Southwestern Public Service Company

Balance Sheet

Line No.	Account Title	(a) Base Period	(b) Test Year Period [4]	Difference [5]	
1	**Utility Plant**				
2	Utility Plant	$ 11,077,484,575	$ 11,362,255,493	$ 284,770,918	(2)
3	Construction Work In Progress	163,386,077	-	(163,386,077)	(2)
4	**Total Utility Plant**	**$ 11,240,870,652**	**$ 11,362,255,493**	**$ 121,384,841**	
5	(Less) Accum. Prov. For Depr., Amort. & Depl.	3,056,335,073	3,638,687,533	582,352,460	(2)
6	**Net Utility Plant**	**$ 8,184,535,579**	**$ 7,723,567,960**	**$ (460,967,619)**	
7	**Other Property and Investments**				
8	Nonutility Plant	$ 5,840,206	$ 5,840,206	$ -	
9	(Less) Accum. Prov. For Depr. and Amort.	1,079,948	1,079,948	-	
10	Investments in Assoc. Companies	-	-	-	
11	Investments in Subsidiary Companies	-	-	-	
12	Noncurrent Portion of Allowances	-	-	-	
13	Other Investments	4,370,287	4,370,287	-	
14	Special Funds	22,944,356	22,944,356	-	
15	Long-Term Portion of Derivative Instrument Assets	4,738,420	4,738,420	-	
16	**Total Other Property and Investments**	**$ 36,813,321**	**$ 36,813,321**	**$ -**	
17	**Current and Accrued Assets**				
18	Cash	$ -	$ -	$ -	
19	Special Deposits	-	-	-	
20	Working Fund	100,500	100,500	-	
21	Temporary Cash Investments	73,125,534	73,125,534	-	
22	Notes Receivable	-	-	-	
23	Customer Accounts Receivable	115,880,075	115,880,075	-	
24	Other Accounts Receivable	116,589,268	116,589,268	-	
25	(Less) Accum. Prov. For Uncollectible Acct. - Credit	12,134,703	12,134,703	-	
26	Notes Receivable from Associated Companies	-	-	-	
27	Accounts Receivable from Associated Companies	12,216,641	12,216,641	-	
28	Fuel Stock	24,936,713	19,933,749	(5,002,964)	(2)
29	Fuel Stock Expenses Undistributed	-	-	-	
30	Residuals (Elec) and Extracted Products	-	-	-	
31	Plant Materials and Operating Supplies	28,158,634	24,784,290	(3,374,344)	(2)
32	Merchandise	125,807	125,807	-	
33	Other Materials and Supplies	-	-	-	
34	Nuclear Materials Held for Sale	-	-	-	
35	Allowances	6,503,591	-	(6,503,591)	(2)
36	(Less) Noncurrent Portion of Allowances	-	-	-	
37	Stores Expense Undistributed	-	-	-	
38	Prepayments	4,892,161	7,405,606	2,513,445	(2)
39	Advances for Gas	-	-	-	
40	Interest and Dividends Receivable	16,182	16,182	-	
41	Rents Receivable	995,713	995,713	-	
42	Accrued Utility Revenues	151,942,365	151,942,365	-	
43	Miscellaneous Current and Accrued Assets	1	1	-	
44	Derivative Instrument Assets	291,428,747	291,428,747	-	
45	(Less) Long-Term Portion of Derivative Instrument Assets	4,738,420	4,738,420	-	
46	**Total Current and Accrued Assets**	**$ 810,038,809**	**$ 797,671,355**	**$ (12,367,454)**	

Southwestern Public Service Company

Balance Sheet

Line No.	Account Title	(a) Base Period	(b) Test Year Period [4]	Difference [5]
47	**Deferred Debits**			
48	Unamortized Debt Expenses	$ 29,637,848	$ 29,637,848	$ -
49	Extraordinary Property Losses	-	-	-
50	Unrecovered Plant and Regulatory Study Costs	-	-	-
51	Other Regulatory Assets	543,991,520	147,265,960	(396,725,560) [2]
52	Prelim. Survey and Investigation Charges (Electric)	56,059	56,059	-
53	Prelim. Survey and Investigation Charges (Gas)	-	-	-
54	Clearing Accounts	5,106	5,106	-
55	Temporary Facilities	-	-	-
56	Miscellaneous Deferred Debits	13,826,289	-	(13,826,289) [2]
57	Def. Losses from Disposition of Utility Plant	-	-	-
58	Research, Develop and Demonstration Expenditures	-	-	-
59	Unamortized Loss on Reacquired Debt	19,789,013	19,789,013	-
60	Accumulated Deferred Income Taxes	504,837,410	585,334,056	80,496,646 [2]
61	Unrecovered Purchased Gas Costs	-	-	-
62	**Total Deferred Debits**	**$ 1,112,143,245**	**$ 782,088,043**	**$ (330,055,202)**
63	**Total Assets and Other Debits**	**$ 10,143,530,954**	**$ 9,340,140,679**	**$ (803,390,275)**
64	**Proprietary Capital**			
65	Common Stock Issued	$ 100	$ 100	$ -
66	Preferred Stock Issued	-	-	-
67	Capital Stock Subscribed	-	-	-
68	Stock Liability for Conversion	-	-	-
69	Premium on Capital Stock	362,132,084	362,132,084	-
70	Other Paid-in Capital	2,948,073,744	2,777,943,183	(170,130,561) [3]
71	Installments Received on Capital Stock	-	-	-
72	(Less) Discount on Capital Stock	-	-	-
73	(Less) Capital Stock Expense	9,033,435	9,033,435	-
74	Retained Earnings	546,653,591	546,653,591	-
75	Unappropriated Undistributed Subsidiary Earnings	-	-	-
76	Other Comprehensive Income	(1,157,306)	(1,157,306)	-
77	(Less) Reacquired Capital Stock	-	-	-
78	**Total Proprietary Capital**	**$ 3,846,668,778**	**$ 3,676,538,217**	**$ (170,130,561)**
79	**Long-Term Debt**			
80	Bonds	$ 2,900,000,000	$ 2,704,795,191	$ (195,204,809) [3]
81	(Less) Reacquired Bonds	-	-	-
82	Advances from Associated Companies	-	-	-
83	Other Long-Term Debt	350,000,000	350,000,000	-
84	Unamortized Premium on Long-Term Debt	7,900,261	7,900,261	-
85	(Less) Unamortized Discount on Long-Term Debt-Debit	18,294,096	18,294,096	-
86	**Total Long-Term Debt**	**$ 3,239,606,165**	**$ 3,044,401,356**	**$ (195,204,809)**
87	**Other Noncurrent Liabilities**			
88	Obligations Under Capital Leases-Noncurrent	$ 418,698,760	$ 418,698,760	$ -
89	Accumulated Provision for Property Insurance	-	-	-
90	Accumulated Provision for Injuries and Damages	-	-	-
91	Accumulated Provision for Pensions and Benefits	1,343,765	545,734	(798,031) [2]
92	Accumulated Miscellaneous Operating Provisions	190,633	92,886	(97,747) [2]
93	Accumulated Provision for Rate Refunds	-	-	-
94	Long-Term Portion of Derivative Instrument Liabilities	3,907,287	3,907,287	-
95	Long-Term Portion of Derivative Instrument Liab. - Hedges	-	-	-

Southwestern Public Service Company

Balance Sheet

Line No.	Account Title	(a) Base Period	(b) Test Year Period (4)	Difference (5)
96	Asset Retirement Obligation	118,545,579	118,545,579	-
97	**Total Other Noncurrent Liabilities**	**$ 542,686,024**	**$ 541,790,246**	**$ (895,778)**
98	**Current and Accrued Liabilities**			
99	Notes Payable	$ -	$ -	$ -
100	Accounts Payable	209,155,317	209,155,317	-
101	Notes Payable to Associated Companies	-	-	-
102	Accounts Payable to Associated Companies	19,074,631	19,074,631	-
103	Customer Deposits	6,064,738	6,064,738	(0) (2)
104	Taxes Accrued	49,071,740	49,071,740	-
105	Interest Accrued	30,580,118	30,580,118	-
106	Dividends Declared	58,817,325	58,817,325	-
107	Matured Long-Term Debt	-	-	-
108	Matured Interests	-	-	-
109	Tax Collections Payable	8,401,276	8,401,276	-
110	Miscellaneous Current and Accrued Liabilities	54,608,837	54,608,837	-
111	Obligations Under Capital Leases-Current	30,207,570	30,207,570	-
112	Derivative Instrument Liabilities	7,472,012	7,472,012	-
113	(Less) Long-Term Portion of Derivative Instrument Liabilities	3,907,287	3,907,287	-
114	Derivative Instrument Liabilities - Hedges	-	-	-
115	(Less) Long-Term Portion of Derivative Instr. Liab. - Hedges	-	-	-
116	**Total Current and Accrued Liabilities**	**$ 469,546,277**	**$ 469,546,277**	**$ (0)**
117	**Deferred Credits**			
118	Customer Advances for Construction	$ -	$ -	$ -
119	Accumulated Deferred Investment Tax Credits	30	30	-
120	Deferred Gains from Disposition of Utility Plant	-	-	-
121	Other Deferred Credits	25,246,784	25,246,784	-
122	Other Regulatory Liabilities	827,553,722	9,988,572	(817,565,150) (2)
123	Unamortized Gain on Reacquired Debt	-	-	-
124	Accumulated Deferred Income Taxes(1)	1,192,223,174	1,572,629,197	380,406,023 (2)
125	**Total Deferred Credits**	**$ 2,045,023,710**	**$ 1,607,864,584**	**$ (437,159,126)**
126	**Total Liabilities and Other Credits**	**$ 10,143,530,954**	**$ 9,340,140,679**	**$ (803,390,275)**

Note: Amounts may appear to not total or tie due to rounding.

(c) Explanation of Adjustments

Per 17.9.530.14 NMAC, SPS submits its balance sheet, which conforms with the end of the Base Period and the end of the Test Year Period. SPS also provides a full explanation of each of the adjustments made to the Base Period.

The Base Period information presented in the I series schedules is directly from SPS's 2022 Second Quarter FERC Form 3. Notes to Financial Statements are included in FERC Form 3. Please see page 4-5 for the Balance Sheet-related notes and pages 6-10 for the Notes to Financial Statements from SPS's 2022 Second Quarter FERC Form 3.

(1) This amount reflects the total of lines 62 through 64 on the FERC Form 3.

(2) Adjusted to match the amount included in the Test Year Period cost of service. See Note 5.

(3) Adjusted in order to balance the Test Year Period. See Note 5.

(4) The Test Year Period cost of service will not directly tie to the financial information presented in the I series schedules because certain accounting and regulatory adjustments are made to the cost of service study that are not reflected in these schedules. Please refer to the Direct Testimony of Stephanie N. Niemi for explanations of these cost of service adjustments.

(5) "Difference" column displayed in lieu of "Adjustments" due to the way the cost of service and this schedule are prepared. Line items on this schedule that are included in the cost of service reflect amounts from corresponding items in the Test Year Period cost of service. However, most of the line items on this schedule are not present in the cost of service, including the entire equity section of this schedule. Because the cost of service does not include all balance sheet items, certain liability balances were also adjusted for the Test Year Period column in order to balance the assets and liabilities of the Test Year Period balance sheet. For this schedule, all other balances in the Test Year Period column reflect those in the Base Period column. Please refer to the Direct Testimony of SPS witness Stephanie N. Niemi for explanations of cost of service adjustments.

Name of Respondent: Southwestern Public Service Company	This report is: (1) ☑ An Original (2) ☐ A Resubmission	Date of Report: 08/29/2022	Year/Period of Report End of: 2022/ Q2

FOOTNOTE DATA

(a) Concept: UtilityPlant

Includes operating leases in accordance with Accounting Standards Codification (ASC) Topic 842 and FERC Docket No. AI19-1-000.

Account 101.1		
Finance Lease Asset	$	—
Operating Right of Use Asset		448,906,330
Total	$	448,906,330

(b) Concept: AllowanceInventoryAndWithheld

The balance is comprised of Texas Renewable Energy Credit Allowances of $6,053,591.

(c) Concept: AllowanceInventoryAndWithheld

The balance is comprised of Texas Renewable Energy Credit Allowances of $6,168,263.

Name of Respondent: Southwestern Public Service Company	This report is: (1) ☑ An Original (2) ☐ A Resubmission	Date of Report: 08/29/2022	Year/Period of Report End of: 2022/ Q2

FOOTNOTE DATA

(a) Concept: ObligationsUnderCapitalLeaseNoncurrent

Includes operating leases in accordance with Accounting Standards Codification (ASC) Topic 842 and FERC Docket No. AI19-1-000.

(b) Concept: ObligationsUnderCapitalLeasesCurrent

Includes operating leases in accordance with Accounting Standards Codification (ASC) Topic 842 and FERC Docket No. AI19-1-000.

Name of Respondent: Southwestern Public Service Company	This report is: (1) ☑ An Original (2) ☐ A Resubmission	Date of Report: 08/29/2022	Year/Period of Report End of: 2022/ Q2

NOTES TO FINANCIAL STATEMENTS

1. Use the space below for important notes regarding the Balance Sheet, Statement of Income for the year, Statement of Retained Earnings for the year, and Statement of Cash Flows, or any account thereof. Classify the notes according to each basic statement, providing a subheading for each statement except where a note is applicable to more than one statement.
2. Furnish particulars (details) as to any significant contingent assets or liabilities existing at end of year, including a brief explanation of any action initiated by the Internal Revenue Service involving possible assessment of additional income taxes of material amount, or of a claim for refund of income taxes of a material amount initiated by the utility. Give also a brief explanation of any dividends in arrears on cumulative preferred stock.
3. For Account 116, Utility Plant Adjustments, explain the origin of such amount, debits and credits during the year, and plan of disposition contemplated, giving references to Cormmission orders or other authorizations respecting classification of amounts as plant adjustments and requirements as to disposition thereof.
4. Where Accounts 189, Unamortized Loss on Reacquired Debt, and 257, Unamortized Gain on Reacquired Debt, are not used, give an explanation, providing the rate treatment given these items. See General Instruction 17 of the Uniform System of Accounts.
5. Give a concise explanation of any retained earnings restrictions and state the amount of retained earnings affected by such restrictions.
6. If the notes to financial statements relating to the respondent company appearing in the annual report to the stockholders are applicable and furnish the data required by instructions above and on pages 114-121, such notes may be included herein.
7. For the 3Q disclosures, respondent must provide in the notes sufficient disclosures so as to make the interim information not misleading. Disclosures which would substantially duplicate the disclosures contained in the most recent FERC Annual Report may be omitted.
8. For the 3Q disclosures, the disclosures shall be provided where events subsequent to the end of the most recent year have occurred which have a material effect on the respondent. Respondent must include in the notes significant changes since the most recently completed year in such items as: accounting principles and practices; estimates inherent in the preparation of the financial statements; status of long-term contracts; capitalization including significant new borrowings or modifications of existing financing agreements; and changes resulting from business combinations or dispositions. However were material contingencies exist, the disclosure of such matters shall be provided even though a significant change since year end may not have occurred.
9. Finally, if the notes to the financial statements relating to the respondent appearing in the annual report to the stockholders are applicable and furnish the data required by the above instructions, such notes may be included herein.

1. Summary of Significant Accounting Policies

The significant accounting policies set forth in Note 1 to the financial statements in the Southwest Public Service Company's (SPS) Annual Report on Federal Energy Regulatory Commission (FERC) Form 1 for the year ended Dec. 31, 2021 appropriately represent, in all material respects, the current status of accounting policies and are incorporated herein by reference.

Business and System of Accounts - SPS is a wholly-owned subsidiary of Xcel Energy Inc. that is principally engaged in the generation, purchase, transmission, distribution and sale of electricity. SPS is subject to regulation by the FERC and state utility commissions.

Basis of Accounting - The accompanying financial statements were prepared in accordance with the accounting requirements of the FERC as set forth in the Uniform System of Accounts and published accounting releases, which is a comprehensive basis of accounting other than Generally Accepted Accounting Principles (GAAP). The following areas represent the significant differences between the Uniform System of Accounts and GAAP:

- Current maturities of long-term debt are included as long-term debt, while GAAP requires such maturities to be classified as current liabilities.
- Deferred financing costs are included as deferred debits in the FERC presentation in contrast to the GAAP presentation in which they are included as a deduction from the carrying amount of long-term debt.
- Accumulated deferred income taxes are shown as long-term assets and liabilities at their gross amounts in the FERC presentation, in contrast to the GAAP presentation as net long-term assets and liabilities.
- Regulatory assets and liabilities are classified as current and noncurrent for GAAP presentation, while FERC requires all regulatory assets and liabilities to be classified as noncurrent deferred debits.
- Unrecognized tax benefits are recorded for temporary adjustments in accounts established for accumulated deferred income taxes in the FERC presentation, in contrast to its GAAP presentation as taxes accrued and other noncurrent liabilities.
- Removal costs for future removal obligations are classified as accumulated depreciation within the utility plant accounts in the FERC presentation and regulatory liabilities in the GAAP presentation.
- Certain commodity trading purchases and sales transactions are presented gross as expenses and revenues for FERC presentation; however the net margin is reported as net sales for GAAP presentation.
- Various expenses such as donations, lobbying, and other non-regulatory expenses are presented as other income and deductions for FERC presentation and reported as operating expenses for GAAP presentation.
- Income tax expense related to utility operations is shown as a component of utility operating expenses in the FERC presentation, in contrast to its GAAP presentation as a below-the-line deduction from operating income.
- For certain capital projects where there is recovery of a return on construction work in progress (CWIP), certain amounts of allowance for funds used during construction (AFUDC) are not recognized in CWIP for GAAP. While for FERC presentation, they are recorded in CWIP but the benefit is deferred as a liability and amortized over the life of the property as a reduction of costs.
- Non-service cost components of net periodic benefit costs that are reported on the income statement are recorded as operation expenses in the FERC presentation and as other income, net for GAAP presentation. Non-service costs that are eligible for capitalization are recorded as a component of net utility plant in the FERC presentation and as regulatory assets for GAAP.

