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

(a) **FERC Uniform System of Accounts**

There were no material changes.

(b) **FERC Form No. 1 Reporting Requirements**

There were no material changes.

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

There were no material changes.

(d) **Accounting Policies, Practices or Procedures of SPS**

**Environmental Consumable Chemicals** – In June 2014, SPS implemented inventory accounting for environmental consumable chemicals used during the generation process. The cost of environmental consumable chemicals was previously expensed to O&M as purchased. Inventory accounting for these chemicals (ARKAY and Mercury Sorbent) ensures that consumption is appropriately measured and valued each month. Chemical purchases will increase the inventory account and consumption of the chemicals will reduce the inventory account. Currently only ARKAY has been purchased and is being consumed. Purchases of Mercury Sorbent will begin in late 2014 in preparation for use of that chemical when the Mercury and Air Toxics Standards (MATS) rules go into effect in April 2015. The inventory is recorded in FERC Account 154, Plant Materials and Operating Supplies. The expense is recorded in FERC Account 502, Steam Expenses. FERC Accounts 154 and 502 are not included in the Transmission formula rate template. Therefore, there is no impact to the 2014 True-Up of the Transmission formula rate template for this accounting change.

**FERC Order 552 Final Order Interpretation** – During a recent FERC Audit of SPS, it was brought to the Company’s attention a concern about the classification of interest on regulatory balances. The Federal Energy Regulatory Commission (“FERC”) issued a final rule on Order No. 552, effective January 1, 1993 which reads, “the Commission will require that deferred returns and/or carrying charges accrued on regulatory assets and liabilities be credited to Account 421, Miscellaneous Non-operating Income, or charged to Account 431, Other Interest Expense, as appropriate.” Regulatory precedent supports this treatment in recent orders which reference Order No. 552 requiring that deferred returns and/or carrying charges accrued on regulatory assets be credited to Account 421. SPS had been recording interest on regulatory balances to FERC Account 419, Interest and Dividend Income. In 2014, SPS made reclassification entries to move these balances from FERC Account 419 to FERC Account 421. The table below summarizes the reclassifications. FERC Accounts 419 and 421 are not included in the Transmission formula rate template. Therefore, there is no impact to the 2014 True-Up of the Transmission formula rate template for this accounting change.
(e) FERC Related Items

Golden Spread Electric Cooperative’s Preliminary Challenge - SPS agreed some changes to the 2013 Transmission Formula Rate True-Up and 2015 Estimate were appropriate. SPS has incorporated the changes into a second revised True-Up and first revised Estimate which were provided to SPP for the RRR file on May 19, 2015. The net impact of the changes to the estimated 2015 network and point to point rate was an increase of approximately $0.01 /kW-Month.

FERC Audit Docket No. FA13-4 - In 2012, the FERC division of Audits within the Office of Enforcement notified SPS they were commencing a financial audit to evaluate SPS’ compliance with the Commission’s: (1) Uniform System of Accounts for public utilities under 18 C.F.R. Part 101 (2012); (2) FERC Form No. 1, Annual Report of Major Electric Utilities under 18 C.F. R. § 141.1 (2012); (3) Form No. 3-Q, Quarterly Financial Report of electric utilities under 18 C.F.R. § 141.400 (2012); and, (4) whether the accounts in the determination of recoveries under SPS’ formula rate transmission owner tariff comply with Commission accounting requirements and the terms of SPS’ formula rate mechanism. On November 17, 2014 a letter order was issued completing the audit.

(f) GAAP-Related Items

There were no material changes.

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

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

(h) Other

Tax Increase Prevention Act of 2014 — In 2014, the Tax Increase Prevention Act (TIPA) was signed into law. The TIPA provides for the following:

- The research and experimentation (R&E) credit was extended for 2014;
- Production tax credit (PTCs) were extended for projects that began construction before the end of 2014 with certain projects qualifying into future years; and
- 50 percent bonus depreciation was extended one year through 2014.

Additionally, some longer production period property placed in service in 2015 is also eligible for 50 percent bonus depreciation. The accounting related to the TIPA was recorded beginning in the fourth quarter of 2014 because a change in tax law is accounted for in the period of enactment. The impact of the R&E credit and the bonus depreciation is included in the Accumulated Deferred Income Taxes in the Production formula rate templates.

