enrollment in high-deductible plans has tripled since 2009

Enrollment in employer-sponsored health plans by type of plan, 2009–2014



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For more information, please visit:
pwc.com/us/medicalcosttrend

Source: PwC Health Research Institute, *Medical cost trend: Behind the numbers 2015,* June 2014, based on PwC 2014 Touchstone Survey

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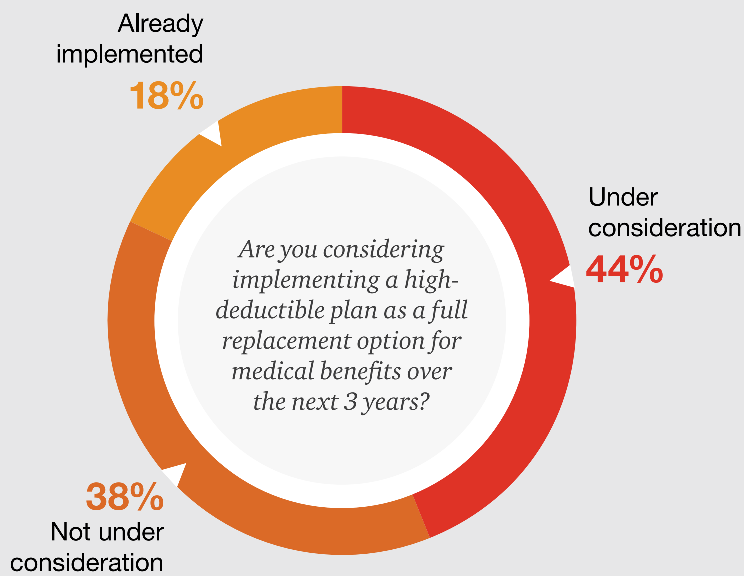
Most employers are considering or already offer a high-deductible plan as the only option for employees. Shifting costs to employees results in behavior changes such as using fewer services or making less-expensive care decisions.

Most employers are considering or already offer a high-deductible plan as the only option for employees



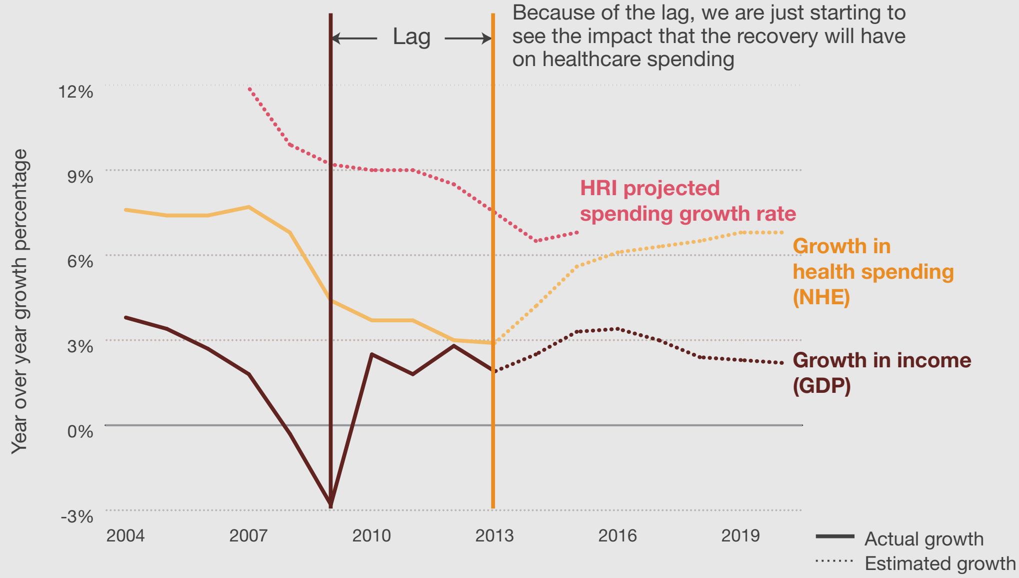
For more information, please visit:
pwc.com/us/medicalcosttrend

Source: PwC Health Research Institute, *Medical cost trend: Behind the numbers 2015,* June 2014, based on PwC 2014 Touchstone Survey

Although the health economy shares a tight connection to the overall economy, its cycle generally lags behind broader economic fluctuations.