If GAAP were followed these financial statement line items would have values greater/(lesser) than those shown by FERC presentation of:

(Millions of Dollars)		
Balance Sheet:		
Net utility plant	$	(247)
Current assets		239
Current liabilities		373
Other long-term assets		(273)
Long-term debt and other long-term liabilities		(653)
Statement of Income:		
Operating revenue	$	152
Operating expenses		184
Other income and deductions		—
Interest charges		9
Statement of Cash Flows:		
Cash provided by operating activities	$	1
Cash used in investing activities		(2)

Cash provided by financing activities	1

Subsequent Events - Management has evaluated the impact of events occurring after June 30, 2022 up to July 28, 2022, the date SPS' GAAP financial statements were issued and has updated such evaluation for disclosure purposes through the date of this report. These statements contain all necessary adjustments and disclosures resulting from that evaluation.

2. Borrowings and Other Financing Instruments

Short-Term Borrowings

SPS meets its short-term liquidity requirements primarily through the issuance of commercial paper and borrowings under its credit facility and the money pool.

Money Pool — Xcel Energy Inc. and its utility subsidiaries have established a money pool arrangement that allows for short-term investments in and borrowings between the utility subsidiaries. Xcel Energy Inc. may make investments in the utility subsidiaries at market-based interest rates; however, the money pool arrangement does not allow the utility subsidiaries to make investments in Xcel Energy Inc.

Money pool borrowings for SPS:

(Amounts in Millions, Except Interest Rates)	Three Months Ended June 30, 2022	Year Ended Dec. 31, 2021
Borrowing limit	$ 100	$ 100
Amount outstanding at period end	—	91
Average amount outstanding	65	51
Maximum amount outstanding	100	100
Weighted average interest rate, computed on a daily basis	0.44 %	0.05 %
Weighted average interest rate at period end	N/A	0.05

Commercial Paper — Commercial paper outstanding for SPS:

(Amounts in Millions, Except Interest Rates)	Three Months Ended June 30, 2022	Year Ended Dec. 31, 2021
Borrowing limit	$ 500	$ 500
Amount outstanding at period end	—	137
Average amount outstanding	150	63
Maximum amount outstanding	264	342
Weighted average interest rate, computed on a daily basis	0.97 %	0.21 %
Weighted average interest rate at period end	N/A	0.26

Letters of Credit — SPS uses letters of credit, generally with terms of one year, to provide financial guarantees for certain obligations. At both June 30, 2022 and Dec. 31, 2021, there were $2 million of letters of credit outstanding under the credit facility. Amounts approximate their fair value and are subject to fees.

Revolving Credit Facility — In order to issue its commercial paper, SPS must have a revolving credit facility in place at least equal to the amount of its commercial paper borrowing limit and cannot issue commercial paper exceeding available capacity under this credit facility. The credit facility provides short-term financing in the form of notes payable to banks, letters of credit and back-up support for commercial paper borrowings.

SPS has the right to request an extension of the revolving credit facility termination date for two additional one-year periods. All extension requests are subject to majority bank group approval.

As of June 30, 2022, SPS had the following committed revolving credit facility available (in millions of dollars):

Credit Facility [(a)]	Drawn [(b)]	Available
$ 500	$ 2	$ 498

[(a)] Expires in June 2024.
[(b)] Includes outstanding letters of credit.

All credit facility bank borrowings, outstanding letters of credit and outstanding commercial paper reduce the available capacity under the credit facility. SPS had no direct advances on the credit facility outstanding as of June 30, 2022 and Dec. 31, 2021.

3. Income Taxes

Note 4 to the financial statements included in SPS' Annual Report on FERC Form 1 for the year ended Dec. 31, 2021 represents, in all material respects, the current status of other income tax matters except to the extent noted below, and are incorporated herein by reference.

4. Fair Value of Financial Assets and Liabilities

Fair Value Measurements

Accounting guidance for fair value measurements and disclosures provides a single definition of fair value and requires disclosures about assets and liabilities measured at fair value. A hierarchical framework for disclosing the observability of the inputs utilized in measuring assets and liabilities at fair value is established by this guidance.

- Level 1 — Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. The types of assets and liabilities included in Level 1 are highly liquid and actively traded instruments with quoted prices.
- Level 2 — Pricing inputs are other than quoted prices in active markets, but are either directly or indirectly observable as of the reporting date. The types of assets and liabilities included in Level 2 are typically either comparable to actively traded securities or contracts or priced with models using highly observable inputs.
- Level 3 — Significant inputs to pricing have little or no observability as of the reporting date. The types of assets and liabilities included in Level 3 are those valued with models requiring significant management judgment or estimation.

Specific valuation methods include:

Cash equivalents — The fair values of cash equivalents are generally based on cost plus accrued interest; money market funds are measured using quoted net asset value.

Interest rate derivatives — The fair values of interest rate derivatives are based on broker quotes that utilize current market interest rate forecasts.

Commodity derivatives — Methods used to measure the fair value of commodity derivative forwards and options utilize forward prices and volatilities, as well as pricing adjustments for specific delivery locations and are generally assigned a Level 2 classification. When contractual settlements relate to inactive delivery locations or extend to periods beyond those readily observable on active exchanges or quoted by brokers, the significance of the use of less observable inputs on a valuation is evaluated, and may result in Level 3 classification.

Electric commodity derivatives held by SPS include transmission congestion instruments, generally referred to as financial transmission rights (FTRs). FTRs purchased from a regional transmission organization (RTO) are financial instruments that entitle or obligate the holder to monthly revenues or charges based on transmission congestion across a given transmission path.

The values of these instruments are derived from, and designed to offset, the costs of transmission congestion. In addition to overall transmission load, congestion is also influenced by the operating schedules of power plants and the consumption of electricity pertinent to a given transmission path. Unplanned plant outages, scheduled plant maintenance, changes in the relative costs of fuels used in generation, weather and overall changes in demand for electricity can each impact the operating schedules of the power plants on the transmission grid and the value of these instruments. FTRs are recognized at estimated fair value and adjusted each period prior to settlement. Given the limited observability of certain variables underlying the reported auction values of FTRs, these fair value measurements have been assigned a Level 3.

If costs of electric transmission congestion increase or decrease for a given path, the value of that particular instrument will likewise increase or decrease. Net congestion costs, including the impact of FTR settlements, are shared through fuel and purchased energy cost recovery mechanisms. As such, the fair value of the unsettled instruments (i.e., derivative asset or liability) is offset/deferred as a regulatory asset or liability.

Derivative Instruments Fair Value Measurements

SPS enters into derivative instruments, including forward contracts, for trading purposes and to manage risk in connection with changes in interest rates and electric utility commodity prices.

Interest Rate Derivatives — SPS may enter into various instruments that effectively fix the interest payments on certain floating rate debt obligations or effectively fix the yield or price on a specified benchmark interest rate for an anticipated debt issuance for a specific period. These derivative instruments are generally designated as cash flow hedges for accounting purposes.

As of June 30, 2022, accumulated other comprehensive loss related to interest rate derivatives included immaterial net losses expected to be reclassified into earnings during the next 12 months as the related hedged interest rate transactions impact earnings. As of June 30, 2022, SPS had no unsettled interest rate derivatives.

Wholesale and Commodity Trading Risk — SPS conducts various wholesale and commodity trading activities, including the purchase and sale of electric capacity, energy and energy-related instruments, including

Wholesale and Commodity Trading Risk — SPS conducts various wholesale and commodity trading activities, including the purchase and sale of electric capacity, energy and energy-related instruments, including derivatives. SPS is allowed to conduct these activities within guidelines and limitations as approved by its risk management committee, comprised of management personnel not directly involved in the activities governed by this policy. Sharing of any margins is determined through state regulatory proceedings as well as the operation of the FERC approved joint operating agreement.

Commodity Derivatives — SPS enters into derivative instruments to manage variability of future cash flows from changes in commodity prices in its electric utility operations. This could include the purchase or sale of energy or energy-related products and FTRs.

Amounts in Millions [(a)]	**June 30, 2022**	**Dec. 31, 2021**
Megawatt hours of electricity	18	8

(a) Amounts are not reflective of net positions in the underlying commodities.

Consideration of Credit Risk and Concentrations — SPS continuously monitors the creditworthiness of counterparties to its interest rate derivatives and commodity derivative contracts, prior to settlement, and assesses each counterparty's ability to perform on the transactions set forth in the contracts. Impact of credit risk was immaterial to the fair value of unsettled commodity derivatives presented in the balance sheets.

SPS' most significant concentrations of credit risk with particular entities or industries are contracts with counterparties to its wholesale, trading and non-trading commodity activities.

At June 30, 2022, two of the eight most significant counterparties for these activities, comprising $10 million, or 26%, of this credit exposure, had investment grade credit ratings from S&P Global Ratings, Moody's Investor Services or Fitch Ratings. Five of the eight most significant counterparties, comprising $29 million, or 74%, of this credit exposure, were not rated by external ratings agencies, but based on SPS' internal analysis, had credit quality consistent with investment grade. One of these significant counterparties, comprising an immaterial amount of this credit exposure, had credit quality less than investment grade, based on internal analysis. All eight of these significant counterparties are municipal or cooperative electric entities, RTOs or other utilities.

Impact of Derivative Activities on Income and Accumulated Other Comprehensive Loss — There were immaterial losses related to interest rate derivatives reclassified from accumulated other comprehensive loss into earnings for the three and six months ended June 30, 2022, respectively. There were no gains or immaterial losses related to interest rate derivatives reclassified from accumulated other comprehensive loss into earnings for the three and six months ended June 30, 2021, respectively.

Changes in the fair value of FTRs resulting in pre-tax net gains $92 million and gains of $93 million were recognized for the three and six months ended June 30, 2022, respectively, were reclassified as regulatory assets or liabilities. Changes in the fair value of FTRs resulting in pre-tax net gains of $8 million and $10 million recognized for the three and six months ended June 30, 2021, respectively, were reclassified as regulatory assets or liabilities. The classification as a regulatory asset or liability is based on expected recovery of FTR settlements through fuel and purchased energy cost recovery mechanisms.

FTR settlement losses of $24 million and losses of $34 million were recognized for the three and six months ended June 30, 2022, respectively, and were recorded to operation expenses. FTR settlement losses of $4 million and gains of $11 million were recognized for the three and six months ended June 30, 2021, respectively, and were recorded to electric fuel and purchased power. These derivative settlement gains and losses are shared with electric customers through fuel and purchased energy cost-recovery mechanisms and reclassified out of income as regulatory assets or liabilities, as appropriate. All FTR settlements are shared with customers and do not have a material impact on net income. Presented amounts reflect changes in fair value between auction and settlement dates, but exclude the original auction fair value.

SPS had immaterial derivative instruments designated as fair value hedges during the three and six months ended June 30, 2022 and 2021.

Recurring Fair Value Measurements — SPS' derivative assets and liabilities measured at fair value on a recurring basis were as follows:

	June 30, 2022						Dec. 31, 2021					
	Fair Value						Fair Value					
(Millions of Dollars)	**Level 1**	**Level 2**	**Level 3**	**Fair Value Total**	**Netting** [(a)]	**Total**	**Level 1**	**Level 2**	**Level 3**	**Fair Value Total**	**Netting** [(a)]	**Total**
Current derivative assets												
Other derivative instruments:												
Electric commodity [(b)]	$ —	$ —	$ 284	$ 284	$ —	$ 284	$ —	$ —	$ 27	$ 27	$ —	$ 27
Total current derivative assets	$ —	$ —	$ 284	$ 284	$ —	284	$ —	$ —	$ 27	$ 27	$ —	27
Purchase Power Agreements (PPAs) [(c)]						3						3
Current derivative instruments						$ 287						$ 30
Noncurrent derivative assets												
PPAs [(c)]						$ 5						$ 6
Noncurrent derivative instruments						$ 5						$ 6
Current derivative liabilities												
PPAs [(c)]						$ 4						$ 4
Current derivative instruments						$ 4						$ 4
Noncurrent derivative liabilities												
PPAs [(c)]						$ 4						$ 6
Noncurrent derivative instruments						$ 4						$ 6

(a) SPS nets derivative instruments and related collateral on its balance sheets when supported by a legally enforceable master netting agreement, and all derivative instruments and related collateral amounts were subject to master netting agreements at June 30, 2022 and Dec. 31, 2021. At June 30, 2022 and Dec. 31, 2021, derivative assets and liabilities include no obligations to return cash collateral or rights to reclaim cash collateral. The counterparty netting excludes settlement receivables and payables and non-derivative amounts that may be subject to the same master netting agreements.
(b) Amounts relate to FTR instruments administered by Southwest Power Pool (SPP) (annual auctions occurring in the second quarter). These instruments are utilized/intended to offset the impacts of transmission system congestion. Higher congestion costs have led to an increase in the fair value of FTRs. Due to regulatory recovery, changes in fair value are deferred as a regulatory asset or liability and do not have a material impact on net income.
(c) During 2006, SPS qualified these contracts under the normal purchase exception. Based on this qualification, the contracts are no longer adjusted to fair value and the previous carrying value of these contracts will be amortized over the remaining contract lives along with the offsetting regulatory assets and liabilities.

Changes in Level 3 commodity derivatives for the three and six months ended June 30, 2022 and 2021:

	Three Months Ended June 30	
(Millions of Dollars)	**2022**	**2021**
Balance at April 1	$ 32	$ 12
Purchases/Issuances [(a)]	232	9
Settlements [(a)]	(85)	(12)
Net transactions recorded during the period:		
Net gains recognized as regulatory assets and liabilities [(a)]	105	32
Balance at June 30	$ 284	$ 41

	Six Months Ended June 30	
(Millions of Dollars)	**2022**	**2021**
Balance at Jan. 1	$ 27	$ 7
Purchases/Issuances [(a)]	237	9
Settlements [(a)]	(94)	(21)
Net transactions recorded during the period:		
Net gains recognized as regulatory assets and liabilities [(a)]	114	46
Balance at June 30	$ 284	$ 41

(a) Relates primarily to FTR instruments administered by SPP (annual auctions occurring in the second quarter). These instruments are utilized/intended to offset the impacts of transmission system congestion. Higher congestion costs have led to an increase in the fair value of FTRs. Due to regulatory recovery, changes in fair value are deferred as a regulatory asset or liability and do not have a material impact on net income.

SPS recognizes transfers between levels as of the beginning of each period. There were no transfers of amounts between levels for derivative instruments for the three and six months ended June 30, 2022 and 2021.

Fair Value of Long-Term Debt

Other financial instruments for which the carrying amount did not equal fair value:

	June 30, 2022		Dec. 31, 2021	
(Millions of Dollars)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**

(Millions of Dollars)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$ 3,240	$ 2,890	$ 3,040	$ 3,454

Fair value of SPS' long-term debt is estimated based on recent trades and observable spreads from benchmark interest rates for similar securities. Fair value estimates are based on information available to management as of June 30, 2022 and Dec. 31, 2021 and given the observability of the inputs, fair values presented for long-term debt were assigned as Level 2.

5. Benefit Plans and Other Postretirement Benefits

Components of Net Periodic Benefit Cost (Credit)

	Three Months Ended June 30			
	2022	2021	2022	2021
(Millions of Dollars)	Pension Benefits		Postretirement Health Care Benefits	
Service cost	$ 3	$ 3	$ —	$ —
Interest cost	4	4	1	—
Expected return on plan assets	(7)	(8)	(1)	(1)
Amortization of net loss	2	3	—	—
Net periodic benefit cost	$ 2	$ 2	—	(1)
Effects of regulation	(1)	1	—	—
Net benefit cost recognized for financial reporting	$ 1	$ 3	$ —	$ (1)

	Six Months Ended June 30			
	2022	2021	2022	2021
(Millions of Dollars)	Pension Benefits		Postretirement Health Care Benefits	
Service cost	$ 5	$ 5	$ —	$ —
Interest cost	8	8	1	—
Expected return on plan assets	(15)	(15)	(1)	(1)
Amortization of net loss	5	7	—	—
Net periodic benefit cost	$ 3	$ 5	—	(1)
Effects of regulation	—	1	—	—
Net benefit cost recognized for financial reporting	$ 3	$ 6	$ —	$ (1)

In January 2022, contributions of $50 million were made across four of Xcel Energy's pension plans, none of which was attributable to SPS. Xcel Energy does not expect additional pension contributions during 2022.

6. Commitments and Contingencies

The following includes commitments, contingencies and unresolved contingencies that are material to SPS' financial position.

Legal

SPS is involved in various litigation matters in the ordinary course of business. The assessment of whether a loss is probable or is a reasonable possibility, and whether the loss or a range of loss is estimable, often involves a series of complex judgments about future events. Management maintains accruals for losses probable of being incurred and subject to reasonable estimation. Management is sometimes unable to estimate an amount or range of a reasonably possible loss in certain situations, including but not limited to when (1) the damages sought are indeterminate, (2) the proceedings are in the early stages, or (3) the matters involve novel or unsettled legal theories.

In such cases, there is considerable uncertainty regarding the timing or ultimate resolution, including a possible eventual loss. For current proceedings not specifically reported herein, management does not anticipate that the ultimate liabilities, if any, would have a material effect on SPS' financial statements. Legal fees are generally expensed as incurred.