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

- Docket No. EL13-78, et al (consolidated). – Golden Spread Section 206 (Complaints I and II) filing where GSEC alleges the rate of return on
Southwestern Public Service Company
Attachment O – SPS Transmission Formula
Annual True-up for 2014
Material Accounting Changes since January 1, 2014

common equity used in SPS formula rate under the Replacement Power Sales Agreement and Xcel Energy Operating Companies’ Joint Open Access Transmission Tariff are unjust and unreasonable. Filed 7/19/2013. On November 26, 2014, the Chief Judge issued an order terminating settlement procedures and establishing initial decision deadline. The hearing commences July 7, 2015 and the initial decision is due November 25, 2015.

- Docket No. ER12-959 -- SPP filing to incorporate Tri County Electric Cooperative formula transmission rate into SPP OATT. Filed 1/31/2012. Tri County’s transmission facilities are located within the SPS zone. FERC order issued 3/30/2012. Requests for rehearing were granted through an order issued on 2/21/2013 and an Initial Decision was issued on 4/22/2013 which concluded none of Tri County’s facilities qualify as transmission under SPP Attachment Al. Requests for rehearing of the Order on Rehearing are pending. SPS appealed both orders to the D.C. Circuit Court of Appeals on April 22, 2013. On November 16, 2014, the Commission issued Opinion No. 535 which affirmed the Initial Decision that none of Tri County’s facilities qualify as transmission under SPP Attachment Al. On October 30, 2014, SPP submitted a compliance filing to remove the Tri-County formula rate from the OATT and on December 5, 2014 the Commission accepted the revisions to remove the formula rate. On March 23, 2015, SPP submitted a refund report.

- Docket No. EL13-35 SPS Complaint - SPS complaint pleading that stated SPP should have not implemented possibly unjust and unreasonable rates for an annual update in ER12-959 (Tri-County formula rate). Order issued on February 21, 2013 setting the matter for hearing and settlement judge procedures. SPS and other parties submitted requests for rehearing, which are currently pending. This matter has been consolidated with Docket No. EL13-15. On January 10, 2014, an uncontested settlement was filed. As outlined in the settlement, SPP submitted and sponsored certain Tariff Revision Requests (TRRs 119 and 120) that went through the SPP stakeholder process. Subsequently, SPP filed the proposed revisions that came out of the stakeholder process on January 15, 2015 in Docket No. ER15-859.

- Docket No. EL13-15 SPS Complaint -- SPS complaint pleading that stated SPP should have reviewed Tri-County’s compliance with Attachment Al prior to filing ER12-959 (Tri-County formula rate). SPP has filed an answer and motion to consolidate. Order issued on February 21, 2013 setting the matter for hearing and settlement judge procedures. SPS and other parties submitted requests for rehearing, which are currently pending. This matter has been consolidated with Docket No. EL13-35. On January 10, 2014, an uncontested settlement was filed. As outlined in the settlement, SPP submitted and sponsored certain Tariff Revision Requests (TRRs 119 and 120) that went through the SPP stakeholder process. Subsequently, SPP filed the proposed revisions that came out of the stakeholder process on January 15, 2015 in Docket No. ER15-859.

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

- Docket ER13-2033 and ER13-2031 – Withdrawal Obligations Tariff Revisions - The Commission found that the proposed revisions are unclear regarding whether non-transmission owning members would be obligated for costs of transmission facilities approved before their withdrawal. SPP was directed to file revisions to clarify that the withdrawal obligation for the costs of transmission facilities is limited to transmission owning members. On May 14, 2014, the Commission issued a letter order accepting SPP’s filing of a compliance filing proposing the revisions to the SPP Bylaws and Membership Agreement.

- Docket ER13-2078 – IM GFA Cost Allocation - On January 24, 2014, FERC issued an order accepting SPP’s October 30, 2013 Compliance Filing to revise the Tariff regarding the carve out of grandfathered agreements in the Integrated Marketplace. An effective date of March 1, 2014 was granted. This order constitutes final agency action.

- Docket EL14-21 - SPP Complaint Against MISO – JOA Violation. On January 28, 2014, SPP filed a Complaint and Request for Fast Track Processing and Motion to Consolidate. SPP submitted the Complaint for an order finding that the Midcontinent Independent System Operator, Inc. is violating the Joint Operating Agreement ("JOA") between SPP and MISO and SPP's Tariff, requiring MISO to compensate SPP for use of SPP's transmission system in accordance with the SPP Tariff. In the event the Commission does not so find, SPP alternatively requests that the Commission find 1) that the JOA is no longer just, reasonable, and not unduly discriminatory to the extent it does not provide a mechanism by which SPP may assess charges for MISO's use of the SPP transmission system to integrate the former Energy Operating Companies; and 2) that the compensation mechanism set forth herein is the just, reasonable, and not unduly discriminatory rate for MISO's use of the SPP transmission system. SPP requested that Docket Nos. ER14-1174, EL11-34 and EL14-21 be consolidated. On March 28, 2014, the Commission issued an order consolidating the dockets and establishing hearing and settlement procedures. The settlement process is ongoing and the next settlement conference is scheduled to convene on July 21, 2015.

