

Southwestern Public Service Company (“SPS”)

**Transmission Formula Rate
2015 Projection**

**Golden Spread Electric Cooperative, Inc.
Information Request No. 1
October 31, 2014**

- 1-1. With reference to the file “Attachment O-SPS Variance Analysis Projected 2015vs2014 with explanations” page 8 of 14, lines 23-24, please provide a description of the general criteria that SPS uses for determining whether to book outside services to a specific O&M account, such as Account 560 – Supervision & Engineering, as opposed to booking it to A&G Account 923 – Outside Services Employed.

Response:

Generally, amounts that are charged to FERC Account No. 560 – Operation Supervision and Engineering, include the cost of labor and expenses incurred in the general supervision and direction of the operation of the transmission system as a whole. This includes expenses of the electric transmission supervisors and managers from the Operations and Maintenance groups, and expenses related to transmission engineering work that is performed by both internal employees and contract labor on specific transmission projects. Amounts that are charged to FERC Account No. 923 - Outside Services Employed include the cost of professional consultants and others for general services that are not related to specific transmission projects.

(Prepared by Laurie Wold and Carrie Dyer)

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- 1-2. With reference to the file “Attachment O-SPS Variance Analysis Projected 2015vs2014 with explanations” page 8 of 14, lines 30-31, are the reimbursements received by SPS for performing the Transmission Service Studies and Generation Interconnection Studies reflected in the Transmission Formula. If yes, please identify where in the Transmission Formula such reimbursements are reflected. If no, please explain why not?

Response:

Reimbursements and deposits for Transmission Service Studies and Generation Interconnection Studies are recorded in FERC Account Nos. 561.6 and 561.7, respectively. Both Transmission Service Studies and Generation Interconnection Studies are included in the Transmission Formula in the WsG OM – WS (O&M Expenses and Wages and Salaries) tab under Transmission Operating Expense. In tab ARR – Projected Data, lines 93 and 94 include 561.6 for \$300,952 and 561.7 for \$46,824 in the Transmission Operation and Maintenance subtotal.

(Prepared by Laurie Wold, Lisa Swanson, and Bruce Tsukamaki)

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- 1-3. With reference to the file “Attachment O-SPS Variance Analysis Projected 2015vs2014 with explanations” page 8 of 14, lines 34-35, please provide a detailed tabulation of every entry booked to Account 566 – Miscellaneous Transmission Expense during 2013 and projected for 2015, including name, description of cost item and amount.

Response:

2013 Actuals

Please refer to Customer Meeting Attachment 1-3a for the 2013 supporting transactions in FERC Account No. 566, Miscellaneous Transmission Expense.

(Prepared by Carrie Dyer)

2015 Forecast

Please refer to Customer Meeting Attachment 1-3b for the 2015 detailed information on FERC Account No. 566, Miscellaneous Transmission Expense. Budget system provides FERC account information by Business Area, Business Area Description, Budget System Account Description, FERC Account, and Utility Description. Tabulation of detailed budget entries by vendor is unavailable.

(Prepared by Nathan Young)

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- 1-4. With reference to the file “Attachment O-SPS Variance Analysis Projected 2015vs2014 with explanations” page 9 of 14, lines 60-61, please provide a detailed tabulation of every entry booked to Account 923 – Outside Services Employed during 2013 and projected for 2015, including name, description of cost item and amount.

Response:

2013 Actuals – Account 923-Outside Services Employed

Please refer to Customer Meeting Attachment 1-4a for the 2013 supporting transactions in FERC Account No. 923, Outside Services Employed.

(Prepared by Carrie Dyer)

2015 Forecast – Account 923-Outside Services Employed

Please refer to Customer Meeting Attachment 1-4b for detailed information on FERC Account No. 923, Outside Services Employed. Budget system provides FERC account information by Business Area, Business Area Description, Budget System Account Description, FERC Account, and Utility Description. Tabulation of detailed budget entries by vendor is unavailable.