Health spending and income growth track each other but with a lag

Relationship between growth in Gross Domestic Product (GDP) and growth in National Health Expenditures (NHE), 2004–2019



For more information, please visit:
pwc.com/us/medicalcosttrend

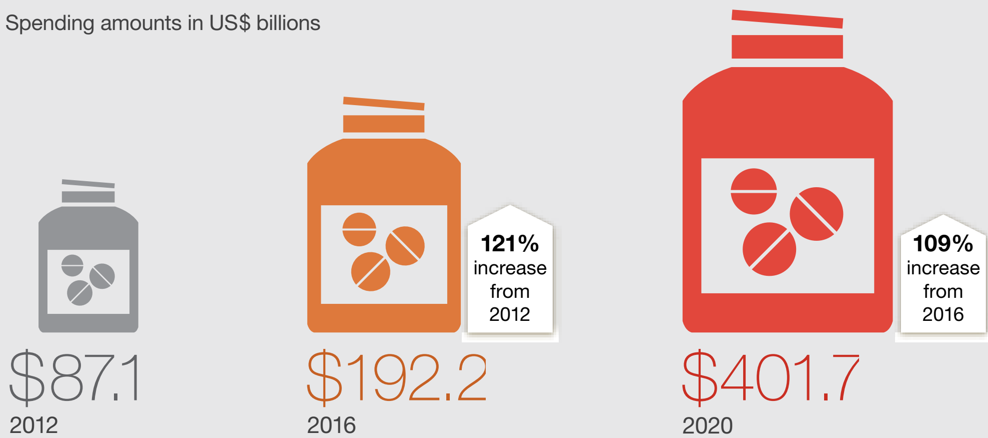
Source: PwC Health Research Institute, *Medical cost trend: Behind the numbers 2015,* June 2014, analysis based on data from the Bureau of Economic Analysis and the Office of Actuary in the Centers for Medicare & Medicaid Services, and on projections of GDP from the Congressional Budget Office

US specialty drug spending is forecast to quadruple by 2020, sparking anxiety and debate among purchasers over whether the high price tag will be balanced by less spending on chronic conditions in the long term.

US specialty drug spending will quadruple by 2020

Projected specialty drug spending from 2012 to 2020

Spending amounts in US$ billions



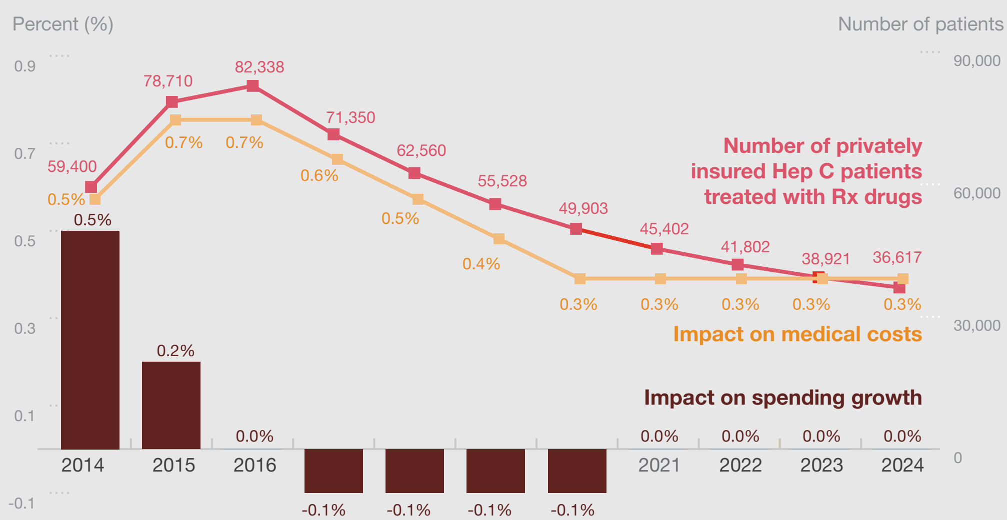
For more information, please visit:
pwc.com/us/medicalcosttrend

Source: PwC Health Research Institute, *Medical cost trend: Behind the numbers 2015,* June 2014, analysis based on data from CVS Caremark

The use of new Hepatitis C therapies will increase rapidly, but the impact on projected spending growth rate will only last two years since the cost spike will level off as patients are "cured." The average cost of the new treatment is $86,000 but if Hep C results in a liver transplant the cost is about $580,000.