- Docket ER12-2289 – Empire Formula Rate Compliance Filing – On March 20, 2014 SPP submitted a compliance filing to modify Addendum 18 to Attachment H which contains the formula rate template for the Empire District Electric Company. On June 12, 2014, the Commission issued a letter order accepting SPP’s filing of revisions to the OATT to replace Addendum 18 of Attachment H.

- Docket ER13-1768 - Integrated Marketplace - Attachment AN - SPP BA Agreement Compliance Filing - On December 18, 2013, SPP submitted its compliance filing pursuant to the November 18, 2013 Order. An effective date of March 1, 2014 was requested. On February 7, 2014,
the Commission issued a letter order accepting SPP’s revisions to Attachment AN.

- **Docket ER14-1126 - Attachment AP Penalty Recovery Request** - On January 22, 2014, SPP filed a request, in accordance with Attachment AP of the Tariff, for Commission approval to allow SPP to recover the costs associated with a penalty assessed against SPP resulting from Commission approval of a Stipulation and Consent Agreement between SPP, staff of the North American Electric Reliability Corporation and the Commission’s Office of Enforcement. An effective date of July 10, 2013 was requested. On March 13, 2014, the Commission issued a letter order accepting SPP’s filing of the request.

- **Docket ER14-1190 - KPP Formula Rate Removal and Revision to Attachment H and T to Reflect Stated Rate** - On January 29, 2014, SPP submitted tariff revisions to remove the formula rate template for Kansas Power Pool (“KPP”) and to reflect a stated rate for KPP. An effective date of December 20, 2011 was requested. On March 25, 2014, the Commission issued a letter order accepting SPP’s filing to reflect a stated rate for KPP.

- **Docket ER14-1217 - Southwestern Power Administration Rate Change** - On January 30, 2014, SPP submitted tariff revisions to update the rates for transmission service for the Southwestern Power Administration pricing zone under the Tariff. Effective dates of October 1, 2013 and January 1, 2014 were requested. On March 13, 2014, the Commission issued a letter order accepting SPP’s filing of tariff revisions.

- **Docket ER14-278 - Schedule 1-A Administration Charge Increase** - On November 1, 2013, SPP submitted revisions to its Tariff to increase the rate cap for its Tariff Administration service charge. An effective date of January 1, 2014 was requested. On December 16, 2013, the Commission issued a letter order accepting SPP’s filing to increase the charge.

- **Docket ER14-418 - City of Coffeyville Revised Stated Rate Tariff Revisions** - On November 18, 2013, SPP submitted tariff revisions to revise the stated rate for Coffeyville Municipal Light and Power. Effective dates of July 1, 2013 and September 30, 2013 were requested. On January 13, 2104, the Commission issued a letter order accepting the revisions.

- **Docket ER14-596 - Implement a Distribution Mechanism for Unreserved Use Penalty Revenues** - On December 11, 2013, SPP submitted tariff revisions to incorporate a mechanism to distribute penalty revenues collected by SPP for unreserved use of firm transmission service. An effective date of December 11, 2013 was requested. On January 14, 2014, the Commission issued a letter order accepting SPP’s request.

- **Docket ER14-620 KCPL and GMO Formula Rate Change** - On December 13, 2013, SPP submitted tariff revisions to implement a change in the formula rate template for Kansas City Power & Light Company and KCP&L Greater Missouri Operations Company. An effective date of January 1, 2014 was requested. On February 4, 2014, the Commission issued a letter order accepting the revisions.

- **Docket ER14-794 - Termination of Entergy and SPP Seams Agreement** - On December 20, 2013, SPP submitted this filing to notify the Commission of the termination of the Comprehensive Seams Agreement Between Entergy Services, Inc. and SPP. SPP requests cancellation of the respective tariff sheets that constitute the Seams Agreement. An
effective date of December 19, 2013 was requested. On February 12, 2014, the Commission issued a letter order accepting SPP's filing of notice of termination of the Agreement.