Other Litigation — In 2019, SPS and Xcel Energy Services, Inc. were served with a lawsuit related to a traffic accident that resulted in two fatalities in New Mexico. An estimate of a probable loss contingency of approximately $50 million was recorded as of June 30, 2022 within Other current liabilities. In July 2022, a confidential settlement was reached. No impact to earnings has or is expected to occur, as the amounts are expected to be reimbursed by SPS' insurers. An offsetting asset has been recorded to reflect the reimbursement within Prepayments and other current assets.

Rate Matters and Other

SPS is involved in various regulatory proceedings arising in the ordinary course of business. Until resolution, typically in the form of a rate order, uncertainties may exist regarding the ultimate rate treatment for certain activities and transactions. Amounts have been recognized for probable and reasonably estimable losses that may result. Unless otherwise disclosed, any reasonably possible range of loss in excess of any recognized amount is not expected to have a material effect on the financial statements.

SPP Open Access Transmission Tariff (OATT) Upgrade Costs — Costs of transmission upgrades may be recovered from other SPP customers whose transmission service depends on capacity enabled by the upgrade under the SPP OATT. SPP had not been charging its customers for these upgrades, even though the SPP OATT had allowed SPP to do so since 2008. In 2016, the FERC granted SPP's request to recover these previously unbilled charges and SPP subsequently billed SPS approximately $13 million.

In July 2018, SPS' appeal to the United States Court of Appeals for the District of Columbia Circuit (D.C. Circuit) over the FERC rulings granting SPP the right to recover previously unbilled charges was remanded to the FERC. In February 2019, the FERC reversed its 2016 decision and ordered SPP to refund charges retroactively collected from its transmission customers, including SPS, related to periods before September 2015. In March 2020, SPP and Oklahoma Gas & Electric separately filed petitions for review of the FERC's orders at the D.C. Circuit. In August 2021, the D.C. Circuit issued a decision denying these appeals and upholding the FERC's orders. Refunds received by SPS are expected to be given back to SPS customers through future rates.

In October 2017, SPS filed a separate related complaint asserting SPP assessed upgrade charges to SPS in violation of the SPP OATT. In March 2018, the FERC issued an order denying the SPS complaint. SPS filed a request for rehearing in April 2018. The FERC issued a tolling order granting a rehearing for further consideration in May 2018. If SPS' complaint results in additional charges or refunds, SPS will seek to recover or refund the amount through future SPS customer rates. In October 2020, SPS filed a petition for review of the FERC's March 2018 order and May 2018 tolling order at the D.C. Circuit. In February 2022, FERC issued an order rejecting SPS' request for hearing. SPS has appealed that order. That appeal has been combined with SPS' prior appeal.

Contract Termination — SPS and Lubbock Power & Light (LP&L) have a 25-year, 170 megawatt partial requirements contract. In May 2021, SPS and LP&L finalized a settlement which would terminate the contract upon LP&L's move from the SPP to the Electric Reliability Council of Texas (ERCOT) (expected in 2023). The settlement agreement requires LP&L to pay SPS $78 million, to the benefit of SPS' remaining customers. LP&L would remain obligated to pay for SPP transmission charges associated with LP&L's load in SPP. The agreement is subject to approval by the Public Utility Commission of Texas and FERC.

Environmental

Manufactured Gas Plant, Landfill and Disposal Sites

SPS is remediating a former disposal site. SPS has recognized its best estimate of costs/liabilities from final resolution of these issues, however, the outcome and timing are unknown. In addition, there may be insurance recovery and/or recovery from other potentially responsible parties, offsetting a portion of costs incurred.

Environmental Requirements — Air

Reasonable Progress Rule: In 2016, the United States Environmental Protection Agency (EPA) adopted a final rule establishing a federal implementation plan for reasonable further progress under the regional haze program for the state of Texas. The rule imposes sulfur dioxide emission limitations that would require the installation of dry scrubbers on Tolk Units 1 and 2; compliance would have been required by February 2021. SPS appealed the EPA's decision and obtained a stay of the final rule.

In March 2017, the Fifth Circuit remanded the rule to the EPA for reconsideration, leaving the stay in effect. In a future rulemaking, the EPA will address whether sulfur dioxide emission reductions beyond those required in the best available retrofit technology (BART) alternative rule referenced above are needed at Tolk under the "reasonable progress" requirements. As states are now proceeding with the second regional haze planning period, the EPA may choose not to act on the remanded rule, but could impose additional requirements as part of a BART reconsideration or as part of the second planning period.

Leases

SPS evaluates contracts that may contain leases, including PPAs and arrangements for the use of office space and other facilities, vehicles and equipment. A contract contains a lease if it conveys the exclusive right to control the use of a specific asset.

Components of lease expense:

(Millions of Dollars)	Three Months Ended June 30 2022	2021
Operating leases		
PPA capacity payments	$ 13	$ 13
Other operating leases [(a)]	1	1
Total operating lease expense [(b)]	$ 14	$ 14

(a) Includes immaterial short-term lease expense for 2022 and 2021.
(b) PPA capacity payments are included in electric fuel and purchased power on the statements of income. Expense for other operating leases is included in operation expense.

(Millions of Dollars)	Six Months Ended June 30 2022	2021
Operating leases		
PPA capacity payments	$ 26	$ 26
Other operating leases [(a)]	3	2
Total operating lease expense [(b)]	$ 29	$ 28

(a) Includes immaterial short-term lease expense for 2022 and 2021.
(b) PPA capacity payments are included in electric fuel and purchased power on the statements of income. Expense for other operating leases is included in operation expense.

Commitments under operating leases as of June 30, 2022 in Accounts 227 and 243:

(Millions of Dollars)	PPA Operating Leases	Other Operating Leases	Total Operating Leases
Total minimum obligation	$ 520	$ 55	$ 575
Interest component of obligation	(111)	(15)	(126)
Present value of minimum obligation	$ 409	$ 40	449
Less current portion			(30)
Noncurrent operating lease liabilities			$ 419

8. Supplemental Cash Flow Data

(Millions of Dollars)	Six Months Ended June 30 2022	2021
Supplemental disclosure of cash flow information:		
Cash paid for interest (net of amounts capitalized)	$ (63)	$ (58)
Cash received for income taxes, net	26	17
Supplemental disclosure of non-cash investing transactions:		
Accrued property, plant and equipment additions	$ 36	$ 39
Inventory transfers to property, plant and equipment	7	6
Allowances for funds used during construction	1	2

Southwestern Public Service Company

Income Statement

Line No.	Account Title	(a) Base Period	(b) Test Year Period (4)	Difference (5)
1	**Utility Operating Income**			
2	Operating Revenues	$ 2,005,591,857	$ 1,529,832,536	$ (475,759,321) (3)
3	**Utility Operating Expenses**			
4	Operation Expenses	$ 1,124,097,639	$ 536,697,200	$ (587,400,439) (3)
5	Maintenance Expenses	47,769,032	55,257,187	7,488,155 (3)
6	Depreciation Expenses	311,573,960	413,283,078	101,709,118 (3)
7	Depreciation Expenses for Asset Retirement Obligation	2,978,846	-	(2,978,846) (3)
8	Amortization & Depletion of Utility Plant	25,167,067	32,653,809	7,486,742 (3)
9	Amortization of Utility Plant Acq. Adjustment	-	-	-
10	Amort. of Property Losses, Unrecovered Plant and Regulatory Study Costs	-	-	-
11	Amortization of Conversion Expenses	-	-	-
12	Regulatory Debits	6,413,352	124,339	(6,289,013) (3)
13	(Less) Regulatory Credits	15,006,270	7,682,333	(7,323,937) (3)
14	Taxes Other Than Income Taxes	95,950,034	113,283,403	17,333,369 (3)
15	Income Taxes - Federal	(30,733,025)	42,064,337	72,797,362 (3)
16	Income Taxes - Other	(770,365)	3,465,756	4,236,121 (3)
17	Provision for Deferred Income Taxes	156,035,193	34,521,584	(121,513,609) (2)(3)
18	(Less) Provision for Deferred Income Taxes	184,593,855	-	(184,593,855) (2)(3)
19	Investment Tax Credit Adj. - Net	(26,206)	(26,211)	(5) (3)
20	(Less) Gains from Disposition of Utility Plant	-	-	-
21	Losses from Disposition of Utility Plant	-	-	-
22	(Less) Gains from Disposition of Allowances	(100,072)	-	100,072 (3)
23	Losses from Disposition of Allowances	-	-	- (3)
24	Accretion Expense	4,649,538	-	(4,649,538) (3)
25	**Total Utility Operating Expenses**	**$ 1,543,605,012**	**$ 1,223,642,151**	**$ (319,962,861)**
26	**Net Utility Operating Income**	**$ 461,986,845**	**$ 306,190,385**	**$ (155,796,460)** (3)
27	**Other Income and Deductions**			
28	**Other Income**			
29	**Nonutility Operating Income**			
30	Revenues from Merchandising, Jobbing and Contract Work	$ -	$ -	$ -
31	(Less) Costs and Exp. Of Merch., Jobbing and Contr. Work	-	-	-
32	Revenues from Nonutility Operations	128,270	128,270	-
33	(Less) Expenses of Nonutility Operations	344,238	344,238	-
34	Nonoperating Rental Income	-	-	-
35	Equity in Earnings of Subsidiary Companies	-	-	-
36	Interest and Dividend Income	787,294	787,294	-
37	Allowance for Other Funds Used During Construction	3,468,420	3,468,420	-
38	Miscellaneous Nonoperating Income	(620,922)	(620,922)	-
39	Gain on Disposition of Property	-	-	-
40	**Total Other Income**	**$ 3,418,824**	**$ 3,418,824**	**$ -**
41	**Other Income Deductions**			
42	Loss on Disposition of Property	$ -	$ -	$ -
43	Miscellaneous Amortization	-	-	-
44	Miscellaneous Income Deductions[1]	1,335,771	1,335,771	-
45	**Total Other Income Deductions**	**$ 1,335,771**	**$ 1,335,771**	**$ -**

Southwestern Public Service Company

Income Statement

Line No.	Account Title	(a) Base Period	(b) Test Year Period [4]	Difference [5]
46	**Taxes Applicable to Other Income and Deductions**			
47	Taxes Other Than Income Taxes	$ 23,149	$ 23,149	$ -
48	Income Taxes - Federal	(37,349)	(37,349)	-
49	Income Taxes - Other	(1,256)	(1,256)	-
50	Provision for Deferred Income Taxes	69,001	69,001	-
51	(Less) Provision for Deferred Income Taxes - Cr.	-	-	-
52	Investment Tax Credit Adj. - Net	-	-	-
53	(Less) Investment Tax Credits	-	-	-
54	**Total Taxes on Other Income and Deductions**	**$ 53,545**	**$ 53,545**	**$ -**
55	**Net Other Income and Deductions**	**$ 2,029,508**	**$ 2,029,508**	**$ -**
56	**Interest Charges**			
57	Interest on Long-Term Debt	$ 121,678,250	$ 121,678,250	$ -
58	Amortization of Debt Discount and Expense	1,927,790	1,927,790	-
59	Amortization of Loss on Reacquired Debt	841,559	841,559	-
60	(Less) Amortization of Premium on Debt - Credit	-	-	-
61	(Less) Amortization of Gain on Reacquired Debt - Credit	-	-	-
62	Interest on Debt to Associated Companies	292,968	292,968	-
63	Other Interest Expense	3,430,084	3,430,084	-
64	(Less) Allow. for Borrowed Funds Used During Constr. - Cr.	1,649,825	1,649,825	-
65	**Net Interest Charges**	**$ 126,520,826**	**$ 126,520,826**	**$ -**
66	**Income Before Extraordinary Items**	**$ 337,495,527**	**$ 181,699,067**	**$ (155,796,460)**
67	**Extraordinary Items**			
68	Extraordinary Income	$ -	$ -	$ -
69	(Less) Extraordinary Deductions	-	-	-
70	Net Extraordinary Items	-	-	-
71	Income Taxes - Federal and Other	-	-	-
72	**Extraordinary Items After Taxes**	**$ -**	**$ -**	**$ -**
73	**Net Income**	**$ 337,495,527**	**$ 181,699,067**	**$ (155,796,460)**

Note: Amounts may appear to not total or tie due to rounding.

(c) Explanation of Adjustments

The Base Period information presented in Schedule I-2 is derived by utilizing SPS's 2021 FERC Form 1 annual results, minus the first six months of 2021 results (Column (c) on SPS's 2022 Second Quarter FERC Form 3), plus the first six months of 2022 results (Column (c) on SPS's 2022 Second Quarter FERC Form 3).

Please see pages 3-4 for the Income Statement-related notes from SPS's 2021 FERC Form 1; pages 5-6 for the Income Statement-related notes from SPS's 2021 Second Quarter FERC Form 3; pages 7-8 for the Income Statement-related notes from SPS's 2022 Second Quarter FERC Form 3; and pages 9-20 for the Notes to Financial Statements from SPS's 2021 FERC Form 1. Notes to Financial Statements from SPS's 2022 Second Quarter FERC Form 3 are provided with Schedule I-1.

(1) This amount is derived from the total of lines 45 through 49 on the applicable FERC Form 1 and FERC Form 3s.

(2) SPS does not have the detail to split deferred income taxes between FERC Accounts 410.1 and 411.1 in the Test Year Period.

(3) Adjusted to match the amount included in the Test Year Period Cost of Service. See Note 4.

(4) The Test Year Period cost of service will not directly tie to the financial information presented in the I series schedules because certain accounting and regulatory adjustments are made to the cost of service study that are not reflected in these schedules. Please refer to the Direct Testimony of Stephanie N. Niemi for explanations of these cost of service adjustments.

(5) "Difference" column displayed in lieu of "Adjustments" due to the way the cost of service and this schedule are prepared. Line items on this schedule that are included in the cost of service reflect amounts from corresponding items in the Test Year Period cost of service. However, most of the line items on this schedule are not present in the cost of service, including the non-utility items. For this schedule, all other balances in the Test Year Period column reflect those in the Base Period column. Please refer to the Direct Testimony of Stephanie N. Niemi for explanations of cost of service adjustments.

Name of Respondent: Southwestern Public Service Company	This report is: (1) ☐ An Original (2) ☑ A Resubmission	Date of Report: 05/24/2022	Year/Period of Report End of: 2021/ Q4

FOOTNOTE DATA

(a) Concept: OperationExpense

Includes $17 million of demand-side management program expenses.

(b) Concept: RegulatoryDebits

NM RPS Rider Amort	$	2,168,059
TX Restruct Recoverable Meter		34,899
NM Z2 Amort		520,490
	$	2,723,448

(c) Concept: RegulatoryCredits

TX 47527 Revenue Surcharge Accrual	$	13,825,765
ARO Reg Credits Electric		7,536,143
2019 Over Recovery Amort		2,757,010
2019 TOTI Amort		1,966,895
Amort of Inc Capital RL		53,949
2019 Over Recovery Interest Amort		68,347
	$	26,208,109

(d) Concept: IncomeTaxesOperatingIncome

Unnatural balances in FERC 409.1 are not uncommon as the provision accruals may result in a tax benefit instead of a tax expense throughout the year.

(e) Concept: IncomeTaxesUtilityOperatingIncomeOther

Unnatural balances in FERC 409.1 are not uncommon as the provision accruals may result in a tax benefit instead of a tax expense throughout the year.

(f) Concept: InvestmentTaxCreditAdjustments

Unnatural balances in FERC 411.4 are not uncommon as the provision accruals may result in a tax benefit instead of a tax expense throughout the year.

(g) Concept: GainsFromDispositionOfAllowances

Column c & g		**Current Year**
TX REC Sale	$	1,558,940
NM REC Sale		(61)
SO2 Auction		18
SO2 Sharing		(10)
	$	1,558,887

(h) Concept: LifeInsurance

Income on Company owned life insurance.

(i) Concept: OperationExpense

Includes $16 million of demand-side management program expenses.

(j) Concept: RegulatoryDebits

TX 47527 TCRF Billings	$	(100)
Hale Excess Over Revenue Requirement		(77,703)
NM RPS Rider Amort		2,266,136
TX Restruct Recoverable Meter		34,899
NM Z2 Amort		520,490
TX Z2 Amort		(396,466)
SPS TX 2019 RETAIL		2,622,527
	$	4,969,783

(k) Concept: RegulatoryCredits

ARO Reg Credits Electric	$	5,773,864
Amort of Inc Capital RL		53,949
NM Lg Cust Cap Amort		2,395,569
TX 49831 Cost Deferrals		56,369,134
TX 47527 Settlement		186
NM 2018 Over recovery and interest		1,056,300
	$	65,649,002

(l) Concept: IncomeTaxesOperatingIncome

Unnatural balances in FERC 409.1 are not uncommon as the provision accruals may result in a tax benefit instead of a tax expense throughout the year.

(m) Concept: IncomeTaxesUtilityOperatingIncomeOther

Unnatural balances in FERC 409.1 are not uncommon as the provision accruals may result in a tax benefit instead of a tax expense throughout the year.

(n) Concept: InvestmentTaxCreditAdjustments

Unnatural balances in FERC 411.4 are not uncommon as the provision accruals may result in a tax benefit instead of a tax expense throughout the year.

(o) Concept: GainsFromDispositionOfAllowances

Column d & h		**Previous Year**
TX REC Sale	$	22,751
NM REC Sale		(35)
2018 REC Sale		111,157
SO2 Auction		21
SO2 Sharing		41
	$	133,935

(p) Concept: GainOnDispositionOfProperty

Correcting entry to appropriately classify gain recognized from 2017 sale of property.