The use of new Hepatitis C therapies will increase rapidly, but the greatest financial impact of the new therapies is likely to be in the early years

2015-2016 is the highest cumulative impact on benefit costs for employer plans



For more information, please visit:
pwc.com/us/medicalcosttrend

Source: PwC Health Research Institute, *Medical cost trend: Behind the numbers 2015,* June 2014, analysis based on National Health and Nutrition Examination Survey and 2012 Truven claims data from employers

Oncology drugs cost more when administered in a "hospital-outpatient" department rather than a doctor's office. Hospitals and health systems that purchase physician groups can charge the higher hospital rate for procedures in the newly acquired offices, despite not being a hospital setting.

Oncology drugs cost more when administered in a "hospital-outpatient" department

Oncology drugs administered in a "hospital outpatient" department can cost twice as much as a physician office

Oncology drug Z costs $1,000 in a **physician office** setting

Oncology drug Z costs $2,000 in a **hospital-outpatient** setting

Example oncology drugs
Total payment ($) per claim

	Physician office	Hospital outpatient	Percent difference
Alimta	$5,460	$9,710	78%
Herceptin	$2,740	$5,350	95%
Avastin	$6,620	$14,100	113%

For more information, please visit:
pwc.com/us/medicalcosttrend

Source: PwC Health Research Institute, *Medical cost trend: Behind the numbers 2015,* June 2014, analysis based on 2012 Truven claims data

After mergers or acquisitions, integrating health information technology between two systems becomes a necessary early investment that can better connect clinical care, business operations and technology and improve the consumer's experience.

Integrating health information technology between two systems requires time and money

Example costs and duration for an end-to-end IT integration

Time → Money → IT integration

Number of beds
1200 - 1400

Implementation duration
3 - 5 years

Range of costs

Clinical and business software	Supporting hardware/ infrastructure	3rd party/ consulting support	Implementation costs per bed
$15M–$20M	$5M–$10M	$20M–$30M	$70K–$100K

+2%
Increase in potential annual operating costs for implementation of a comprehensive IT integration

*Does not represent complete range of costs. Numbers are representative.

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For more information, please visit:
pwc.com/us/medicalcosttrend

Source: PwC Health Research Institute, *Medical cost trend: Behind the numbers 2015,* June 2014, analysis of IT cost model based on multiple hospital costs

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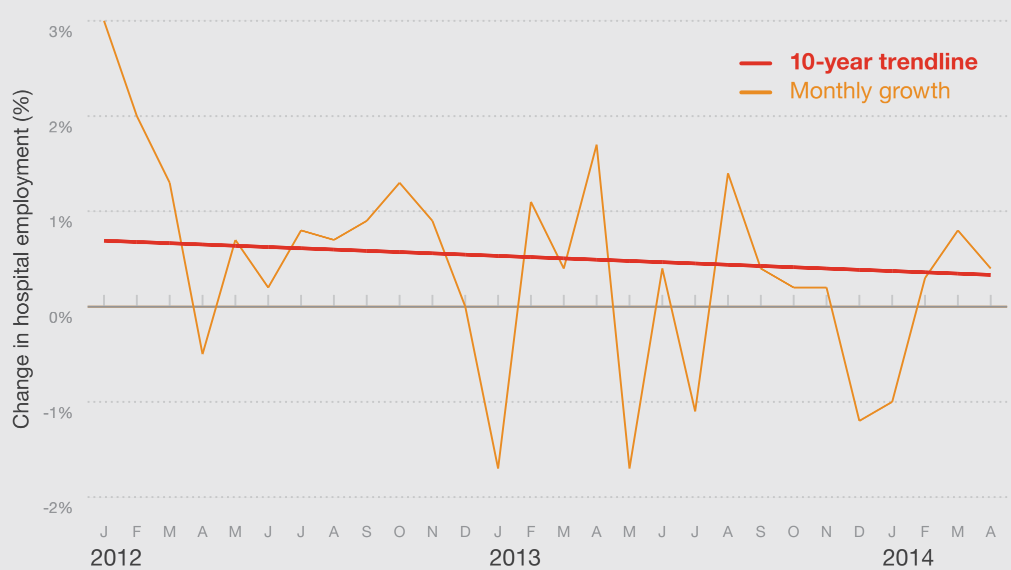
Since 2012, hospital employment growth has slowed and is projected to continue on this trend—evidence that providers are achieving efficiency with fewer resources. Personnel costs are over half (60%) of hospital budgets.