(Prepared by Nathan Young)

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1-5. With reference to the file “Attachment O-SPS Variance Analysis Projected 2015vs2014 with explanations” page 13 of 14, please provide a detailed description of the following line items related to General and Intangible Plant Additions:

- a. Line No. 1 - GIST-III Computer Software
- b. Line No. 10 - GIST Ph3 SW SPS
- c. Line No. 48 - GIS Upgrade 4.3 SW SPS

Response:

- a. GIST-III Computer Software - Geographic Information System Transmission (“GIST”) Phase III: This project extends functionality previously developed in the GIST II project for transmission substations, and is a regulatory-driven project that is required to support the company’s response to the January 18, 2011 NERC Mandate to validate the Bulk Electric System (“BES”) transmission line facility ratings based on actual field conditions. Related to the GIST Ph 3 SW SPS below.
- b. GIST Ph3 SW SPS - Geographic Information System Transmission (“GIST”) Phase III: This project extends functionality previously developed in the GIST II project for transmission substations, and is a regulatory-driven project that is required to support the company’s response to the January 18, 2011 NERC Mandate to validate the Bulk Electric System (“BES”) transmission line facility ratings based on actual field conditions. The project will create a system that combines the information from Light Detection and Ranging (“LIDAR”) technology and the GIS to electronically verify that transmission line clearances are NERC compliant. Related to the GIST III Computer Software above.
- c. GIS Upgrade 4.3 SW SPS - Upgrade Smallworld to current version 4.1 to 4.3 Upgrade GE Smallworld GTO to current version 4.3 Evaluate upgrading MapFrame FieldSmart Evaluate upgrading Bentley Expert Designer to current version Evaluate other Common Format Data (CFD) Smallworld GIS data sources Evaluate new geospatial analytics tools GE’s GSA (Geospatial Analytics) ESRI’s AGO (ArcGIS Online). Not related to the other 2 capital additions.

(Prepared by Chris Lange)

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- 1-6. For purposes of this data request, an unfunded reserve is defined as follows: A reserve established for a future contingency (e.g., injuries and damages accrual, vacation accrual, sick leave and personal leave accrual, and severance cost accrual) where an accrual expense is booked to an account the contents of which are flowed through the SPS’ s Transmission Formula Rate, but such monies are not set aside in an escrow account (*i.e.*, are not funded) so that SPS has access to the monies until paid out upon the occurrence of a qualifying contingency event. Based on this definition, provide the following for 2013 and projected 2015:
- a. An identification of each unfunded reserve maintained, including:
 - i. The account to which the reserve is accrued (e.g., Account 228, 232 or 242);
 - ii. The account to which the associated accrual expense was booked (e.g., Account 925); and
 - iii. A description of the nature and purpose of the reserve; and
 - b. The 13-monthly balances and 13-month average balance for each unfunded reserve.

Response:

For purposes of this response, SPS is providing a complete list of accruals made to each FERC Account listed above for Golden Spread’s review. However, that should not be construed to mean that SPS agrees the items accrued in these FERC Accounts are unfunded reserves.

2013 Actuals and 2015 Forecast

- a. FERC Account No. 228 includes the following accruals:
 - Provision for Penalties Pending (FERC Account No. 228.2) – Accrual for pending litigation settlement. Offsetting account is FERC Account No. 426.3 – Penalties and is not included in the Transmission Formula rate.
 - Accrued Qualified Pension Post 158 (FERC Account No. 228.3) – This account represents SPS’ service cost and interest costs on assets for Qualified Pensions (FAS 87), based on Towers Watson’s actuarial reports. Towers Watson provides actuarial valuations based on information provided

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by Xcel Energy. Year-end entries will adjust the balance to the funded status as calculated by the actuaries. Account is internally funded and restricted (Irrevocable Trust Account). FERC Account No. 923-Outside Services is included in the ARR-Projected Data tab, Administrative and General-line 98. FERC Account Nos. 173-Asset, 182.3-Asset, 419-Revenue, 431-Revenue, 447-Revenue, 449-Revenue, and 557-Expense are included in the accrual qualified pension entries.