(q) Concept: LifeInsurance

Income on Company owned life insurance.

(r) Concept: IncomeTaxesOther

Unnatural balances for FERC 409 are relatively common because there is not an account for income tax benefits. Therefore, all income tax benefits and detriments are recorded in current tax expense.

Name of Respondent	This Report is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Southwestern Public Service Company	(1) X An Original (2) _ A Resubmission	08/26/2021	2021/Q2

FOOTNOTE DATA

Schedule Page: 114 Line No.: 4 Column: c

Includes $8 million of demand-side management program expenses.

Schedule Page: 114 Line No.: 4 Column: d

Includes $7.6 million of demand-side management program expenses.

Schedule Page: 114 Line No.: 12 Column: c

NM RPS Rider Amort	$ 945,527
NM Z2 Amortization	260,245
TX Restruct Recoverable Meter	17,449
	$ 1,223,221

Schedule Page: 114 Line No.: 12 Column: d

Hale Excess Over Revenue Req	$ (76,926)
TX TCRF Billings	(100)
NM RPS Rider Amort	1,466,026
TX Restruct Recoverable Meter	17,449
NM Z2 Amortization	260,245
TX Z2 Amortization	654,714
	$ 2,321,409

Schedule Page: 114 Line No.: 13 Column: c

TX 47527 Revenue Surcharge Accrual	$10,367,410
ARO Reg Credits Electric	3,744,069
2019 Over Recovery Amort	1,250,942
2019 TOTI Amort	655,632
Amort of Inc Capital RL	26,975
2019 Over Recovery Interest Amort	31,016
	$16,076,044

Schedule Page: 114 Line No.: 13 Column: d

ARO Reg Credits Electric	$ 2,800,232
Large Customer Cap Refund	2,395,569
2018 Over Recovery Amort	186,412
2018 Over Recovery Interest Amort	(1,644)
TX 49831 Cost Deferrals	26,796,517
Amort of Inc Capital RL	26,975
	$32,204,060

Schedule Page: 114 Line No.: 15 Column: d

Unnatural balances in FERC 409.1 are not uncommon as the provision accruals may result in a tax benefit instead of a tax expense throughout the year.

Schedule Page: 114 Line No.: 16 Column: c

Unnatural balances in FERC 409.1 are not uncommon as the provision accruals may result in a tax benefit instead of a tax expense throughout the year.

Schedule Page: 114 Line No.: 19 Column: c

Unnatural balance in FERC 411.4 cause by the income tax provision accruals resulting in a tax benefit instead of a tax expense.

Schedule Page: 114 Line No.: 19 Column: d

Unnatural balance in FERC 411.4 cause by the income tax provision accruals resulting in a tax benefit instead of a tax expense.

Schedule Page: 114 Line No.: 22 Column: d

Balance comprised of current year SO2 auction proceeds, amortization of prior year SO2 auction proceeds and amortization of prior year REC sales.

Schedule Page: 114 Line No.: 39 Column: d

Name of Respondent	This Report is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Southwestern Public Service Company	(1) X An Original (2) __ A Resubmission	08/26/2021	2021/Q2

FOOTNOTE DATA

Unnatural balance results from interest due to customers exceeds interest due from customers.

Schedule Page: 114 Line No.: 40 Column: d

Unnatural balance results from the reversal of an entry made in 2019 related to the sale of a distribution service center.

Schedule Page: 114 Line No.: 43 Column: d

Related to sale of a distribution service center.

Schedule Page: 114 Line No.: 46 Column: c

Income on Company owned life insurance.

Schedule Page: 114 Line No.: 54 Column: d

Unnatural balances for FERC 409 are relatively common because there is not an account for income tax benefits. Therefore, all income tax benefits and detriments are recorded in current tax expense.

Name of Respondent: Southwestern Public Service Company	This report is: (1) ☑ An Original (2) ☐ A Resubmission	Date of Report: 08/29/2022	Year/Period of Report End of: 2022/ Q2

FOOTNOTE DATA

(a) Concept: OperationExpense

Includes $6 million of demand-side management program expenses.

(b) Concept: RegulatoryDebits

NM RPS Rider Amort	$	2,974,455
NM Z2 Amortization		260,245
TEP		31,479
TX Restruct Recoverable Meter		17,449
2021 TX Revenue Surcharge		1,629,497
	$	4,913,125

(c) Concept: RegulatoryCredits

TX 2021 RETAIL RC	$	21,011,100
TX 2019 RETAIL RC		(21,008,549)
ARO Reg Credits Electric		3,836,309
2020 Over Recovery Amort		352,738
2019 TOTI Amort		655,632
Amort of Inc Capital RL		26,975
	$	4,874,205

(d) Concept: IncomeTaxesOperatingIncome

Unnatural balances in FERC 409.1 are not uncommon as the provision accruals may result in a tax benefit instead of a tax expense throughout the year.

(e) Concept: IncomeTaxesUtilityOperatingIncomeOther

Unnatural balances in FERC 409.1 are not uncommon as the provision accruals may result in a tax benefit instead of a tax expense throughout the year.

(f) Concept: GainsFromDispositionOfAllowances

Unnatural balance related to SO2 Allowance.

(g) Concept: MiscellaneousNonoperatingIncome

Unnatural balance results from interest due to customers exceeds interest due from customers.

(h) Concept: Penalties

Unnatural balances due overpayment on penalties.

(i) Concept: IncomeTaxesFederal

Unnatural balances for FERC 409 are relatively common because there is not an account for income tax benefits. Therefore, all income tax benefits and detriments are recorded in current tax expense.

(j) Concept: IncomeTaxesOther

Unnatural balances for FERC 409 are relatively common because there is not an account for income tax benefits. Therefore, all income tax benefits and detriments are recorded in current tax expense.

(k) Concept: ProvisionForDeferredIncomeTaxesOtherIncomeAndDeductions

Unnatural balances for FERC 409 are relatively common because there is not an account for income tax benefits. Therefore, all income tax benefits and detriments are recorded in current tax expense.

(l) Concept: OperationExpense

Includes $4 million of demand-side management program expenses.

(m) Concept: RegulatoryDebits

NM RPS Rider Amort		945,527
NM Z2 Amortization		260,245
TX Restruct Recoverable Meter		17,449
	$	1,223,221

(n) Concept: RegulatoryCredits

TX 47527 Revenue Surcharge Accrual	$	10,367,410
ARO Reg Credits Electric		3,744,069
2019 Over Recovery Amort		1,250,942
2019 TOTI Amort		655,632
Amort of Inc Capital RL		26,975
2019 Over Recovery Interest Amort		31,016
	$	16,076,044

(o) Concept: IncomeTaxesUtilityOperatingIncomeOther

Unnatural balances in FERC 409.1 are not uncommon as the provision accruals may result in a tax benefit instead of a tax expense throughout the year.

(p) Concept: InvestmentTaxCreditAdjustments

Unnatural balances in FERC 411.4 are not uncommon as the provision accruals may result in a tax benefit instead of a tax expense throughout the year.

(q) Concept: LifeInsurance

Income on Company owned life insurance.

(r) Concept: IncomeTaxesOperatingIncome

Unnatural balances in FERC 409.1 are not uncommon as the provision accruals may result in a tax benefit instead of a tax expense throughout the year.

(s) Concept: GainsFromDispositionOfAllowances

Unnatural balance related to SO2 Allowance.

(t) Concept: MiscellaneousNonoperatingIncome

Unnatural balance results from interest due to customers exceeds interest due from customers.

(u) Concept: Penalties

Unnatural balances due overpayment on penalties.

(v) Concept: IncomeTaxesFederal

Unnatural balances for FERC 409 are relatively common because there is not an account for income tax benefits. Therefore, all income tax benefits and detriments are recorded in current tax expense.

(w) Concept: IncomeTaxesOther

Unnatural balances for FERC 409 are relatively common because there is not an account for income tax benefits. Therefore, all income tax benefits and detriments are recorded in current tax expense.

(x) Concept: ProvisionForDeferredIncomeTaxesOtherIncomeAndDeductions

Unnatural balances for FERC 409 are relatively common because there is not an account for income tax benefits. Therefore, all income tax benefits and detriments are recorded in current tax expense.

(y) Concept: InvestmentTaxCreditAdjustments

Unnatural balances in FERC 411.4 are not uncommon as the provision accruals may result in a tax benefit instead of a tax expense throughout the year.

(z) Concept: LifeInsurance

Income on Company owned life insurance.

(aa) Concept: IncomeTaxesFederal

Unnatural balances for FERC 409 are relatively common because there is not an account for income tax benefits. Therefore, all income tax benefits and detriments are recorded in current tax expense.

(ab) Concept: IncomeTaxesOther

Unnatural balances for FERC 409 are relatively common because there is not an account for income tax benefits. Therefore, all income tax benefits and detriments are recorded in current tax expense.

(ac) Concept: IncomeTaxesOperatingIncome

Unnatural balances in FERC 409.1 are not uncommon as the provision accruals may result in a tax benefit instead of a tax expense throughout the year.

(ad) Concept: IncomeTaxesUtilityOperatingIncomeOther

Unnatural balances in FERC 409.1 are not uncommon as the provision accruals may result in a tax benefit instead of a tax expense throughout the year.

(ae) Concept: GainsFromDispositionOfAllowances

Unnatural balance related to SO2 Allowance.

(af) Concept: IncomeTaxesUtilityOperatingIncomeOther

Unnatural balances in FERC 409.1 are not uncommon as the provision accruals may result in a tax benefit instead of a tax expense throughout the year.

(ag) Concept: InvestmentTaxCreditAdjustments

Unnatural balances in FERC 411.4 are not uncommon as the provision accruals may result in a tax benefit instead of a tax expense throughout the year.

Name of Respondent: Southwestern Public Service Company	This report is: (1) ☐ An Original (2) ☑ A Resubmission	Date of Report: 05/24/2022	Year/Period of Report End of: 2021/ Q4

NOTES TO FINANCIAL STATEMENTS

1. Use the space below for important notes regarding the Balance Sheet, Statement of Income for the year, Statement of Retained Earnings for the year, and Statement of Cash Flows, or any account thereof. Classify the notes according to each basic statement, providing a subheading for each statement except where a note is applicable to more than one statement.
2. Furnish particulars (details) as to any significant contingent assets or liabilities existing at end of year, including a brief explanation of any action initiated by the Internal Revenue Service involving possible assessment of additional income taxes of material amount, or of a claim for refund of income taxes of a material amount initiated by the utility. Give also a brief explanation of any dividends in arrears on cumulative preferred stock.
3. For Account 116, Utility Plant Adjustments, explain the origin of such amount, debits and credits during the year, and plan of disposition contemplated, giving references to Cormmission orders or other authorizations respecting classification of amounts as plant adjustments and requirements as to disposition thereof.
4. Where Accounts 189, Unamortized Loss on Reacquired Debt, and 257, Unamortized Gain on Reacquired Debt, are not used, give an explanation, providing the rate treatment given these items. See General Instruction 17 of the Uniform System of Accounts.
5. Give a concise explanation of any retained earnings restrictions and state the amount of retained earnings affected by such restrictions.
6. If the notes to financial statements relating to the respondent company appearing in the annual report to the stockholders are applicable and furnish the data required by instructions above and on pages 114-121, such notes may be included herein.
7. For the 3Q disclosures, respondent must provide in the notes sufficient disclosures so as to make the interim information not misleading. Disclosures which would substantially duplicate the disclosures contained in the most recent FERC Annual Report may be omitted.
8. For the 3Q disclosures, the disclosures shall be provided where events subsequent to the end of the most recent year have occurred which have a material effect on the respondent. Respondent must include in the notes significant changes since the most recently completed year in such items as: accounting principles and practices; estimates inherent in the preparation of the financial statements; status of long-term contracts; capitalization including significant new borrowings or modifications of existing financing agreements; and changes resulting from business combinations or dispositions. However were material contingencies exist, the disclosure of such matters shall be provided even though a significant change since year end may not have occurred.
9. Finally, if the notes to the financial statements relating to the respondent appearing in the annual report to the stockholders are applicable and furnish the data required by the above instructions, such notes may be included herein.

NOTES TO FINANCIAL STATEMENTS (Continued)

1. Use this space to paste the disclosure required by instruction 1 of Page 122.

1. Summary of Significant Accounting Policies

The significant accounting policies set forth in Note 1 to the financial statements in the Southwest Public Service Company's (SPS) Annual Report on Federal Energy Regulatory Commission (FERC) Form 1 for the year ended Dec. 31, 2021, appropriately represent, in all material respects, the current status of accounting policies and are incorporated herein by reference.

Business and System of Accounts - SPS is a wholly-owned subsidiary of Xcel Energy Inc. that is principally engaged in the generation, purchase, transmission, distribution and sale of electricity. SPS is subject to regulation by the FERC and state utility commissions.

Basis of Accounting - The accompanying financial statements were prepared in accordance with the accounting requirements of the FERC as set forth in the Uniform System of Accounts and published accounting releases, which is a comprehensive basis of accounting other than Generally Accepted Accounting Principles (GAAP). The following areas represent the significant differences between the Uniform System of Accounts and GAAP:

- Current maturities of long-term debt are included as long-term debt, while GAAP requires such maturities to be classified as current liabilities.
- Deferred financing costs are included as deferred debits in the FERC presentation in contrast to the GAAP presentation in which they are included as a deduction from the carrying amount of long-term debt.
- Accumulated deferred income taxes are shown as long-term assets and liabilities at their gross amounts in the FERC presentation, in contrast to the GAAP presentation as net long-term assets and liabilities.
- Regulatory assets and liabilities are classified as current and noncurrent for GAAP presentation, while FERC requires all regulatory assets and liabilities to be classified as noncurrent deferred debits.
- Unrecognized tax benefits are recorded for temporary adjustments in accounts established for accumulated deferred income taxes in the FERC presentation, in contrast to its GAAP presentation as taxes accrued and other noncurrent liabilities.
- Removal costs for future removal obligations are classified as accumulated depreciation within the utility plant accounts in the FERC presentation and regulatory liabilities in the GAAP presentation.
- Certain commodity trading purchases and sales transactions are presented gross as expenses and revenues for FERC presentation; however the net margin is reported as net sales for GAAP presentation.
- Various expenses such as donations, lobbying, and other non-regulatory expenses are presented as other income and deductions for FERC presentation and reported as operating expenses for GAAP presentation.
- Income tax expense related to utility operations is shown as a component of utility operating expenses in the FERC presentation, in contrast to its GAAP presentation as a below-the-line deduction from operating income.
- For certain capital projects where there is recovery of a return on construction work in progress (CWIP), certain amounts of allowance for funds used during construction (AFUDC) are not recognized in CWIP for GAAP. While for FERC presentation, they are recorded in CWIP but the benefit is deferred as a liability and amortized over the life of the property as a reduction of costs.
- Non-service cost components of net periodic benefit costs that are reported on the income statement are recorded as operation expenses in the FERC presentation and as other income, net for GAAP presentation. Non-service costs that are eligible for capitalization are recorded as a component of net utility plant in the FERC presentation and as regulatory assets for GAAP.

If GAAP were followed these financial statement line items would have values greater/(lesser) than those shown by FERC presentation of:

(Millions of Dollars)		
Balance Sheet:		
Net utility plant	$	(273)
Current assets		196
Current liabilities		60
Other long-term assets		(223)
Long-term debt and other long-term liabilities		(360)
Statement of Income:		
Operating revenue	$	185
Operating expenses		254
Other income and deductions		—
Interest charges		(10)

Statement of Cash Flows:		
Cash provided by operating activities	$	—
Cash used in investing activities		(1)
Cash provided by financing activities		—

Use of Estimates — SPS uses estimates based on the best information available in recording transactions and balances resulting from business operations. Estimates are used for items such as plant depreciable lives or potential disallowances, AROs, certain regulatory assets and liabilities, tax provisions, uncollectible amounts, environmental costs, unbilled revenues, jurisdictional fuel and energy cost allocations and actuarially determined benefit costs. Recorded estimates are revised when better information becomes available or actual amounts can be determined. Revisions can affect operating results.

Regulatory Accounting — SPS accounts for income and expense items in accordance with accounting guidance for regulated operations. Under this guidance:

- Certain costs, which would otherwise be charged to expense or other comprehensive income, are deferred as regulatory assets based on the expected ability to recover the costs in future rates.
- Certain credits, which would otherwise be reflected as income or other comprehensive income, are deferred as regulatory liabilities based on the expectation the amounts will be returned to customers in future rates or because the amounts were collected in rates prior to the costs being incurred.

Estimates of recovering deferred costs and returning deferred credits are based on specific ratemaking decisions or precedent for each item. Regulatory assets and liabilities are amortized consistent with the treatment in the rate setting process.

If changes in the regulatory environment occur, SPS may no longer be eligible to apply this accounting treatment and may be required to eliminate regulatory assets and liabilities from its balance sheet. Such changes could have a material effect on SPS' results of operations, financial condition and cash flows.

See Note 2 for further information.

Income Taxes — SPS accounts for income taxes using the asset and liability method, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. SPS defers income taxes for all temporary differences between pretax financial and taxable income and between the book and tax bases of assets and liabilities. SPS uses rates that are scheduled to be in effect when the temporary differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period that includes the enactment date.

The effects of SPS' tax rate changes are generally subject to a normalization method of accounting. Therefore, the revaluation of most of its net deferred taxes upon a tax rate reduction results in the establishment of a net regulatory liability, which would be refundable to utility customers over the remaining life of the related assets. SPS anticipates that a tax rate increase would result in the establishment of a regulatory asset, subject to an evaluation of whether future recovery is expected.