Hospital employment growth is decreasing

Monthly growth in hospital employment (seasonally adjusted; annualized: January 2012–April 2014)



For more information, please visit:
pwc.com/us/medicalcosttrend

Source: PwC Health Research Institute, *Medical cost trend: Behind the numbers 2015,* June 2014, analysis based on Bureau of Labor Statistics data

Employer feedback shows a strong interest in increasing employee cost sharing through plan design changes. While increased cost sharing and high deductibles do not affect medical inflation directly, consumer behavior does.

Employer survey shows a strong interest in increasing employee cost sharing through plan design changes

85%

of employers have already implemented or are considering an increase in employee cost sharing through plan design changes over the next 3 years

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For more information, please visit:
pwc.com/us/medicalcosttrend

Source: PwC Health Research Institute, *Medical cost trend: Behind the numbers 2015,* June 2014, based on PwC 2014 Touchstone Survey

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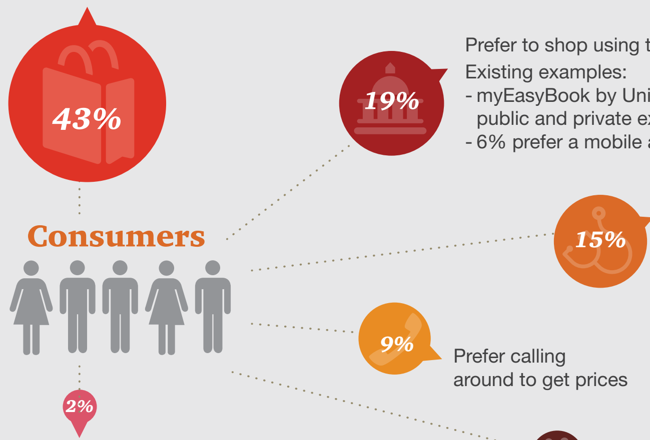
Consumer preferences vary for healthcare shopping. While many (43%) want to compare prices online, some prefer doing so by calling around. Others would rather use a dedicated website with a menu of comparative plan options laid out by a health insurer, employer, or the government.

Consumer preferences in healthcare shopping

Percent of consumers who prefer to shop for health and medical services in specific ways

Prefer an online healthcare shopping website with different options at different prices
Existing examples:
- Castlight and Change Healthcare provide expected cost information for physicians, services, and prescriptions



Prefer to shop using their health insurance company's website
Existing examples:
- myEasyBook by United Healthcare; OOP cost calculators; public and private exchange's menu of plan options
- 6% prefer a mobile app version

Prefer to use healthcare organization and company websites
Existing examples:
- Many retail clinics provide a menu of prices for various treatments
- Many hospitals do not yet provide price information

Prefer calling around to get prices

Prefer a website provided by employer to get prices

Prefer to use "other" methods to shop for healthcare
Existing examples:
- Government websites provide 2012 payment information to doctors; industry coalitions provide guidance on making transparency easily accessible
- Limited information: Pharmacy cost information

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For more information, please visit:
pwc.com/us/medicalcosttrend

Source: PwC Health Research Institute, *Medical cost trend: Behind the numbers 2015,* June 2014, based on PwC Health Research Institute Consumer Survey, December 2013

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Risk-based initiatives by the numbers: from the percentage of Medicare Accountable Care Organizations (ACO) that exceeded savings targets to how many public and private ACOs exist nationwide.

Examples of savings from risk-based Accountable Care Organizations

47%

The percentage of Medicare Shared Savings Program ACOs that exceeded savings targets within their first year.

$126M

The amount of shared savings generated by 29 Medicare Shared Savings Program ACOs.

$95M

The amount of net savings generated by a large commercial ACO in California over 4 years.

600

The number of public and private ACOs across the nation, covering more than 18 million insured patients.

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For more information, please visit:
pwc.com/us/medicalcosttrend

Source: PwC Health Research Institute, *Medical cost trend: Behind the numbers 2015,* June 2014, based on information from U.S. Department of Health & Human Services; Health Affairs Blog 2014; Health Affairs 2013

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Southwestern Public Service Company