- **Docket ER14-844 - Order 676-G Compliance Filing - Southwest Power Pool, Inc. submitted revisions to its OATT in Attachment R-1 to incorporate by reference the updated business practice standards adopted by the Wholesale Electric Quadrant of the North American Energy Standards Board ("NAESB") as required by the Commission. SPP requested an effective date of May 6, 2013. On March 4, 2014, the Commission issued a letter order accepting SPP's Compliance Filing.**

- **Docket ER14-1174 - SPP-MISO Joint Operating Agreement Dispute – This docket addresses the integration of MISO South (Entergy) into MISO and the transmission service charges for use of SPP's transmission system for transactions between MISO and MISO South.**

- **Docket ER14-1225 - On December 5, 2014, FERC issued an order accepting SPP's August 6, 2014 Compliance Filing.**

- **Docket ER14-1993 - On November 3, 2014, FERC issued an order accepting the tariff revisions to provide additional clarity to the Tariff with regard to real power loss responsibility of transmission customers.**

- **Docket ER14-2523 – SPP’s FERC Order 681 compliance filing on Long Term Congestion Rights.**

- **Docket ER14-2570 - SPP submitted revisions to its OATT in compliance with Order No. 792 in Docket No. ER14-2570.**

- **Docket ER15-42 - On October 3, 2014, SPP filed an informational filing to notify the Commission of SPP's implementation of the year-three reallocation of revenue requirements in accordance with the Balanced Portfolio process described in Attachments J and O of the Tariff. SPP implemented the year-three reallocation of revenue requirements on October 1, 2014, which is consistent with the Commission's order in Docket No. ER12-2387, wherein the Commission approved an October 1st effective date for the initial reallocation of revenue requirements and for all subsequent reallocations for years two through five.**

- **Docket ER15-10 - SPP submitted revisions to its OATT amending interest requirements on certain refunds and other payments.**

- **Docket ER15-2751 – Xcel Energy Southwest Transmission Company ("XEST") – On August 29, 2014, XEST submitted a transmission formula rate filing for ultimate inclusion in the SPP OATT. XEST is a transmission-only company established by Xcel Energy Inc. in May 2014. Several interventions, some including comments and/or protests, were filed in September 2014. On November 26, 2014, the Commission issued an order accepting and suspending the filing and establishing hearing and settlement procedures. The Settlement process is ongoing and the next settlement conference is being held June 19, 2015.**

- **Dockets ER14-2850 and ER14-2851 – SPP’s filing to integrate the WAPA Integrated System into SPP.**

- **Docket ER15-279 - Southwest Power Pool, Inc. (SPP) submitted tariff revisions to its OATT to implement a stated rate to accommodate the recovery of the Annual Transmission Revenue Requirements for the Central Nebraska Public Power and Irrigation District to be included in the Nebraska Public Power District Zone 17 pricing zone under the OATT.**

- **Docket ER15-307 - Southwest Power Pool, Inc. (SPP) submitted revisions to its OATT to stipulate that Base Plan Upgrades approved for...**
construction after June 19, 2010 shall be considered in the three-year review of the Highway/Byway cost allocation methodology pursuant to Section III.D of Attachment J. FERC issued an order accepting the tariff revisions to stipulate that Base Plan Upgrades approved for construction after June 19, 2010 shall be considered in the three-year review of Highway/Byway cost allocation methodology pursuant to Section III.D of Attachment J.

- Docket ER15-763 - SPP submitted tariff revisions to implement a design change for the allocation of over-collected losses in SPP’s Integrated Marketplace.

- Docket EL15-8 - Section 206 (Complaint III) filing where GSEC, WTMPA and the NM Cooperatives allege the rate of return on common equity used in SPS formula rate under the Replacement Power Sales Agreement and Xcel Energy Operating Companies’ Joint Open Access Transmission Tariff are unjust and unreasonable. Filed on 10/20/2014. On January 29, 2015, the Commission issued an order establishing hearing and procedures. The hearing commences on October 7, 2015.

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

In the 2014 True-Up, SPS uses the Radial Line Study populated with end of year 2014 plant balances.

There was one change to the classifications of radials directly assigned to wholesale customers in 2014. Specifically, a third party wind farm began commercial operation in June 2014 thereby eliminating a direct assignment to South Plains at the Pleasant Hill tap. There were five radial changes that occurred in 2014 for direct assignments to SPS retail where three retail assignments became invalid effective March 2014 and two new lines were assigned to SPS retail effective May 2014. These changes to classifications are noted in the Radial Line Study and impact Worksheets O and M of the True-Up template. In addition, revisions were made to the Radial Line Study to update certain components such as circuit numbers, mileages, asset locations, and “to and from” descriptions.