Tax credits are recorded when earned unless there is a requirement to defer the benefit and amortize it over the book depreciable lives of the related property. The requirement to defer and amortize tax credits only applies to federal investment tax credits related to public utility

property. Utility rate regulation also has resulted in the recognition of regulatory assets and liabilities related to income taxes. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

SPS follows the applicable accounting guidance to measure and disclose uncertain tax positions that it has taken or expects to take in its income tax returns. SPS recognizes a tax position in its financial statements when it is more likely than not that the position will be sustained upon examination based on the technical merits of the position. Recognition of changes in uncertain tax positions are reflected as a component of income tax expense.

SPS reports interest and penalties related to income taxes within other (expense) income or interest charges in the statements of income.

Xcel Energy Inc. and its subsidiaries, including SPS, file consolidated federal income tax returns as well as consolidated or separate state income tax returns. Federal income taxes paid by Xcel Energy Inc. are allocated to its subsidiaries based on separate company computations. A similar allocation is made for state income taxes paid by Xcel Energy Inc. in connection with consolidated state filings. Xcel Energy Inc. also allocates its own income tax benefits to its direct subsidiaries.

See Note 4 for further information.

Utility Plant and Depreciation in Regulated Operations — Utility plant is stated at original cost. The cost of plant includes direct labor and materials, contracted work, overhead costs and allowance for funds used during construction (AFUDC). The cost of plant retired is charged to accumulated depreciation and amortization. Amounts recovered in rates for future removal costs are recorded as regulatory liabilities. Significant additions or improvements extending asset lives are capitalized, while repairs and maintenance costs are charged to expense as incurred. Maintenance and replacement of items determined to be less than a unit of property are charged to operating expenses as incurred. Planned maintenance activities are charged to operating expense unless the cost represents the acquisition of an additional unit of property or the replacement of an existing unit of property.

Utility plant is tested for impairment when it is determined that the carrying value of the assets may not be recoverable. A loss is recognized in the current period if it becomes probable that part of a cost of a plant under construction or recently completed plant will be disallowed for recovery from customers and a reasonable estimate of the disallowance can be made. For investments in utility plant that are abandoned and not expected to go into service, incurred costs and related deferred tax amounts are compared to the discounted estimated future rate recovery, and a loss is recognized, if necessary.

SPS records depreciation expense using the straight-line method over the plant's commission-approved useful life. Actuarial life studies are performed and submitted to the state and federal commissions for review. Upon acceptance by the various commissions, the resulting lives and net salvage rates are used to calculate depreciation. Plant removal costs are recovered in rates as authorized by the appropriate regulatory entities. The amount of removal costs is based on current factors used in existing depreciation rates. Depreciation expense, expressed as a percentage of average depreciable property, was 3.3% in 2021 and 3.1% in 2020.

AROs — SPS accounts for AROs under accounting guidance that requires a liability for the fair value of an ARO to be recognized in the period in which it is incurred if it can be reasonably estimated, with the offsetting associated asset retirement costs capitalized as a long-lived asset. The liability is generally increased over time by applying the effective interest method of accretion, and the capitalized costs are depreciated over the useful life of the long-lived asset. Changes resulting from revisions to the timing or amount of expected asset retirement cash flows are recognized as an increase or a decrease in the ARO.

See Note 7 for further information.

Benefit Plans and Other Postretirement Benefits — SPS maintains pension and postretirement benefit plans for eligible employees. Recognizing the cost of providing benefits and measuring the projected benefit obligation of these plans requires management to make various assumptions and estimates.

Certain unrecognized actuarial gains and losses and unrecognized prior service costs or credits are deferred as regulatory assets and liabilities, rather than recorded as other comprehensive income, based on regulatory recovery mechanisms.

See Note 6 for further information.

Environmental Costs — Environmental costs are recorded when it is probable SPS is liable for remediation costs and the liability can be reasonably estimated. Costs are deferred as a regulatory asset if it is probable that the costs will be recovered from customers in future rates. Otherwise, the costs are expensed. For certain environmental costs related to facilities currently in use, such as for emission-control equipment, the cost is capitalized and depreciated over the life of the plant.

Estimated remediation costs are regularly adjusted as estimates are revised and remediation proceeds. If other participating potentially responsible parties exist and acknowledge their potential involvement with a site, costs are estimated and recorded only for SPS' expected share of the cost.

Future costs of restoring sites are treated as a capitalized cost of plant retirement. The depreciation expense levels recoverable in rates include a provision for removal expenses. Removal costs recovered in rates before the related costs are incurred are classified as a regulatory liability.

See Note 7 for further information.

Revenue from Contracts with Customers — Performance obligations related to the sale of energy are satisfied as energy is delivered to customers. SPS recognizes revenue that corresponds to the price of the energy delivered to the customer. The measurement of energy sales to customers is generally based on the reading of their meters, which occurs systematically throughout the month. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is recognized.

SPS does not recognize a separate financing component of its collections from customers as contract terms are short-term in nature. SPS presents its revenues net of any excise or sales taxes or fees.

SPS participates in Southwest Power Pool, Inc. (SPP). SPS recognizes physical sales to customers (native load and wholesale) on a gross basis in electric revenues and cost of sales. Revenues and charges for short-term physical wholesale sales of excess energy transacted through regional transmission organizations (RTOs) are also recorded on a gross basis. Other revenues and charges settled/facilitated through an RTO are recorded on a net basis in cost of sales.

Cash and Cash Equivalents — SPS considers investments in instruments with a remaining maturity of three months or less at the time of purchase to be cash equivalents.

Accounts Receivable and Allowance for Bad Debts — Accounts receivable are stated at the actual billed amount net of an allowance for bad debts. SPS establishes an allowance for uncollectible receivables based on a policy that reflects its expected exposure to the credit risk of customers.

As of Dec. 31, 2021 and 2020, the allowance for bad debts was $12 million and $8 million, respectively.

Inventory — Inventory is recorded at average cost.

Fair Value Measurements — SPS presents cash equivalents, interest rate derivatives and commodity derivatives at estimated fair values in its financial statements. Cash equivalents are recorded at cost plus accrued interest; money market funds are measured using quoted NAVs. For interest rate derivatives, quoted prices based primarily on observable market interest rate curves are used to establish fair value. For commodity derivatives, the most observable inputs available are generally used to determine the fair value of each contract. In the absence of a quoted price, SPS may use quoted prices for similar contracts or internally prepared derivatives, the most observable inputs available are generally used to determine the fair value of each contract. In the absence of a quoted price, SPS may use quoted prices for similar contracts or internally prepared valuation models to determine fair value. For the pension and postretirement plan assets published trading data and pricing models, generally using the most observable inputs available, are utilized to estimate fair value for each security.

See Notes 5 and 6 for further information.

Derivative Instruments — SPS uses derivative instruments in connection with its utility commodity price and interest rate activities, including forward contracts, futures, swaps and options. Any derivative instruments not qualifying for the normal purchases and normal sales exception are recorded on the balance sheets at fair value as derivative instruments. Classification of changes in fair value for those derivative instruments is dependent on the designation of a qualifying hedging relationship. Changes in fair value of derivative instruments not designated in a qualifying hedging relationship are reflected in current earnings or as a regulatory asset or liability. Classification as a regulatory asset or liability is based on expected recovery of derivative instrument settlements through fuel and purchased energy cost recovery mechanisms. Interest rate hedging transactions are recorded as a component of interest expense.

Normal Purchases and Normal Sales — SPS enters into contracts for purchases and sales of commodities for use in its operations. At inception, contracts are evaluated to determine whether a derivative exists and/or whether an instrument may be exempted from derivative accounting if designated as a normal purchase or normal sale.

Commodity Trading Operations — Pursuant to the joint operating agreement (JOA) approved by the FERC, some of the commodity trading margins from Public Service Company of Colorado (PSCo) are apportioned to NSP-Minnesota and SPS. Commodity trading activities are not associated with energy produced from PSCo's generation assets or energy and capacity purchased to serve native load. Commodity trading contracts are recorded at fair market value and commodity trading results include the impact of all margin-sharing mechanisms.

Other Utility Items

AFUDC — AFUDC represents the cost of capital used to finance utility construction activity. AFUDC is computed by applying a composite financing rate to qualified CWIP. The amount of AFUDC capitalized as a utility construction cost is credited to other nonoperating income

(for equity capital) and interest charges (for debt capital). AFUDC amounts capitalized are included in SPS' rate base for establishing utility rates.

Alternative Revenue — Certain rate rider mechanisms (including demand side management (DSM) programs) qualify as alternative revenue programs. These mechanisms arise from costs imposed upon the utility by action of a regulator or legislative body related to an environmental, public safety or other mandate or from other instances where the regulator authorizes a future surcharge in response to past activities or completed events. When certain criteria are met, including expected collection within 24 months, revenue is recognized equal to the revenue requirement, which may include incentives and return on rate base items. Billing amounts are revised periodically for differences between total amount collected and revenue earned, which may increase or decrease the level of revenue collected from customers. Alternative revenues arising from these programs are presented on a gross basis and disclosed separately from revenue from contracts with customers.

Conservation Programs — SPS has implemented programs in its jurisdictions to assist customers in conserving energy and reducing peak demand on the electric system. These programs include commercial motor, air conditioner and lighting upgrades, as well as residential rebates for participation in air conditioner interruption and home weatherization.

The costs incurred for some DSM programs are deferred as permitted by the applicable regulatory jurisdiction. For those programs, costs are deferred if it is probable future revenue will be provided to permit recovery of the incurred cost. Revenues recognized for incentive programs designed for recovery of lost margins and/or conservation performance incentives are limited to amounts expected to be collected within 24 months from the annual period in which they are earned. SPS recovers approved conservation program costs in base rate revenue or through a rider.

Emission Allowances — Emission allowances are recorded at cost, including broker commission fees. The inventory accounting model is utilized for all emission allowances and sales of these allowances are included in electric revenues.

Renewable Energy Credits (RECs) — Cost of RECs that are utilized for compliance is recorded as electric fuel and purchased power expense. SPS reduces recoverable fuel and purchased power costs for the cost of RECs received. An inventory accounting model is used to account for RECs recognized on the balance sheet, however these assets are classified as regulatory assets if amounts are recoverable in future rates.

Sales of RECs are recorded in electric revenues on a gross basis. Cost of these RECs and amounts credited to customers under margin-sharing mechanisms are recorded in electric fuel and purchased power expense.

Segment Information — SPS has only one reportable segment. SPS is a wholly owned subsidiary of Xcel Energy Inc. and operates in the regulated electric utility industry providing wholesale and retail electric service in the states of Texas and New Mexico.

Subsequent Events — Management has evaluated the impact of events occurring after Dec. 31, 2021 up to Feb. 23, 2022, the date of SPS' GAAP financial statements were issued, and has updated such evaluation for disclosure purposed through the date of this filing. These financial statements contain all necesary adjustments and disclosures resulting from that evaluation.

2. Regulatory Assets and Liabilities

Regulatory assets and liabilities are created for amounts that regulators may allow to be collected or may require to be paid back to customers in future electric rates. SPS would be required to recognize the write-off of regulatory assets and liabilities in net income or other comprehensive income if changes in the utility industry no longer allow for the application of regulatory accounting guidance under GAAP.

Components of regulatory assets:

(Millions of Dollars)	Remaining Amortization Period	Dec. 31, 2021	Dec. 31, 2020
Pension and retiree medical obligations	Various	$ 142	$ 185
Excess deferred taxes — TCJA	Various	51	53
Recoverable deferred taxes on AFUDC	Plant lives	41	42
Net AROs [(a)]	Various	40	33
Conservation programs [(b)]	One to two years	3	1
Deferred natural gas and electric energy/fuel costs	One to three years	150	—
Other	Various	49	89
Total regulatory assets		$ 476	$ 403

(a) Includes amounts recorded for future recovery of AROs.
(b) Includes costs for conservation programs, as well as incentives allowed in certain jurisdictions.

Components of regulatory liabilities:

(Millions of Dollars)	Remaining Amortization Period	Dec. 31, 2021	Dec. 31, 2020
Deferred income tax adjustments and TCJA refunds [(a)]	Various	$ 492	$ 518
Gain from asset sales	Various	2	2
Deferred natural gas and electric energy/fuel costs	Various	—	35
Conservation programs	Less than one year	5	4
Other	Various	74	39
Total regulatory liabilities		$ 573	$ 598

(a) Includes the revaluation of recoverable/regulated plant accumulated deferred income taxes and revaluation impact of non-plant accumulated deferred income taxes due to the TCJA.

At Dec. 31, 2021 and 2020, SPS' regulatory assets not earning a return primarily included the unfunded portion of pension and retiree medical obligations and net AROs. In addition, SPS' regulatory assets included $292 million and $114 million at Dec. 31, 2021 and 2020, respectively, of past expenditures not earning a return. Amounts are related to the Texas deferred fuel balance, losses on reacquired debt and certain rate case expenditures.

3. Borrowings and Other Financing Instruments

Short-Term Borrowings

SPS meets its short-term liquidity requirements primarily through the issuance of commercial paper and borrowings under its credit facility and the money pool.

Money Pool — Xcel Energy Inc. and its utility subsidiaries have established a money pool arrangement that allows for short-term investments in and borrowings between the utility subsidiaries. Xcel Energy Inc. may make investments in the utility subsidiaries at market-based interest rates; however, the money pool arrangement does not allow the utility subsidiaries to make investments in Xcel Energy Inc.

Money pool borrowings for SPS:

	Year Ended Dec. 31	
(Amounts in Millions, Except Interest Rates)	2021	2020
Borrowing limit	$ 100	$ 100
Amount outstanding at period end	91	—
Average amount outstanding	51	43
Maximum amount outstanding	100	100
Weighted average interest rate, computed on a daily basis	0.05 %	0.54 %

Weighted average interest rate at period end	0.05	N/A

Commercial Paper — Commercial paper outstanding for SPS:

	Year Ended Dec. 31	
(Amounts in Millions, Except Interest Rates)	**2021**	**2020**
Borrowing limit	$ 500	$ 500
Amount outstanding at period end	137	250
Average amount outstanding	63	44
Maximum amount outstanding	342	250
Weighted average interest rate, computed on a daily basis	0.21 %	1.11 %
Weighted average interest rate at period end	0.26	0.29

Letters of Credit — SPS uses letters of credit, generally with terms of one year, to provide financial guarantees for certain obligations. At both Dec. 31, 2021 and 2020, there were $2 million of letters of credit outstanding under the credit facility. Amounts approximate their fair value and are subject to fees.

Credit Facility — In order to issue its commercial paper, SPS must have a revolving credit facility in place at least equal to the amount of its commercial paper borrowing limit and cannot issue commercial paper exceeding available capacity under this credit facility. The line of credit provides short-term financing in the form of notes payable to banks, letters of credit and back-up support for commercial paper borrowings.

Features of SPS' credit facility:

Debt to Capitalization Ratio [(a)]		Amount Facility May Be Increased (millions of dollars)	Additional Periods for Which a One-Year Extension May Be Requested [(b)]
2021	**2020**		
47%	48%	$50	2

(a) The credit facility has a financial covenant requiring that the debt-to-total capitalization ratio be less than or equal 65%.
(b) All extension requests are subject to majority bank group approval.

The credit facility has a cross-default provision that SPS would be in default on its borrowings under the facility if SPS or any of its future significant subsidiaries whose total assets exceed 15% of SPS' total assets default on indebtedness in an aggregate principal amount exceeding $75 million.

If SPS does not comply with the covenant, an event of default may be declared, and if not remedied, any outstanding amounts due under the facility can be declared due by the lender. As of Dec. 31, 2021, SPS was in compliance with all financial covenants.

SPS had the following committed credit facility available as of Dec. 31, 2021 (in millions) of dollars:

Credit Facility [(a)]	Drawn [(b)]	Available
$ 500	$ 139	$ 361

(a) This credit facility matures in June 2024.
(b) Includes letters of credit and outstanding commercial paper.

All credit facility bank borrowings, outstanding letters of credit and outstanding commercial paper reduce the available capacity under the credit facility. SPS had no direct advances on the facility outstanding at Dec. 31, 2021 and 2020.

Long-Term Borrowings and Other Financing Instruments

Generally, all property of SPS is subject to the lien of its first mortgage indenture. Debt premiums, discounts and expenses are amortized over the life of the related debt. The premiums, discounts and expenses for refinanced debt are deferred and amortized over the life of the new issuance.

Long-term debt obligations for SPS as of Dec. 31 (in millions of dollars):

Financing Instrument	Interest Rate	Maturity Date	2021	2020
First mortgage bonds	3.30%	June 15, 2024	$ 150	$ 150
First mortgage bonds	3.30	June 15, 2024	200	200
Unsecured senior notes	6.00	Oct. 1, 2033	100	100
Unsecured senior notes	6.00	Oct. 1, 2036	250	250
First mortgage bonds	4.50	Aug. 15, 2041	200	200
First mortgage bonds	4.50	Aug. 15, 2041	100	100
First mortgage bonds	4.50	Aug. 15, 2041	100	100
First mortgage bonds	3.40	Aug. 15, 2046	300	300
First mortgage bonds	3.70	Aug. 15, 2047	450	450
First mortgage bonds	4.40	Nov. 15, 2048	300	300
First mortgage bonds	3.75	June 15, 2049	300	300
First mortgage bonds [(b)]	3.15	May 1, 2050	350	350
First mortgage bonds [(a)]	3.15	May 1, 2050	250	0
Unamortized discount			(9)	(10)
Unamortized debt issuance cost			(28)	(26)
Total long-term debt			$ 3,013	$ 2,764

(a) 2020 financing re-opened in 2021.
(b) 2020 financing.