Average Balances of Qualified and Non-Qualified Pension Fund Amounts

			Dec LTD (2015)	Jan LTD (2016)	Feb LTD (2016)	Mar LTD (2016)	Apr LTD (2016)	May LTD (2016)	Jun LTD (2016)
Prepaid Pension Asset - Qualified									
FERC Account	**Object Account**	**Account Desciption**							
228.3	431110.1000	Accrd Qual Pen Post 15	$ (89,374,000)	$ (79,382,167)	$ (79,500,333)	$ (79,618,500)	$ (79,736,667)	$ (79,854,833)	$ (79,973,000)
182.3	150201.1700	FAS 158 Reg Asset Pensi	14,767,000	14,767,000	14,767,000	14,767,000	14,767,000	14,767,000	14,767,000
182.3	244510.9997	FAS 158 RA Pension Cont	(14,767,000)	(14,767,000)	(14,767,000)	(14,767,000)	(14,767,000)	(14,767,000)	(14,767,000)
182.3	244510.1700	FAS 158 Reg Asset Pensi	236,975,766	235,834,933	234,694,099	233,553,266	232,412,433	231,271,599	230,130,766
Total Prepaid Pension Asset - Qualified			**$ 147,601,766**	**$ 156,452,766**	**$ 155,193,766**	**$ 153,934,766**	**$ 152,675,766**	**$ 151,416,766**	**$ 150,157,766**
Prepaid Pension Asset - Non-Qualified									
FERC Account	**Object Account**	**Account Desciption**							
182.3	244510.1800	FAS 158 Reg Asset Nqual	$ 1,293,897	$ 1,282,314	$ 1,270,731	$ 1,259,147	$ 1,247,564	$ 1,235,981	$ 1,224,397
182.3	150201.1800	FAS 158 RA Non Qualified Curr	161,000	161,000	161,000	161,000	161,000	161,000	161,000
182.3	244510.9998	FAS 158 RA NQual Pensio	(161,000)	(161,000)	(161,000)	(161,000)	(161,000)	(161,000)	(161,000)
242	338310.1000	A/P NonQualified Pen Po	(358,000)	(358,000)	(358,000)	(358,000)	(358,000)	(358,000)	(358,000)
228.3	431440	Accrued Nonqual Pension	(2,562,000)	(2,547,000)	(2,532,000)	(2,517,000)	(2,502,000)	(2,487,000)	(2,472,000)
Total Prepaid Pension Asset - Non-Qualified			**$ (1,626,103)**	**$ (1,622,686)**	**$ (1,619,269)**	**$ (1,615,853)**	**$ (1,612,436)**	**$ (1,609,019)**	**$ (1,605,603)**
Total Net Prepaid Pension Costs			**$ 145,975,663**	**$ 154,830,080**	**$ 153,574,497**	**$ 152,318,913**	**$ 151,063,330**	**$ 149,807,747**	**$ 148,552,163**

Southwestern Public Service Company

Average Balances of Qualified and Non-Qualified Pension Fund Amounts

FERC Account	Object Account	Account Desciption	Jul LTD (2016)	Aug LTD (2016)	Sep LTD (2016)	Oct LTD (2016)	Nov LTD (2016)	Dec LTD (2016)	13 Month Average
Prepaid Pension Asset - Qualified									
228.3	431110.1000	Accrd Qual Pen Post 15	$ (80,091,167)	$ (80,209,333)	$ (80,327,500)	$ (80,445,667)	$ (80,563,833)	$ (80,682,000)	
182.3	150201.1700	FAS 158 Reg Asset Pensi	14,767,000	14,767,000	14,767,000	14,767,000	14,767,000	14,767,000	
182.3	244510.9997	FAS 158 RA Pension Cont	(14,767,000)	(14,767,000)	(14,767,000)	(14,767,000)	(14,767,000)	(14,767,000)	
182.3	244510.1700	FAS 158 Reg Asset Pensi	228,989,933	227,849,099	226,708,266	225,567,433	224,426,599	223,285,766	
Total Prepaid Pension Asset - Qualified			**$ 148,898,766**	**$ 147,639,766**	**$ 146,380,766**	**$ 145,121,766**	**$ 143,862,766**	**$ 142,603,766**	**$ 152,490,480**
Prepaid Pension Asset - Non-Qualified									
182.3	244510.1800	FAS 158 Reg Asset Nqual	$ 1,212,814	$ 1,201,231	$ 1,189,647	$ 1,178,064	$ 1,166,481	$ 1,154,897	
182.3	150201.1800	FAS 158 RA Non Qualified Curr	161,000	161,000	161,000	161,000	161,000	161,000	
182.3	244510.9998	FAS 158 RA NQual Pensio	(161,000)	(161,000)	(161,000)	(161,000)	(161,000)	(161,000)	
242	338310.1000	A/P NonQualified Pen Po	(358,000)	(358,000)	(358,000)	(358,000)	(358,000)	(358,000)	
228.3	431440	Accrued Nonqual Pension	(2,457,000)	(2,442,000)	(2,427,000)	(2,412,000)	(2,397,000)	(2,382,000)	
Total Prepaid Pension Asset - Non-Qualified			**$ (1,602,186)**	**$ (1,598,769)**	**$ (1,595,353)**	**$ (1,591,936)**	**$ (1,588,519)**	**$ (1,585,103)**	**$ (1,615,853)**
Total Net Prepaid Pension Costs			**$ 147,296,580**	**$ 146,040,997**	**$ 144,785,413**	**$ 143,529,830**	**$ 142,274,247**	**$ 141,018,663**	**$ 150,874,627**

