Xcel Energy Operating Companies
FERC Electric Tariff, Second Revised Volume No. 1
Attachment O – SPS
Southwestern Public Service Company Formulaic Rates (Transmission)

Appendix 1 to Attachment O – SPS
Annual Formula Rate Implementation Procedures
Preliminary Challenge(s) Submitted in Accordance with Section 5a
Date Submitted: Friday December 12, 2014

Kevin,

As a result of Golden Spread's review of SPS's transmission formula rate for the 2013 True-up and 2015 Projection, the following Preliminary Challenges are presented:

2013 True-up:

1. The net-of-tax gain on the sale of certain SPS transmission assets to Sharyland Utilities in 2013 should be treated as revenue credits in the formula rate. The assets sold to Sharyland have been in SPS's transmission rate base since initial commercialization in 1994, and, therefore, SPS's wholesale transmission ratepayers have paid the costs, including a return on the investment, associated with such assets from commercialization in 1994 through disposition in 2013. (*See* SPS Response to GSEC Data Request No. 14.) The net pre-tax gain on the sale to be treated as a revenue credit is $24,421,803, which is the Net Pre-Tax Gain Prior to Regulatory Sharing of $20,815,311 claimed by SPS (*see* SPS Response to GSEC Data Request No. 5, Exhibit A 1-5, p. 9) plus the "Reserve Adjustment on Assets to be Removed" of $1,930,762 and plus the "Plant Adjustment of Assets to be Removed" of $1,675,830 (*id.*). The reversal of these two adjustments, which are associated with SPS's recorded $3,606,592 write down of the ten miles of line south of Grassland Substation to Structure 62, is made to reverse the write down to zero of this investment that solely serves Cirrus Wind 1, LLC ("Cirrus") after the sale to Sharyland. (*See* SPS Responses to GSEC Data Request No. 13, part b and Exhibit A 1-13, p. 22 and Exhibit B 1-13, p. 1 and SPS Response to GSEC Data Request No. 5, Exhibit A 1-5, pp.7 and 9.) Such write down should not be netted against the pre-tax gain on the sale of assets to Sharyland; rather this interconnection facility should be directly assigned to Cirrus, an independent power producer. Given that the net pre-tax gain should be included as a revenue credit, there would be no related income taxes. (*See Id.* (Gains shared with TX and NM ratepayers deductible for tax purposes in figuring the net pre-tax gain available to SPS.)) The Commission's August 14, 2013 Order Authorizing Disposition of Jurisdictional Facilities in Docket No. EC13-100 (144 FERC ¶ 61,131) ("Order") did not authorize any particular ratemaking treatment. Paragraph (D) of the Order specifically stated "[t]he foregoing authorization [(*i.e.*, disposition of the facilities)] is without prejudice to the authority of the Commission or any other regulatory body with respect to rates, service, accounts, valuation, estimates or determinations of costs, or any other matter whatsoever now pending or which may come before the Commission."

2. Transmission Revenue Credits should include: (1) American Tower – Lease Renewal for Communications Tower Equipment ($13,899); (2) State of Texas, Texas Parks & Wildlife – Space Lease on a communications tower ($149); and (3) Cielo Wind Services – Permit payment for a permit to cross a SPS electric transmission line ($500). SPS indicates agreement. (*See* SPS Response to GSEC Data Request No. 6.)

3. Pursuant to the Commission's 1992 PBOP Statement of Policy, SPS is allowed to recover prudently incurred PBOP costs provided that it makes cash deposits to an irrevocable external trust equal to the annual test period allowance for the cost of such benefits. SPS's 2013 cash contributions were less than the fixed PBOP amount set forth in the transmission formula rate. (*See* SPS Response to GESC Data Request No. 7.) Hence, SPS's inclusion of PBOP expense in the formula rate for cost recovery for 2013 is, therefore, limited to SPS's cash contributions to its external trust. Otherwise, SPS collects consumer-contributed capital which it has available to use at no cost until the accruals are either deposited into an irrevocable trust or expended to cover actual PBOP payments, given that SPS's formula rate does not have a rate base credit for unfunded reserves (*i.e.*, revenues collected through rates based on accruals for a contingent liability that are not set aside in escrow). While the Commission's PBOP Statement of Policy also requires SPS to maximize the use of income tax deductions, this does not trump or otherwise override the obligation to make cash deposits into an irrevocable trust at least equal to annual test period allowance for the costs of PBOP benefits.

4. The Investment Tax Credit value on Worksheet J., l. 66 of the 2013 True-up should be $340,664. SPS indicates agreement. (*See* SPS Response to GSEC Data Request No. 8.)

5. Accumulated Deferred Income Taxes ("ADIT") associated with Account 190 Basis Difference – CIAC Elec Transmission ($8,659,202) and Account 190 Basis Difference – CIAC Elec General ($35,245) are related to contributions in aid of construction paid for specific facilities by specific customers. Such direct assignments of capital costs are necessary to prevent other ratepayers from paying for such direct assignment facilities. Consequently, these associated ADIT balances should not be allocated in whole or in part to other wholesale transmission ratepayers; rather these ADIT balances should be categorized as "Retail, Production & Other Related" on Worksheet E.

6. SPS indicated that there were certain "other legal and transaction costs" recorded to FERC Account 566 and incorrectly stated that this account was excluded from the formula rate. (*See* SPS Response to GESC Data Request No. 13.) Account 566 is included in the formula rate as part of the total recoverable transmission operation expenses (See <u>WsG OM – WS</u> tab of the formula rate.) Any amounts recorded to this account related to the sale transaction should be removed.

<u>2015 Projection:</u>

1. The calculation of general depreciation expense shown on WsI Depr&Amort Exp tab of the formula rate should be corrected to reflect a balance of $15,911,197. SPS indicates agreement. (*See* SPS Response to GSEC Data Request No. 1-10.)

2. SPS indicated that there are approximately $69 million of projected transmission plant additions for 2015 that are either related to (i) generator interconnections as defined under FERC Order No. 2003 or (ii) direct assignment facilities pursuant to Attachment AI of the Southwest Power Pool Open Access Transmission Tariff. (*See* SPS Response to GSEC Data Request No. 1-11.) In order to avoid a significant true-up related to the improper inclusion of these plant additions in the formula rate, all of these additions should be excluded from the projected formula rate.

If SPS has any questions regarding these Preliminary Challenges, please let me know. Thanks in advance for SPS's reactions regarding these Preliminary Challenges. Once Golden Spread receives and reviews them, we will contact you to set up a time to discuss any unresolved issues. Golden Spread's preference, if possible, is to avoid having to file a Formal Challenge regarding the 2013 True-up and 2015 Projection.

Best regards,

Tom Burke

Tom Burke
Director, Regulatory and Transmission Policy
Golden Spread Electric Cooperative, Inc.
Fixed (806) 349-5227
Mobile (806) 341 6892
tburke@gsec.coop