- Accrued Post-Retirement Medical Post 158 (FERC Account No. 228.3) – This account represents SPS’ service cost and interest cost on assets for Retiree Medical (FAS 106), based on Towers Watson’s actuarial reports. Towers Watson provides actuarial valuations based on information provided by Xcel Energy. This account is used to book the current month’s accrual, funding, and expenditure activity relating to FAS 106 Postretirement Medical Liability. Account is internally funded and restricted (Irrevocable Trust Account). FERC Account Nos. 143-Asset, 146-Asset, 184-Clearing, 232-Liability, and 254-Liability are included in the Accrued Post-Retirement Medical entries.
- Accrued Nonqualified Pension (FERC Account No. 228.3) – This account represents SPS’ service and interest costs on assets for Non-Qualified Pensions (FAS 87), based on Towers Watson’s actuarial reports. Towers Watson provides actuarial valuations based on information provided by Xcel Energy. An accrual entry of 1/12 of the annual expense is recorded monthly. These costs are allocated based on labor with a majority of the allocation to FERC Account No. 926. FERC Account No. 926 is included in the ARR-Projected Data tab, Administrative and General – line 98 of the Transmission Formula rate with the PBOP Expense in 926 Adjustment – line 110.
- Accrued Post-Employment (FAS 112) (FERC Account No. 228.4) – Account is used to book the post-employment benefits provided to former or inactive employees, their beneficiaries, and covered dependents. Benefits are provided to individuals covered under Long Term Disability or Workmen’s Compensation. An accrual entry of 1/12 of the annual expense is recorded monthly. These costs are allocated based on labor with a majority of the allocation to FERC Account Nos. 925 (Workmen’s Compensation) and 926 (Long Term Disability). FERC Account 925 and 926 are included in the ARR-Projected Data tab, Administrative and General – line 98 of the Transmission Formula rate with the PBOP Expense in 926 Adjustment – line 110.

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FERC Account No. 232 is used for Accounts Payable that has a large number of accounts that make up the account balance. Therefore, SPS has been unable to quantify every expense type. SPS is providing the following accruals for vacation, personal time, and sick leave at this time and will supplement the response.

- 401(k) Match – Account is used to record the accrual and payment of the 401(k) company match. An accrual entry of 1/12 of the annual expense is recorded monthly. These costs are allocated based on labor with the majority of the allocation to FERC Account No. 926. FERC Account No. 926 is included in the ARR-Projected Data tab, Administrative and General – line 98 of the Transmission Formula rate with the PBOP Expense in 926 Adjustment – line 110.
- AP Non-Union Incentive Plan – Account is used to record the accrual and payment of the annual incentive plan. An accrual entry of 1/12 of the annual expense is recorded monthly. These costs are allocated based on labor and the expenses residing in all FERC accounts where labor is charged.
- Vacation Liability - A/P Vacation liability account includes the earned and unpaid balance for Paid Time Off (PTO) which includes vacation time, personal time, and sick time. Vacation, Personal Time, and Sick leave are accrued as PTO liability (Paid Time Off). PTO liability represents earned and unused paid time off and is recorded in FERC Account No. 232. The expense side of the accrual is charged into a “non-productive” labor clearing account. The amount in the clearing account is then systematically allocated out through the Company’s labor loading process as a percentage of benefit eligible productive labor. As a result, these costs are allocated based on labor and the expense resides in all FERC accounts where labor was charged.

FERC Account No. 242 includes the following accruals:

- A/P Non-Qualified Pension Post 158 – Account represents estimated current non-qualified pension payments to be made in the current 12 months. See Accrued Nonqualified Pension (FERC Account No. 228.3) for further description.
- Miscellaneous Liability Refund Contingencies – Account is comprised of the accrual for Wholesale Production Formula rate refunds and other potential refunds. FERC Account Nos. included in the refund entries are 182.3-Asset, 419-Revenue, 431-Revenue, 431-Expense, 447-Revenue, and

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- 449.1-Revenue. Accounts not included in Transmission Formula rate. Payments are made out of general funds and not internally funded.
- Pole Contact Rentals – Account represents amount SPS owes other companies to attach our lines to their power poles. The amount is determined by pole audits conducted in each legal entity. Companies (except AT&T) bill SPS annually. In order to recognize the expense in the month in months they occur, monthly journal entries are made to accrue the expense. FERC Account Nos. included in the pole contact rental entries are 172-Asset, 454-Revenue, and 589-Expense. Account 454 is included in the WsB Rev Credits tab which is allocated to transmission per the Wage and Salary allocation factor. Accounts 172 and 589 are not included in the Transmission Formula rate. Payments are made out of general funds and not internally funded.
 - Environmental Liability – Account represents estimated amount to be paid prior to year-end to clean up sites where environmental contamination from past operations has occurred. The current balance represents an accrual that is made for anticipated water testing at the former Tucumcari site. Quarterly, an amount is released to offset any actual water testing expenses incurred and booked to FERC Account No. 923-Outside Service Employed, which is included in the ARR-Projected Data tab, Administrative and General subtotal, line 111. The accrual level is reviewed periodically by the environmental group. Payments are made out of general funds and not internally funded.
 - FIN 48-Current Federal Income Tax:Permanent – Account represents short-term federal unrecognized income tax benefits payable per FIN 48 (ASC 740). Per FERC guidance, this account includes only unrecognized income tax benefits for permanent tax positions. FERC Account Nos. included in the FIN 48-Federal income tax benefits payable entries are 190-Asset, 242-Liability, 253-Liability, 409.1-Expense, 409.2-Expense, 410.1-Expense, 401.2-Expense, 411.1-Expense, and 411.2-Expense. Account 190 is included in the ARR-Projected Data tab, Adjustment to Rate Base, line 71. Accounts 242, 253, 409.1, 409.2, 410.1, 401.2, 411.1, and 411.2 are not included in the Transmission Formula rate. Payments are made out of general funds and not internally funded.
 - FIN 48-Current State Income Tax-Texas:Permanent – Account represents short-term state unrecognized income tax benefits payable per FIN 48 (ASC 740). Per FERC guidance, this account includes only unrecognized income tax benefits for permanent tax positions. FERC Account Nos. included in the FIN 48-State income tax benefits payable entries are 182.3-Asset, 186-Asset, 190-Asset, 219-Liability, 236-Liability, 242-Liability, 253-Liability,