Southwestern Public Service Company

Development of Qualified Pension Asset Balance

Amounts in Thousands

	Actual **Aug. 31 1988**	***Actual*** **Aug. 31 1989**	***Actual*** **Aug. 31 1990**	***Actual*** **Aug. 31 1991**	***Actual*** **Aug. 31 1992**	***Actual*** **Aug. 31 1993**	***Actual*** **Aug. 31 1994**	***Actual*** **Aug. 31 1995**	***Actual*** **Aug. 31 1996**	***Actual*** **Aug. 31 1997**
Qualified Prepaid Pension Asset:										
Beg. Balance, SFAS 87 Asset (Liability)	$ 2,706	$ 3,724	$ 3,902	$ 4,531	$ (5,955)	$ (7,207)	$ (7,347)	$ (7,039)	$ (7,045)	$ (6,905)
SFAS 87 (Expense) Credit Accrual	1,018	178	(551)	(1,605)	(1,252)	(140)	308	(6)	140	1,069
Net Employer Contributions	0	0	0	0	0					
Other			1,180	(8,881)						(712)
Ending Balance Pension Asset (Liability)	**$ 3,724**	**$ 3,902**	**$ 4,531**	**$ (5,955)**	**$ (7,207)**	**$ (7,347)**	**$ (7,039)**	**$ (7,045)**	**$ (6,905)**	**$ (6,548)**

	Actual **Dec. 31 1997**	***Actual*** **Dec. 31 1998**	***Actual*** **Dec. 31 1999**	***Actual*** **Dec. 31 2000**	***Actual*** **Dec. 31 2001**	***Actual*** **Dec. 31 2002**	***Actual*** **Dec. 31 2003**	***Actual*** **Dec. 31 2004**	***Actual*** **Dec. 31 2005**	***Actual*** **Dec. 31 2006**
Qualified Prepaid Pension Asset:										
Beg. Balance, SFAS 87 Asset (Liability)	$ (6,548)	$ 6,097	$ 24,611	$ 40,087	$ 61,359	$ 82,490	$ 105,032	$ 121,581	$ 132,758	$ 143,310
SFAS 87 (Expense) Credit Accrual	12,645	15,175	15,476	21,352	21,131	22,235	16,536	11,177	9,102	6,934
Net Employer Contributions				0	0	0			1,450	584
Other		3,339		(80)		307	13			
Ending Balance Pension Asset (Liability)	**$ 6,097**	**$ 24,611**	**$ 40,087**	**$ 61,359**	**$ 82,490**	**$ 105,032**	**$ 121,581**	**$ 132,758**	**$ 143,310**	**$ 150,828**

	Actual **Dec. 31 2007**	***Actual*** **Dec. 31 2008**	***Actual*** **Dec. 31 2009**	***Actual*** **Dec. 31 2010**	***Actual*** **Dec. 31 2011**	***Actual*** **Dec. 31 2012**	***Actual*** **Dec. 31 2013**	***Actual*** **Dec. 31 2014**	***Forecast*** **Dec. 31 2015**	***Forecast*** **Dec. 31 2016**
Qualified Prepaid Pension Asset:										
Beg. Balance, SFAS 87 Asset (Liability)	$ 150,828	$ 158,779	$ 169,517	$ 184,515	$ 178,722	$ 171,937	$ 167,329	$ 167,773	$ 153,681	$ 147,602
SFAS 87 (Expense) Credit Accrual	7,951	10,738	6,644	(5,793)	(11,961)	(17,624)	(21,571)	(16,829)	(17,706)	(15,108)
Net Employer Contributions	0	0	8,354	0	5,176	13,060	22,015	4,869	11,627	10,110
Other						(44)		(2,132)		
Ending Balance Pension Asset (Liability)	**$ 158,779**	**$ 169,517**	**$ 184,515**	**$ 178,722**	**$ 171,937**	**$ 167,329**	**$ 167,773**	**$ 153,681**	**$ 147,602**	**$ 142,604**