Maturities of long-term debt:

(Millions of Dollars)	
2022	$ —
2023	—
2024	350
2025	—
2026	—

Capital Stock — SPS has the following preferred stock:

Preferred Stock Authorized (Shares)	Par Value of Preferred Stock	Preferred Stock Outstanding (Shares) 2021 and 2020
10,000,000	1	—

Dividend Restrictions — SPS dividends are subject to the FERC's jurisdiction, which prohibits the payment of dividends out of capital accounts. Dividends are solely to be paid from retained earnings. SPS is required to be current on particular interest payments before dividends can be paid.

SPS' state regulatory commissions additionally impose dividend limitations, which are more restrictive than those imposed by the FERC.

Requirements and actuals as of Dec. 31, 2021:

Equity to Total Capitalization Ratio Required Range		Equity to Total Capitalization Ratio Actual [(a)]
Low	**High**	**2021**
45.0%	55.0%	54.5%

(a) Excludes short-term debt.

Unrestricted Retained Earnings	Total Capitalization	Limit on Total Capitalization [(a)]

$513 million	$6,615 million	N/A

(a) SPS may not pay a dividend that would cause it to lose its investment grade bond rating.

4. Income Taxes

Federal Tax Loss Carryback Claims — In 2020, Xcel Energy identified certain expenses related to tax years 2009 - 2011 that qualify for an extended carryback claim. SPS is not expected to accrue any income tax expense related to this adjustment.

Federal Audits — SPS is a member of the Xcel Energy affiliated group that files a consolidated federal income tax return. Statute of limitations applicable to Xcel Energy's consolidated federal income tax returns expire as follows:

Tax Years	Expiration
2014 — 2016	December 2022
2018	September 2022

Additionally, the statute of limitations related to certain federal tax credit carryforwards will remain open until those credits are utilized in subsequent returns. Further, the statute of limitations related to a federal tax loss carryback claim filed in 2020 has been extended. Xcel Energy has recognized its best estimate of income tax expense that will result from a final resolution of this issue; however, the outcome and timing of a resolution is unknown.

State Audits — SPS is a member of the Xcel Energy affiliated group that files consolidated state income tax returns. As of Dec. 31, 2021, SPS' earliest open tax year that is subject to examination by state taxing authorities under applicable statutes of limitations is 2016. In April 2021, Texas began an audit of tax years 2016 - 2019. As of Dec. 31, 2021, no material adjustments have been proposed.

Uncertainty in Income Taxes – The FERC has not fully adopted the guidance for uncertainty in income taxes. Accordingly, NS-Wisconsin has recorded its unrecognized tax benefits for temporary adjustments, including NOL and tax credit carryforwards, in accounts established for accumulated deferred income taxes.

Unrecognized Benefits — The unrecognized tax benefit balance includes permanent tax positions, which if recognized would affect the effective tax rate (ETR). In addition, the unrecognized tax benefit balance includes temporary tax positions for which deductibility is highly certain, but for which there is uncertainty about the timing. A change in the timing of deductibility would not affect the ETR but would accelerate the payment to the taxing authority.

Unrecognized tax benefits — permanent vs temporary:

(Millions of Dollars)	Dec. 31, 2021	Dec. 31, 2020
Unrecognized tax benefit — Permanent tax positions	$ 4	$ 3
Unrecognized tax benefit — Temporary tax positions	4	4
Total unrecognized tax benefit	$ 8	$ 7

Changes in unrecognized tax benefits:

(Millions of Dollars)	2021	2020
Balance at Jan. 1	$ 7	$ 5
Additions based on tax positions related to the current year	1	1
Additions for tax positions of prior years	—	5
Reductions for tax positions of prior years	—	(4)
Balance at Dec. 31	$ 8	$ 7

Unrecognized tax benefits were reduced by tax benefits associated with net operating loss (NOL) and tax credit carryforwards:

(Millions of Dollars)	Dec. 31, 2021	Dec. 31, 2020
NOL and tax credit carryforwards	$ (7)	$ (6)

As the Internal Revenue Service (IRS) progresses its review of the tax loss carryback claim and as state audits progress, it is reasonably possible that the amount of unrecognized tax benefit could decrease up to approximately $5 million in the next 12 months.

Payable for interest related to unrecognized tax benefits is partially offset by the interest benefit associated with NOL and tax credit carryforwards.

Interest payable related to unrecognized tax benefits:

(Millions of Dollars)	2021	2020
(Payable) receivable for interest related to unrecognized tax benefits at Jan. 1	$ (1)	$ 1
Interest expense related to unrecognized tax benefits	—	(2)
Payable for interest related to unrecognized tax benefits at Dec. 31	$ (1)	$ (1)

No amounts were accrued for penalties related to unrecognized tax benefits as of Dec. 31, 2021 or 2020.

Other Income Tax Matters — NOL amounts represent the tax loss that is carried forward and tax credits represent the deferred tax asset. NOL and tax credit carryforwards as of Dec. 31 were as follows:

(Millions of Dollars)	2021	2020
Federal NOL carryforward	$ 336	$ —
Federal tax credit carryforwards	190	85
State NOL carryforwards	111	1

Federal carryforward periods expire between 2031 and 2041 and state carryforward periods expire starting 2034.

Total income tax expense from operations differs from the amount computed by applying the statutory federal income tax rate to income before income tax expense.

Effective income tax rate for years ended Dec. 31:

	2021	2020 (a)
Federal statutory rate	21.0%	21.0%
State income tax on pretax income, net of federal tax effect	2.5	2.3
Increases (decreases) in tax from:		
Wind PTCs	(39.7)	(18.3)
Plant regulatory differences (b)	(4.7)	(6.4)
Amortization of excess nonplant deferred taxes	(1.1)	(0.8)
Other, net	(1.0)	(1.3)
Effective income tax rate	(23.0)%	(3.5)%

(a) Prior periods have been reclassified to conform to current year presentation.
(b) Regulatory differences for income tax primarily relate to the credit of excess deferred taxes to customers through the average rate assumption method. Income tax benefits associated with the credit of excess deferred credits are offset by corresponding revenue reductions.

Components of income tax expense for years ended Dec. 31:

(Millions of Dollars)	2021	2020
Current federal tax benefit	$ (11)	$ (31)
Current state tax benefit	(1)	(1)
Current change in unrecognized tax expense (benefit)	1	(1)
Deferred federal tax (benefit) expense	(57)	15
Deferred state tax expense	9	8

Total income tax benefit	$ (59)	$ (10)

Components of deferred income tax expense as of Dec. 31:

(Millions of Dollars)	2021	2020
Deferred tax (benefit) expense excluding items below	$ (24)	$ 55
Amortization and adjustments to deferred income taxes on income tax regulatory assets and liabilities	(24)	(31)
Tax benefit allocated to other comprehensive income, net of adoption of Financial Accounting Standards Board (FASB) Accounting Standard Codification (ASC) Topic 326, and other	—	(1)
Deferred tax (benefit) expense	$ (48)	$ 23

Components of the net deferred tax liability as of Dec. 31:

(Millions of Dollars)	2021	2020 [(a)]
Deferred tax liabilities:		
Differences between book and tax bases of property	$ 1,047	$ 944
Operating lease assets	103	109
Regulatory assets	(58)	(68)
Deferred fuel costs	34	—
Pension expense	34	33
Other	2	2
Total deferred tax liabilities	$ 1,162	$ 1,020
Deferred tax assets:		
Operating lease liabilities	$ 103	$ 109
Regulatory liabilities	(25)	(24)
Differences between book and tax bases of property	91	92
Tax credit carryforward	190	85
NOL carryforward	76	—
Other employee benefits	7	7
Deferred fuel costs	—	9
Other	21	19
Total deferred tax assets	463	297
Net deferred tax liability	$ 699	$ 723

(a) Prior periods have been reclassified to conform to current year presentation.

In December 2017, SPS remeasured our deferred tax assets and liabilities to the new federal corporate income tax rate of 21%. After filing the 2017 tax return, we completed a final remeasurement of our 2017 deferred tax assets and liabilities to the new corporate tax rate. SPS received guidance from all jurisdictions in 2018-2020 and started the amortization of the deficient and excess accumulated deferred income tax (ADIT) for those jurisdictions. The Protected ADITs, which are required by IRS normalization rules to be provided to customers, are amortized according to the rules of the Average Rate Assumption Method (ARAM) with amortization occurring over the remaining book life of the individual assets. The Unprotected ADITs, are amortized according to each jurisdiction. The Nonplant Unprotected have amortization periods of 5 years. While, Plant Unprotected will use ARAM.

The amount of deficient and excess accumulated deferred income tax assets and liabilities that are considered protected and unprotected as of December 31, 2021 and 2020 is reflected below.

(Millions of Dollars)	Dec. 31, 2021		Dec. 31, 2020	
Account	182.3	254	182.3	254
Projected				
Plant	$ —	$ 426	$ —	$ 443
Nonplant	51	—	51	—
Unprotected				
Plant	—	57	—	61
Nonplant	1	9	2	14
Total				
Plant	$ —	$ 483	$ —	$ 504
Nonplant	$ 52	$ 9	$ 53	$ 14

Excess and deficient accumulated deferred income taxes in 2021 were amortized in the Statement of Income as follows:

(Millions of Dollars)	Dec. 31, 2021
Protected	
Plant	$ (10)
Nonplant	1
Unprotected	
Plant	(3)
Nonplant	(4)
Total	
Plant	$ (13)
Nonplant	$ (3)

5. Fair Value of Financial Assets and Liabilities

Fair Value Measurements

Accounting guidance for fair value measurements and disclosures provides a single definition of fair value and requires disclosures about assets and liabilities measured at fair value. A hierarchical framework for disclosing the observability of the inputs utilized in measuring assets and liabilities at fair value is established by this guidance.

- Level 1 — Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. The types of assets and liabilities included in Level 1 are highly liquid and actively traded instruments with quoted prices.
- Level 2 — Pricing inputs are other than quoted prices in active markets, but are either directly or indirectly observable as of the reporting date. The types of assets and liabilities included in Level 2 are typically either comparable to actively traded securities or contracts, or priced with models using highly observable inputs.
- Level 3 — Significant inputs to pricing have little or no observability as of the reporting date. The types of assets and liabilities included in Level 3 are those valued with models requiring significant management judgment or estimation.

Specific valuation methods include:

Cash equivalents — The fair values of cash equivalents are generally based on cost plus accrued interest; money market funds are measured using quoted net asset value.

Interest rate derivatives — The fair values of interest rate derivatives are based on broker quotes that utilize current market interest rate forecasts.

Commodity derivatives — The methods used to measure the fair value of commodity derivative forwards and options utilize forward prices and volatilities, as well as pricing adjustments for specific delivery locations and are generally assigned a Level 2 classification. When contractual settlements relate to inactive delivery locations or extend to periods beyond those readily observable on active exchanges or quoted by brokers, the significance of the use of less observable inputs on a valuation is evaluated, and may result in Level 3 classification.

Electric commodity derivatives held by SPS include transmission congestion instruments, generally referred to as financial transmission rights (FTRs), purchased from Southwest Power Pool, Inc (SPP). FTRs purchased from a regional transmission organization (RTO) are financial instruments that entitle or obligate the holder to monthly revenues or charges based on transmission congestion across a given transmission path. The value of an FTR is derived from and designed to offset, the cost of transmission congestion. In addition to overall transmission load, congestion is also influenced by the operating schedules of power plants and the consumption of electricity pertinent to a given transmission path. Unplanned plant outages, scheduled plant maintenance, changes in the relative costs of fuels used in generation, weather and overall changes in demand for electricity can each impact the operating schedules of the power plants on the transmission grid and the value of an FTR.

If forecasted costs of electric transmission congestion increase or decrease for a given FTR path, the value of that particular FTR instrument will likewise increase or decrease. Given the limited observability of certain inputs to the value of FTRs between auction processes, including expected plant operating schedules and retail and wholesale demand, fair value measurements for FTRs have been assigned a Level 3. Non-trading monthly FTR settlements are expected to be recovered through fuel and purchased energy cost recovery mechanisms, and therefore changes in the fair value of the yet to be settled portions of most FTRs are deferred as a regulatory asset or liability. Given this regulatory treatment and the limited magnitude of FTRs relative to the electric utility operations of SPS, the numerous unobservable quantitative inputs pertinent to the value of FTRs are immaterial to the financial statements of SPS.

Derivative Instruments Fair Value Measurements

SPS enters into derivative instruments, including forward contracts, for trading purposes and to manage risk in connection with changes in interest rates and electric utility commodity prices.

Interest Rate Derivatives — SPS may enter into various instruments that effectively fix the interest payments on certain floating rate debt obligations or effectively fix the yield or price on a specified benchmark interest rate for an anticipated debt issuance for a specific period. These derivative instruments are generally designated as cash flow hedges for accounting purposes. As of Sept. 30, 2021, accumulated other comprehensive loss related to interest rate derivatives included immaterial net losses expected to be reclassified into earnings during the next 12 months as the related hedged interest rate transactions impact earnings, including forecasted amounts for unsettled hedges, as applicable.

Wholesale and Commodity Trading Risk — SPS conducts various wholesale and commodity trading activities, including the purchase and sale of electric capacity, energy and energy-related instruments, including derivatives. SPS is allowed to conduct these activities within guidelines and limitations as approved by its risk management committee, comprised of management personnel not directly involved in the activities governed by this policy. Sharing of any margins is determined through state regulatory proceedings as well as the operation of the FERC approved joint operating agreement.

Commodity Derivatives — SPS enters into derivative instruments to manage variability of future cash flows from changes in commodity prices in its electric utility operations. This could include the purchase or sale of energy or energy-related products and FTRs.

(Amounts in Millions) [(a)]	Dec. 31, 2021	Dec. 31, 2020
Megawatt hours (MWh) of electricity	8	5

(a) Amounts are not reflective of net positions in the underlying commodities.

Consideration of Credit Risk and Concentrations — SPS continuously monitors the creditworthiness of counterparties to its interest rate derivatives and commodity derivative contracts, prior to settlement, and assesses each counterparty's ability to perform on the transactions set forth in the contracts. Impact of credit risk was immaterial to the fair value of unsettled commodity derivatives presented on the balance sheets.

SPS' most significant concentrations of credit risk with particular entities or industries are contracts with counterparties to its wholesale, trading and non-trading commodity activities.

SPS' most significant concentrations of credit risk with particular entities or industries are contracts with counterparties to its wholesale, trading and non-trading commodity activities. At Dec. 31, 2021, two of the eight most significant counterparties for these activities, comprising $8 million or 24% of this credit exposure, had investment grade ratings from S&P, Moody's or Fitch Ratings. Five of the eight most significant counterparties, comprising $26 million or 76% of this credit exposure, were not rated by external rating agencies, but based on SPS' internal analysis, had credit quality consistent with investment grade. One of these significant counterparties, comprising an immaterial amount or less than 1% of this credit exposure, had credit quality less than investment grade, based on internal analysis. Eight of these significant counterparties are municipal or cooperative electric entities, RTOs or other utilities.

Impact of Derivative Activities on Income and Accumulated Other Comprehensive Loss — Changes in the fair value of FTRs resulting in a pre-tax net gain of $28 million in Dec. 31, 2021 and $7 million in pre-tax net losses in the year ended Dec. 31, 2020, were reclassified as regulatory assets and liabilities. The classification as a regulatory asset or liability is based on expected recovery of FTR settlements through fuel and purchased energy cost recovery mechanisms.

FTR settlement gains were $20 million for the year ended Dec. 31, 2021. For the year ended Dec. 31, 2020, FTR settlement losses were immaterial. Settlement gains and losses were recognized and recorded to electric fuel and purchased power. These derivative settlement gains and losses are shared with electric customers through fuel and purchased energy cost-recovery mechanisms, and reclassified out of income as regulatory assets or liabilities, as appropriate.

SPS had no derivative instruments designated as fair value hedges during the years ended Dec. 31, 2021 or 2020

Recurring Fair Value Measurements — SPS' derivative assets and liabilities measured at fair value on a recurring basis:

	Dec. 31, 2021						Dec. 31, 2020					
	Fair Value						Fair Value					
(Millions of Dollars)	Level 1	Level 2	Level 3	Fair Value Total	Netting [(a)]	Total	Level 1	Level 2	Level 3	Fair Value Total	Netting [(a)]	Total
Current derivative assets												
Other derivative instruments:												
Electric commodity	$ —	$ —	$ 27	$ 27	$ —	$ 27	$ —	$ —	$ 7	$ 7	$ —	$ 7
Total current derivative assets	$ —	$ —	$ 27	$ 27	$ —	27	$ —	$ —	$ 7	$ 7	$ —	7
Purchase Power Agreements (PPAs) [(b)]						3						3
Current derivative instruments						$ 30						$ 10
Noncurrent derivative assets												
PPAs						$ 6						$ 9
Noncurrent derivative instruments						$ 6						$ 9

	Sept. 30, 2021						Dec. 31, 2020					
	Fair Value						Fair Value					
(Millions of Dollars)	Level 1	Level 2	Level 3	Fair Value Total	Netting [(a)]	Total	Level 1	Level 2	Level 3	Fair Value Total	Netting [(a)]	Total
Current derivative liabilities												
Other derivative instruments:												
PPAs [(b)]						$ 4						$ 4
Current derivative instruments						$ 4						$ 4
Noncurrent derivative liabilities												
PPAs [(b)]						$ 6						$ 9
Noncurrent derivative instruments						$ 6						$ 9

(a) SPS nets derivative instruments and related collateral on its balance sheets when supported by a legally enforceable master netting agreement, and all derivative instruments and related collateral amounts were subject to master netting agreements at Dec. 31, 2021 and 2020. At Dec. 31, 2021 and 2020, derivative assets and liabilities include no obligations to return cash collateral or rights to reclaim cash collateral. The counterparty netting excludes settlement receivables and payables and non-derivative amounts that may be subject to the same master netting agreements.