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254-Liability, 255-Liability, 281-Liability, 282-Liability, 283-Liability, 409.1,-Expense, 409.2-Expense, 410.1-Expense, 401.2-Expense, 411.1-Expense, 411.2-Expense, and 411.4-Expense. Accounts 190, 281, 282, and 283 are included in the ARR-Projected Data tab, Adjustment to Rate Base, lines 68, 69, 70, and 71, respectively. Accounts 182.3, 186, 219, 236, 242, 253, 254, 255, 409.1, 409.2, 410.1, 401.2, 411.1, 411.2, and 411.4 are not included in the Transmission Formula rate. Payments are made out of general funds and not internally funded.

- b. Please refer to Customer Meeting Attachment 1-6 for 2013 actual and 2015 forecast monthly account transactions and balances.

(Prepared by Carrie Dyer, Kris Lindemann, and Brian Kochevar)

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- 1-7. To the extent the information is not already provided in connection with the response to 1-6 above, does SPS have any of the following unfunded reserves? If yes, please provide for 2013 and projected 2015 (i) the FERC Account number where each such reserve has been recorded, (ii) the FERC Account number to which the reserve accrual(s) is (are) booked, and (iii) the 13-monthly balances and 13-month average balance for each unfunded reserve.
- a. Supplemental Executive Retirement Plan;
 - b. Vacation Accruals;
 - c. Personal Time Accruals;
 - d. Sick Leave Accruals;
 - e. FAS 158 Pension Liability – Write-up included in Question 1-6, Account 242
 - f. FAS 158 Post-Retirement Benefits;
 - g. FAS 158 SERP Liability;
 - h. Annual Incentive Plan;
 - i. 401(k) Discretionary Match;
 - j. Environmental Reserves;
 - k. Regulatory Liability for Property Insurance; and
 - l. Other Unfunded Reserves (identify separately).

Response:

Please refer to the response to request 1-6.

(Prepared by Kevin Lewis)

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- 1-8. Does SPS recover in its Transmission Formula Rate any costs (including penalties) associated with the provision of, or purchase of, any of the following ancillary services? To the extent SPS does recover such costs in its Transmission Formula Rate, please (i) identify the FERC Accounts where such costs are recorded and (ii) provide the amounts that were booked during 2013 and projected for 2015. In addition, please provide the justification for recovering such costs under the Transmission Formula Rate.
- a. SCHEDULE 2 - Reactive Supply and Voltage Control from Generation Sources Service
 - b. SCHEDULE 3 - Regulation and Frequency Response Service
 - c. SCHEDULE 4 - Energy Imbalance Service
 - d. SCHEDULE 4A - Reserve Sharing Energy Charges
 - e. SCHEDULE 4B - Reserve Sharing Energy Charges
 - f. SCHEDULE 5 - Operating Reserve - Spinning Reserve Service
 - g. SCHEDULE 6 - Operating Reserve - Supplemental Reserve Service
 - h. SCHEDULE 9 - Generator Imbalance Service

Response:

No. To the extent SPS incurs costs for the purchase of ancillary services; such costs are booked to FERC account 565, Transmission of Electricity by Others. Per ARR – Projected Data tab of the 2015 Transmission Formula Rate model, FERC Account No. 565 is deducted from the Transmission O&M Subtotal (Line 97) that is included in the transmission formula rate.

SPS provides these generation related services pursuant to the SPP OATT. SPS credits revenues received for generation related ancillary services pursuant to its production formula templates.

(Prepared by Bryan Davis and Kevin Lewis)

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- 1-9. With reference to the file “Attachment O-SPS Variance Analysis Projected 2015vs2014 with explanations” page 3 of 14, line 69, please explain why the change in Account No. 282 does not track proportionally the change in gross plant in service on line 48.

Response:

The deferred tax balance is increased by tax depreciation or deductions and reduced by book depreciation in general. When the tax depreciation is greater than the book depreciation, early years in the life of an addition, the deferred tax balance will increase. The trend referenced by the question would not occur. Even with no subsequent additions, the deferred tax balance would continue to increase for a period of time. Also tax deductions or bonus depreciation taken on new additions will cause the change in the plant balance to be skewed from the change in deferred tax balance. Bonus depreciation increases the deferred tax balance by 50% of the asset addition for the year times the current tax rate. Some of the additions are deducted in the first year instead of tax depreciated. Lastly, bonus depreciation expired in 2014 and was not taken on the 2015 additions.

(Prepared by Lisa Perkett)

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- 1-10. With reference to the file “Attachment O-SPS Variance Analysis Projected 2015vs2014 with explanations” page 4 of 14, line 118, please explain why general plant depreciation expense decreases even though gross general plant in service is projected to increase on page 3, line 50.

Response:

Per review of the Transmission Formula, WsI Depr&Amort tab, General Plant Depreciation was incorrectly stated. Instead of deducting the General Intangible Amortization amount of \$21,735 from General Depreciation Exp of \$15,932,931 for a correct balance of \$15,911,197, the Amortization Expense amount of \$14,332,964 (intangible computer software and general amortization) was deducted resulting in an incorrect amount of \$1,599,967. SPS will make the revision to Rv1 of the 10-2014---2015 Attachment O – SPS Formula Rate Annual Update Rv1.xls.

(Prepared by Bruce Tsukamaki)

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1-11. With reference to the file “Attachment O-SPS Variance Analysis Projected 2015vs2014 with explanations” pages 11-12 of 14, please identify each project that is related to each of the following categories of facilities:

- a. Generator step-ups;
- b. Generator interconnections as defined under FERC Order No. 2003; and
- c. Direct assignment facilities pursuant to Attachment AI of the Southwest Power Pool Open Access Transmission Tariff.

To the extent such information is not available, please explain why not, including why it is not determinable from the statement of planning purpose or project authorization documentation.

Response:

Please see Customer Meeting Attachment 1-11. To identify projects related to the three categories of facilities identified in the question above as a., b., and c., a column was added to the far right in which the answer to this question is marked with an a, b, or c depending on which category the project relates to. The answers are based on the best understanding today of what the workorder may be and its purpose may change based on additional information as the project is completed.

(Prepared by John Fulton)

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- 1-12 With reference to the 2015 Annual Update, Worksheet N and the Projected 2015 Supporting Documentation, please explain why the if the New Meter Cost of Wholesale Transmission TR-IDR meters is \$8,621.62 [$\$1,819,161.22 / 211 = \$8,621.62$] (see Worksheet N Supporting Documentation 36/37, line 61) it is appropriate to use an Average Allocated Meter Investment of \$10,051.00 for determining the meter investment for wholesale transmission customers (see 2015 Annual Update, Worksheet N, line 3). Also, provide the actual total installed cost of the wholesale transmission customer meters for the 211 metering points and the account(s) to which such costs are recorded.

Response:

SPS’s accounting records do not have detail regarding the actual total installed cost by meter type, by customer. Therefore, rather than direct assigning meter costs to wholesale transmission customers, the settled upon SPS Transmission Formula Rate allocates the per book meter cost in FERC Account No. 370 to the wholesale transmission customers based on the most recent available meter count and replacement costs.

The methodology used in Worksheet N groups the meters by type and does not distinguish wholesale and retail. The result is an average embedded meter cost allocation between jurisdictions. Average embedded cost allocation of meter costs results in a reasonable cost allocation to all of SPS’s customers, including wholesale transmission customers. Finally, while it is true that in recent Annual Updates the New Meter Cost of Wholesale Transmission TR-IDR meters, shown in the Supporting Documentation, has been higher than the Average Allocated Meter Investment calculated in Worksheet N, it has not always been the case. The opposite was the case in the Annual Updates for rates effective calendar years 2010, 2011, and 2012.

As described above, SPS does not know the actual total installed cost of the wholesale transmission customer meters for the 211 delivery points.

(Prepared by Kevin Lewis)