(b) During 2006, SPS qualified these contracts under the normal purchase exception. Based on this qualification, the contracts are no longer adjusted to fair value and the previous carrying value of these contracts will be amortized over the remaining contract lives along with the offsetting regulatory assets and liabilities.

Changes in Level 3 commodity derivatives for the years ended Dec. 31, 2021 and 2020:

	Year Ended Dec. 31	
(Millions of Dollars)	2021	2020
Balance at Jan. 1	$ 7	$ 12
Purchases	10	23
Settlements	(79)	(23)
Net transactions recorded during the period:		
Net gains (losses) recognized as regulatory assets and liabilities	89	(5)
Balance at Dec. 31	$ 27	$ 7

SPS recognizes transfers between levels as of the beginning of each period. There were no transfers of amounts between levels for derivative instruments for Dec. 31, 2021 or 2020

SPS recognizes transfers between levels as of the beginning of each period. There were no transfers of amounts between levels for derivative instruments for Dec. 31, 2021 or 2020.

Fair Value of Long-Term Debt

Other financial instruments for which the carrying amount did not equal fair value:

	Dec. 31, 2021		Dec. 31, 2020	
(Millions of Dollars)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Long-term debt, including current portion	$ 3,040	$ 3,454	$ 2,790	$ 3,381

Fair value of SPS' long-term debt is estimated based on recent trades and observable spreads from benchmark interest rates for similar securities. Fair value estimates are based on information available to management as of Dec. 31, 2021 and 2020 and given the observability of the inputs, fair values presented for long-term debt were assigned as Level 2.

6. Benefit Plans and Other Postretirement Benefits

Pension and Postretirement Health Care Benefits

Xcel Energy, which includes SPS, has several noncontributory, qualified, defined benefit pension plans that cover almost all employees. All newly hired or rehired employees participate under the Cash Balance formula, which is based on pay credits using a percentage of annual eligible pay and annual interest credits. The average annual interest crediting rates for these plans was 2.35 and 2.37 percent in 2021 and 2020, respectively. Some employees may participate under legacy formulas such as the traditional final average pay or pension equity. Xcel Energy's policy is to fully fund into an external trust the actuarially determined pension costs subject to the limitations of applicable employee benefit and tax laws.

In addition to the qualified pension plans, Xcel Energy maintains a SERP and a nonqualified pension plan. The SERP is maintained for certain executives who participated in the plan in 2008, when the SERP was closed to new participants. The nonqualified pension plan provides benefits for compensation that is in excess of the limits applicable to the qualified pension plans, with distributions funded by Xcel Energy's consolidated operating cash flows. Obligations of the SERP and nonqualified plan as of Dec. 31, 2021 and 2020 were $43 million and $43 million, respectively, of which $2 million was attributable to SPS in both years. In 2021 and 2020, Xcel Energy recognized net benefit cost for the SERP and nonqualified plans of $4 million and $6 million, respectively, of which immaterial amounts were attributable to SPS.

Xcel Energy, which includes SPS, investment-return assumption considers the expected long-term performance for each of the asset classes in its pension and postretirement health care portfolio. Xcel Energy considers the historical returns achieved by its asset portfolios over long time periods, as well as long-term projected return levels. 20 years or longer period, as well as long-term projected return levels. Xcel Energy and SPS continually review pension assumptions.

Pension cost determination assumes a forecasted mix of investment types over the long-term.

- Investment returns in 2021 were above the assumed level of 6.39%.
- Investment returns in 2020 were above the assumed level of 6.78%.
- In 2022, SPS's expected investment-return assumption is 6.39%.

Pension plan and postretirement benefit assets are invested in a portfolio according to Xcel Energy's return, liquidity and diversification objectives to provide a source of funding for plan obligations and minimize contributions to the plan, within appropriate levels of risk. The principal mechanism for achieving these objectives is the asset allocation given the long-term risk, return, correlation and liquidity characteristics of each particular asset class.

There were no significant concentrations of risk in any industry, index, or entity. Market volatility can impact even well-diversified portfolios and significantly affect the return levels achieved by the assets in any year.

State agencies also have issued guidelines to the funding of postretirement benefit costs. SPS is required to fund postretirement benefit costs for Texas and New Mexico amounts collected in rates. These assets are invested in a manner consistent with the investment strategy for the pension plan.

Xcel Energy's ongoing investment strategy is based on plan-specific investment recommendations that seek to minimize potential investment and interest rate risk as a plan's funded status increases over time. The investment recommendations consider many factors and generally result in a greater percentage of long-duration fixed income securities being allocated to specific plans having relatively higher funded status ratios and a greater percentage of growth assets being allocated to plans having relatively lower funded status ratios.

Plan Assets

For each of the fair value hierarchy levels, SPS' pension plan assets measured at fair value:

	Dec. 31, 2021 [(a)]					Dec. 31, 2020 [(a)]				
(Millions of Dollars)	**Level 1**	**Level 2**	**Level 3**	**Measured at NAV**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Measured at NAV**	**Total**
Cash equivalents	$ 20	$ —	$ —	$ —	$ 20	$ 31	$ —	$ —	$ —	$ 31
Commingled funds	202	—	—	169	371	211	—	—	160	371
Debt securities	—	148	1	—	149	—	110	1	—	111
Equity securities	10	—	—	—	10	11	—	—	—	11
Other	—	2	—	5	7	2	1	—	—	3
Total	$ 232	$ 150	$ 1	$ 174	$ 557	$ 255	$ 111	$ 1	$ 160	$ 527

(a) See Note 5 for further information on fair value measurement inputs and methods.

For each of the fair value hierarchy levels, SPS' proportionate allocation of the total postretirement benefit plan assets that were measured at fair value:

	Dec. 31, 2021 [(a)]					Dec. 31, 2020 [(a)]				
(Millions of Dollars)	**Level 1**	**Level 2**	**Level 3**	**Measured at NAV**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Measured at NAV**	**Total**
Cash equivalents	$ 3	$ —	$ —	$ —	$ 3	$ 3	$ —	$ —	$ —	$ 3
Insurance contracts	—	5	—	—	5	—	5	—	—	5
Commingled funds	6	—	—	7	13	7	—	—	7	14
Debt securities	—	22	—	—	22	—	22	—	—	22
Total	$ 9	$ 27	$ —	$ 7	$ 43	$ 10	$ 27	$ —	$ 7	$ 44

(a) See Note 5 for further information on fair value measurement inputs and methods.

No assets were transferred in or out of Level 3 for 2021 or 2020.

Funded Status — Benefit obligations for both pension and postretirement plans decreased from Dec. 31, 2020 to Dec. 31, 2021, due primarily to benefit payments and increases in discount rates used in actuarial valuations. Comparisons of the actuarially computed benefit obligation, changes in plan assets and funded status of the pension and postretirement health care plans for SPS are as follows:

	Pension Benefits		Postretirement Benefits	
(Millions of Dollars)	**2021**	**2020**	**2021**	**2020**
Change in Benefit Obligation:				
Obligation at Jan. 1	$ 562	$ 519	$ 38	$ 44
Service cost	11	10	1	1
Interest cost	15	18	1	1
Plan amendments	—	—	—	—
Actuarial (gain) loss	(13)	45	(3)	(5)
Plan participants' contributions	—	—	—	1
Benefit payments	(30)	(30)	(3)	(4)
Obligation at Dec. 31	$ 545	$ 562	$ 34	$ 38
Change in Fair Value of Plan Assets:				
Fair value of plan assets at Jan. 1	$ 527	$ 458	$ 44	$ 44
Actual return on plan assets	46	84	1	3
Employer contributions	14	15	—	—
Plan participants' contributions	—	—	1	1
Benefit payments	(30)	(30)	(3)	(4)
Fair value of plan assets at Dec. 31	$ 557	$ 527	$ 43	$ 44
Funded status of plans at Dec. 31	$ 12	$ (35)	$ 9	$ 6
Amounts recognized in the Balance Sheet at Dec. 31:				
Noncurrent assets	12	—	9	6

Noncurrent liabilities	—	(35)	—	—
Net amounts recognized	$ 12	$ (35)	$ 9	$ 6

Significant Assumptions Used to Measure Benefit Obligations:	Pension Benefits 2021	Pension Benefits 2020	Postretirement Benefits 2021	Postretirement Benefits 2020
Discount rate for year-end valuation	3.08	2.71	3.09	2.65
Expected average long-term increase in compensation level	3.75	3.75	N/A	N/A
Mortality table	Pri-2012	Pri-2012	Pri-2012	Pri-2012
Health care costs trend rate — initial: Pre-65	N/A	N/A	5.30	5.50
Health care costs trend rate — initial: Post-65	N/A	N/A	4.90	5.00
Ultimate trend assumption — initial: Pre-65	N/A	N/A	4.50	4.50
Ultimate trend assumption — initial: Post-65	N/A	N/A	4.50	4.50
Years until ultimate trend is reached	N/A	N/A	4	5

Accumulated benefit obligation for the pension plan was $506 million and $519 million as of Dec. 31, 2021 and 2020, respectively.

Net Periodic Benefit Cost (Credit) — Net periodic benefit cost (credit), other than the service cost component, is included in other income (expense) in the statements of income.

Components of net periodic benefit cost (credit) and amounts recognized in other comprehensive income and regulatory assets and liabilities:

(Millions of Dollars)	Pension Benefits 2021	Pension Benefits 2020	Postretirement Benefits 2021	Postretirement Benefits 2020
Service cost	$ 11	$ 10	$ 1	$ 1
Interest cost	15	18	1	1
Expected return on plan assets	(30)	(29)	(2)	(2)
Amortization of prior service credit	—	—	—	—
Amortization of net loss	14	12	(1)	—
Settlement charge	—	—	—	—
Net periodic pension cost	10	11	(1)	—
Effects of regulation	—	2	—	—
Net benefit cost recognized for financial reporting	$ 10	$ 13	$ (1)	$ —
Significant Assumptions Used to Measure Costs:				
Discount rate	2.71 %	3.49 %	2.65 %	3.47 %
Expected average long-term increase in compensation level	3.75	3.75	—	—
Expected average long-term rate of return on assets	6.39	6.78	4.1	4.5

(Millions of Dollars)	Pension Benefits 2021	Pension Benefits 2020	Postretirement Benefits 2021	Postretirement Benefits 2020
Amounts Not Yet Recognized as Components of Net Periodic Benefit Cost:				
Net loss	$ 143	$ 186	$ (19)	$ (18)
Prior service credit	(1)	(1)	(1)	(1)
Total	$ 142	$ 185	$ (20)	$ (19)
Amounts Not Yet Recognized as Components of Net Periodic Benefit Cost Have Been Recorded as Follows Based Upon Expected Recovery in Rates:				
Noncurrent deferred debits	$ 142	$ 185	$ —	$ —
Noncurrent deferred credits	—	—	(20)	(19)
Total	$ 142	$ 185	$ (20)	$ (19)
Measurement date	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020

Cash Flows — Funding requirements can be impacted by changes to actuarial assumptions, actual asset levels and other calculations prescribed by the requirements of income tax and other pension-related regulations. Required contributions were made in 2019 - 2022 to meet minimum funding requirements.

Total voluntary and required pension funding contributions across all four of Xcel Energy's pension plans were as follows:

- $50 million in January 2022, of which none was attributable to SPS.
- $131 million in 2021, of which $15 million was attributable to SPS.
- $150 million in 2020, of which $14 million was attributable to SPS.

For future years, Xcel Energy and SPS anticipate contributions will be made as necessary.

The postretirement health care plans have no funding requirements other than fulfilling benefit payment obligations when claims are presented and approved. Additional cash funding requirements are prescribed by certain state and federal rate regulatory authorities. Xcel Energy's voluntary postretirement funding contributions were as follows:

- $9 million during 2022.
- $15 million during 2021.
- $11 million during 2020.
- Amounts attributable to SPS were immaterial.

Target asset allocations:

	Pension Benefits 2021	Pension Benefits 2020	Postretirement Benefits 2021	Postretirement Benefits 2020
Domestic and international equity securities	33 %	35 %	15 %	15 %
Long-duration fixed income securities	37	35	—	—
Short-to-intermediate fixed income securities	11	13	71	72
Alternative investments	17	15	8	9
Cash	2	2	6	4
Total	100 %	100 %	100 %	100 %

The asset allocations above reflect target allocations approved in the calendar year to take effect in the subsequent year

Plan Amendments — In 2020, there were no significant plan amendments made which affected the benefit obligation.

In 2021, Xcel Energy amended the Xcel Energy Pension Plan and Xcel Energy Inc. Nonbargaining Pension Plan (South) to reduce supplemental benefits for non-bargaining participants as well as to allow the transfer of a portion of non-qualified pension obligations into the qualified plans.

Projected Benefit Payments

SPS' projected benefit payments:

(Millions of Dollars)	Projected Pension Benefit Payments	Gross Projected Postretirement Health Care Benefit Payments	Expected Medicare Part D Subsidies	Net Projected Postretirement Health Care Benefit Payments
2022	$ 33	$ 3	$ —	$ 3
2023	31	3	—	2
2024	31	2	—	2
2025	32	2	—	2

2026	31	2	—	2
2027-2031	153	11	—	11

Defined Contribution Plans

Xcel Energy, which includes SPS, maintains 401(k) and other defined contribution plans that cover most employees. The expense to these plans for SPS was approximately $3 million in 2021 and 2020.

7. Commitments and Contingencies

Legal

SPS is involved in various litigation matters in the ordinary course of business. The assessment of whether a loss is probable or is a reasonable possibility, and whether the loss or a range of loss is estimable, often involves a series of complex judgments about future events. Management maintains accruals for losses probable of being incurred and subject to reasonable estimation. Management is sometimes unable to estimate an amount or range of a reasonably possible loss in certain situations, including but not limited to when (1) the damages sought are indeterminate, (2) the proceedings are in the early stages, or (3) the matters involve novel or unsettled legal theories.

In such cases, there is considerable uncertainty regarding the timing or ultimate resolution, including a possible eventual loss. For current proceedings not specifically reported herein, management does not anticipate that the ultimate liabilities, if any, would have a material effect on SPS' financial statements. Legal fees are generally expensed as incurred.

Rate Matters

SPS is involved in various regulatory proceedings arising in the ordinary course of business. Until resolution, typically in the form of a rate order, uncertainties may exist regarding the ultimate rate treatment for certain activities and transactions. Amounts have been recognized for probable and reasonably estimable losses that may result. Unless otherwise disclosed, any reasonably possible range of loss in excess of any recognized amount is not expected to have a material effect on the financial statements.

SPP Open Access Transmission Tariff (OATT) Upgrade Costs — Costs of transmission upgrades may be recovered from other SPP customers whose transmission service depends on capacity enabled by the upgrade under the SPP OATT. SPP had not been charging its customers for these upgrades, even though the SPP OATT had allowed SPP to do so since 2008. In 2016, the FERC granted SPP's request to recover these previously unbilled charges and SPP subsequently billed SPS approximately $13 million.

In July 2018, SPS' appeal to the United States Court of Appeals for the District of Columbia Circuit (D.C. Circuit) over the FERC rulings granting SPP the right to recover previously unbilled charges was remanded to the FERC. In February 2019, the FERC reversed its 2016 decision and ordered SPP to refund charges retroactively collected from its transmission customers, including SPS, related to periods before September 2015.

In March 2020, SPP and Oklahoma Gas & Electric separately filed petitions for review of the FERC's orders at the D.C. Circuit. In August 2021, the D.C Circuit issued a decision denying these appeals and upholding the FERC's orders. Refunds received by SPS are expected to be given back to SPS customers through future rates. The timing of these refunds is uncertain.

In October 2017, SPS filed a separate related complaint asserting SPP assessed upgrade charges to SPS in violation of the SPP OATT. In March 2018, the FERC issued an order denying the SPS complaint. SPS filed a request for rehearing in April 2018. The FERC issued a tolling order granting a rehearing for further consideration in May 2018. If SPS' complaint results in additional charges or refunds, SPS will seek to recover or refund the amount through future SPS customer rates. In October 2020, SPS filed a petition for review of the FERC's March 2018 order and May 2018 tolling order at the D.C. Circuit. FERC has asked that this appeal be stayed until early 2022, in order to provide FERC with time to issue an order on SPS' April 2018 rehearing request. FERC's order is expected in the first quarter of 2022. The D.C. Circuit appeal may resume after that FERC order is issued.

Wind Operating Commitments — Public Utility Commission of Texas (PUCT) and New Mexico Public Regulation Commission (NMPRC) orders related to the Hale and Sagamore wind projects included certain operating and savings minimums. In general, annual generation must exceed a net capacity factor of 48%. If annual generation is below the guaranteed level, SPS would be obligated to refund an amount equal to foregone PTCs and fuel savings. Additionally, retail customer savings must exceed project costs included in base rates over the first ten years of operations. SPS would be required to refund excess costs, if any, after ten years of operations. As of Dec. 31, 2021, the full-year net capacity factor was 48.4%, resulting in no refund liability for 2021.

Contract Termination — SPS and Lubbock Power & Light (LP&L) have a 25-year, 170 MW partial requirements contract. In May 2021, SPS and LP&L finalized a settlement which would terminate the contract upon LP&L's move from the SPP to the Electric Reliability Council of Texas (ERCOT) (expected in 2023). The settlement agreement requires LP&L to pay SPS $78 million (lump sum or annual installments), to the benefit of SPS' remaining customers. LP&L would remain obligated to pay for SPP transmission charges associated with LP&L's load in SPP. The settlement agreement is subject to approval by the PUCT and FERC.

Environmental

New and changing federal and state environmental mandates can create financial liabilities for SPS, which are normally recovered through the regulated rate process.

Site Remediation

Various federal and state environmental laws impose liability where hazardous substances or other regulated materials have been released to the environment. SPS may sometimes pay all or a portion of the cost to remediate sites where past activities of SPS' predecessors or other parties have caused environmental contamination. Environmental contingencies could arise from various situations, including sites of former manufactured gas plants (MGPs); and third-party sites, such as landfills, for which SPS is alleged to have sent wastes to that site.

Historical MGP, Landfill and Disposal Sites

SPS is remediating a former disposal site. SPS has recognized its best estimate of costs/liabilities from final resolution of these issues; however, the outcome and timing are unknown. In addition, there may be insurance recovery and/or recovery from other potentially responsible parties, offsetting a portion of costs incurred.

Environmental Requirements — Water and Waste

Federal Clean Water Act (CWA) Waters of the U.S. Rule — SPS is monitoring ongoing changes to the definition of Waters of the U.S. under the CWA. Regardless of which definition is applicable in the states in which we operate, SPS does not anticipate that compliance costs will be material.

Federal CWA Effluent Limitation Guidelines (ELG) — In 2015, the EPA issued a final ELG rule for power plants that discharge treated effluent to surface waters as well as utility-owned landfills that receive coal combustion residuals. In October 2020, the EPA published a final rule revising the regulations. SPS anticipates that compliance costs will not be material and will be fully recoverable through regulatory mechanisms.

Environmental Requirements — Air

Regional Haze Rules — The regional haze program requires sulfur dioxide (SO_2), nitrogen oxide and particulate matter emission controls at power plants to reduce visibility impairment in national parks and wilderness areas. The program includes best available retrofit technology (BART) and reasonable further progress. Texas' first regional haze plan has undergone federal review.

All states are now subject to a second round of regional haze planning/rulemaking, focusing on additional reductions to meet reasonable progress requirements. Any additional impacts to SPS facilities are expected to be minimal.

BART Determination for Texas: The EPA has issued a revised final rule adopting a BART alternative Texas only SO_2 trading program that applies to all Harrington and Tolk units. Under the trading program, SPS expects the allowance allocations to be sufficient for SO_2 emissions. The anticipated costs of compliance are not expected to have a material impact; and SPS believes that compliance costs would be recoverable through regulatory mechanisms.

Several parties have challenged whether the final rule issued by the EPA should be considered to have met the requirements imposed in a Consent Decree entered by the D.C. Circuit that established deadlines for the EPA to take final action on state regional haze plan submissions. The court has required status reports from the parties while the EPA works on the reconsideration rulemaking.

In December 2017, the National Parks Conservation Association, Sierra Club, and Environmental Defense Fund appealed the EPA's 2017 final BART rule to the Fifth Circuit and filed a petition for administrative reconsideration. The court has held the litigation in abeyance while the EPA decided whether to reconsider the rule. In August 2018, the EPA started a reconsideration rulemaking. The EPA reaffirmed the rule in August 2020 with minor changes.

The 2020 EPA Action has been challenged. All pending actions could be consolidated and may proceed in the Fifth Circuit or the D.C. Circuit, where a parallel challenge has been filed. The timing of final decisions is unclear.

Reasonable Progress Rule: In 2016, the EPA adopted a final rule establishing a federal implementation plan for reasonable further progress under the regional haze program for the state of Texas. The rule imposes SO_2 emission limitations that would require the installation of dry scrubbers on Tolk Units 1 and 2; compliance would have been required by February 2021. Investment costs associated with dry scrubbers could be $600 million. SPS appealed the EPA's decision and obtained a stay of the final rule.

In March 2017, the Fifth Circuit remanded the rule to the EPA for reconsideration, leaving the stay in effect. In a future rulemaking, the EPA will address whether SO_2 emission reductions beyond those required in the BART alternative rule referenced above are needed at Tolk under the "reasonable progress" requirements. As states are now proceeding with the second regional haze planning period, the EPA may choose not to act on the remanded rule.

Implementation of the National Ambient Air Quality Standard (NAAQS) for SO_2 — The EPA has designated all areas near SPS' generating plants as attaining the SO_2 NAAQS with one exception. The EPA issued final designations, which found the area near the Harrington plant as "unclassifiable." The area near the Harrington plant was monitored for the three years ending in 2019 and the monitoring showed the area to be exceeding the standard.

To address this issue, SPS negotiated an order with the Texas Commission on Environmental Quality (TCEQ) providing for the end of coal combustion and the conversion of the Harrington plant to a natural gas fueled facility by Jan. 1, 2025.

SPS believes compliance costs or the costs of alternative cost effective generation will be recoverable through regulatory mechanisms and therefore does not expect a material impact on results of operations, financial

SPS believes compliance costs or the costs of alternative cost-effective generation will be recoverable through regulatory mechanisms and therefore does not expect a material impact on results of operations, financial condition or cash flows.

AROs — AROs have been recorded for SPS' assets.

SPS' AROs were as follows:

(Millions of Dollars)	2021 Jan. 1, 2021	2021 Accretion	2021 Dec. 31, 2021 [(a)]
Electric			
Steam and other production	$ 52	$ 2	$ 54
Wind	50	2	52
Distribution	10	—	10
Total liability	$ 112	$ 4	$ 116

(a) There were no ARO amounts incurred, settled or revised in 2021.

(Millions of Dollars)	2020 Jan. 1, 2020	2020 Amounts Incurred [(a)]	2020 Amounts Settled [(b)]	2020 Accretion	2020 Dec. 31, 2020 [(c)]
Electric					
Steam and other production	$ 51	$ —	$ (2)	$ 3	$ 52
Wind	16	33	—	1	50
Distribution	10	—	—	—	10
Total liability	$ 77	$ 33	$ (2)	$ 4	$ 112

(a) Amounts incurred related to the Sagamore wind farm placed in service in 2020.
(b) Amounts settled related to asbestos abatement projects.
(c) No AROs were revised in 2020.

Indeterminate AROs — Outside of the recorded asbestos AROs, other plants or buildings may contain asbestos due to the age of many of SPS' facilities, but no confirmation or measurement of the cost of removal could be determined as of Dec. 31, 2021. Therefore, an ARO has not been recorded for these facilities.

Leases

SPS evaluates contracts that may contain leases, including PPAs and arrangements for the use of office space and other facilities, vehicles and equipment. A contract contains a lease if it conveys the exclusive right to control the use of a specific asset. A contract determined to contain a lease is evaluated further to determine if the arrangement is a finance lease.

ROU assets represent SPS' rights to use leased assets. In accordance with FERC requirements as provided in Docket No. AI19-1-000, starting in 2019, the present value of future operating lease payments is recognized in Account 227 and Account 243. These amounts, adjusted for any prepayments or incentives, are recognized as operating lease ROU assets in Account 101.1.

Most of SPS' leases do not contain a readily determinable discount rate. Therefore, the present value of future lease payments is generally calculated using the estimated incremental borrowing rate (weighted average of 4.4%). SPS has elected to utilize the practical expedient under which non-lease components, such as asset maintenance costs included in payments, are not deducted from minimum lease payments for the purposes of lease accounting and disclosure. Leases with an initial term of 12 months or less are classified as short-term leases and are not recognized on the balance sheet.

Operating lease ROU assets in Account 101.1:

(Millions of Dollars)	Dec. 31, 2021	Dec. 31, 2020
PPAs	$ 500	$ 500
Other	45	50
Gross operating lease ROU assets	545	550
Accumulated amortization	(82)	(58)
Net operating lease ROU assets	$ 463	$ 492

PPAs and Fuel Contracts

Non-Lease PPAs — SPS has entered into PPAs with other utilities and energy suppliers for purchased power to meet system load and energy requirements, operating reserve obligations and as part of wholesale and commodity trading activities. In general, these agreements provide for energy payments, based on actual energy delivered and capacity payments. Certain PPAs, accounted for as executory contracts with various expiration dates through 2024, contain minimum energy purchase requirements.

Components of lease expense:

(Millions of Dollars)	2021	2020
Operating leases		
PPA capacity payments	$ 53	$ 48
Other operating leases [(a)]	4	3
Total operating lease expense [(b)]	$ 57	$ 51

(a) Includes short-term lease expense of $1 million for 2021 and 2020, respectively.
(b) PPA capacity payments are included in electric fuel and purchased power on the statements of income. Expense for other operating leases is included in operating expenses.

Commitments under operating leases as of Dec. 31, 2021 in Accounts 227 and 243:

(Millions of Dollars)	PPA [(a)] [(b)] Operating Leases	Other Operating Leases	Total Operating Leases
2022	$ 46	$ 3	$ 49
2023	46	3	49
2024	46	3	49
2025	46	4	50
2026	46	4	50
Thereafter	312	40	352
Total minimum obligation	542	57	599
Interest component of obligation	(120)	(15)	(135)
Present value of minimum obligation	422	42	464
Less current portion			(30)
Noncurrent operating and finance lease liabilities			$ 434
Weighted-average remaining lease term in years			12

(a) Amounts do not include PPAs accounted for as executory contracts and/or contingent payments, such as energy payments on renewable PPAs.
(b) PPA operating leases contractually expire at various dates through 2033.

Included in electric fuel and purchased power expenses for PPAs accounted for as executory contracts, were payments for capacity of $12 million, $12 million and $20 million in 2021, 2020 and 2019, respectively.

At Dec. 31, 2021, the estimated future payments for capacity that SPS is obligated to purchase pursuant to these executory contracts, subject to availability, were as follows:

(Millions of Dollars)	Capacity
2022	$ 12
2023	12
2024	6
2025	—
2026	—
Thereafter	—
Total	$ 30

Fuel Contracts — SPS has entered into various long-term commitments for the purchase and delivery of a significant portion of its coal and natural gas requirements. These contracts expire between 2022 and 2033. SPS is required to pay additional amounts depending on actual quantities shipped under these agreements.

Estimated minimum purchases under these contracts as of Dec. 31, 2021:

(Millions of Dollars)	Coal	Natural gas supply	Natural gas storage and transportation
2022	$ 211	$ 44	$ 32
2023	50	—	29
2024	31	—	16
2025	—	—	12
2026	—	—	6
Thereafter	—	—	14
Total	$ 292	$ 44	$ 109

8. Related Parties Transactions

Xcel Energy Services Inc. provides management, administrative and other services for the subsidiaries of Xcel Energy Inc., including SPS. The services are provided and billed to each subsidiary in accordance with service agreements executed by each subsidiary. SPS uses

services provided by Xcel Energy Services Inc. whenever possible. Costs are charged directly to the subsidiary and are allocated if they cannot be directly assigned.

Xcel Energy, Inc., NSP-Minnesota, NSP-Wisconsin, PSCo and SPS have established a utility money pool arrangement.

See Note 5 for further information.

Significant affiliate transactions among the companies and related parties for the years ended Dec. 31:

(Millions of Dollars)	2021	2020
Operating expenses:		
Other operating expenses — paid to Xcel Energy Services Inc.	$ 209	$ 200

Accounts receivable and payable with affiliates at Dec. 31 were:

	2021		2020	
(Millions of Dollars)	Accounts Receivable	Accounts Payable	Accounts Receivable	Accounts Payable
NSP-Minnesota	$ 2	$ —	$ 3	$ —
PSCo	7	—	6	—
Other subsidiaries of Xcel Energy Inc.	—	16	—	17
	$ 9	$ 16	$ 9	$ 17

9. Supplemental Cash Flow Data

(Millions of Dollars)	2021	2020
Supplemental disclosure of cash flow information:		
Cash paid for interest (net of amounts capitalized)	$ (118)	$ (96)
Cash received for income taxes, net	21	10
Supplemental disclosure of non-cash investing transactions:		
Accrued property, plant and equipment additions	$ 37	$ 99
Inventory transfers to property, plant and equipment	6	31
Operating lease right-of-use assets	—	—
Allowances for funds used during construction	4	33

Southwestern Public Service Company

Statement of Changes in Financial Position

Line No.	Account Title	(a) Base Period	(b) Test Year Period [3]	Difference [4]	
1	**Net Cash Flow from Operating Activities**				
2	Net Income	$ 337,495,527	$ 181,699,067	$ (155,796,460)	(1)
3	**Noncash Charges (Credits) to Income**				
4	Depreciation and Depletion	$ 319,202,344	$ 413,283,078	$ 94,080,734	(2)
5	Amortization of Premium, Discount & Debt Expense	2,769,349	2,769,349	-	
6	Amortization of Regulatory Assets & Liabilities	(8,592,918)	(8,592,918)	-	
7	Amortization of Software and Other	25,167,067	32,653,809	7,486,742	(2)
8	Deferred Income Taxes, Net	(28,489,661)	34,521,584	63,011,245	(2)
9	Investment Tax Credit Adjustment, Net	(26,206)	(26,211)	(5)	(2)
10	Net (Increase) Decrease in Receivables	(39,407,561)	(39,407,561)	-	
11	Net (Increase) Decrease in Inventory	(18,270,397)	(18,270,397)	-	
12	Net (Increase) Decrease in Allowances Inventory	(2,154,482)	(2,154,482)	-	
13	Net (Increase) Decrease in Payables and Accrued Expenses	39,932,757	39,932,757	-	
14	Net (Increase) Decrease in Other Regulatory Assets	(113,620,834)	(113,620,834)	-	
15	Net (Increase) Decrease in Other Regulatory Liabilities	(5,451,332)	(5,451,332)	-	
16	(Less) Allowance for Other Funds Used During Construction	3,468,420	3,468,420	-	
17	(Less) Undistributed Earnings from Subsidiary Companies	-	-	-	
18	Change in Accrued Utility Revenues	(16,901,399)	(16,901,399)	-	
19	Change in Other Current Assets and Liabilities	243,733	243,733	-	
20	Net Realized and Unrealized Hedging and Derivative Transactions	(2,753,910)	(2,753,910)	-	
21	Change in Other Noncurrent Liabilities and Deferreds	42,626,600	42,626,600	-	
22	**Net Cash Provided by (Used In) Operating Activities**	**$ 528,300,257**	**$ 537,082,514**	**$ 8,782,257**	
23	**Cash Flows from Investment Activities:**				
24	Construction and Acquisition of Plant (Including Land):	$ -	$ -	$ -	
25	Gross Additions to Utility Plant	-	-	-	
26	Gross Additions to Common Utility Plant	(507,492,791)	(1,327,829,749)	(820,336,958)	(2)
27	Gross Additions to Nonutility Plant	(404,586)	(404,586)	-	
28	(Less) Allowance for Other Funds Used During Construction	(3,468,420)	(3,468,420)	-	
29	Other: Proceeds from Insurance Recoveries	-	-	-	
30	**Cash Outflows for Plant**	**$ (504,428,957)**	**$ (1,324,765,915)**	**$ (820,336,958)**	
31	Other: Miscellaneous Investing Activities	$ -	$ -	$ -	
32	Proceeds from Sale of Transmission Assets	-	-	-	
33	Investments in Utility Money Pool	-	-	-	
34	Repayments to Utility Money Pool	-	-	-	
35	**Net Cash Provided by (Used In) Investing Activities**	**$ (504,428,957)**	**$ (1,324,765,915)**	**$ (820,336,958)**	
36	**Cash Flows from Financing Activities**				
37	Proceeds from the Issuance of:				
38	Long-Term Debt	$ 196,103,959	$ 196,103,959	$ -	
39	Preferred Stock	-	-	-	
40	Common Stock	-	-	-	
41	Other: Capital Contribution from Parent	206,103,932	35,973,371	(170,130,561)	(2)
	Other: Borrowings Under Utility Money Pool	473,000,000	473,000,000	-	
42	Net Increase in Short-Term Debt	-	-	-	
43	Other: Borrowings from Utility Money Pool Arrangement	-	-	-	
44	Other: Borrowings to Utility Money Pool Arrangement	-	-	-	
45	**Cash Provided by Outside Sources**	**$ 875,207,891**	**$ 705,077,330**	**$ (170,130,561)**	

Southwestern Public Service Company

Statement of Changes in Financial Position

Line No.	Account Title	(a) Base Period	(b) Test Year Period [3]	Difference [4]
46	Payment for Retirement of:			
47	Long-Term Debt	$ -	$ -	$ -
48	Preferred Stock	-	-	-
49	Common Stock	-	-	-
50	Other: Repayment of Utility Money Pool	(536,000,000)	(536,000,000)	-
51	Other: (Taxes Paid - Share based awards)	-	-	-
52	Net Decrease in Short-Term Debt	-	-	-
53	Other: Repayments under Utility Money Pool Arrangement	-	-	-
54	Dividends on Preferred Stock	-	-	-
55	Dividends on Common Stock	(291,360,225)	(291,360,225)	-
56	**Net Cash Provided by (Used In) Financing Activities**	**$ 47,847,666**	**$ (122,282,895)**	**$ (170,130,561)**
57	Net Decrease in Cash and Cash Equivalents	$ 71,718,966	$ (909,966,296)	$ (981,685,262)
58	Cash and Cash Equivalents at Beginning of Period	**$ 1,507,068**	**$ 73,226,034**	**$ 71,718,966**
59	Cash and Cash Equivalents at End of Period	**$ 73,226,034**	**$ (836,740,262)**	**$ (909,966,296)**

Note: Amounts may appear to not total or tie due to rounding.

(c) Explanation of Adjustments
The Base Period information presented in Schedule I-3 is derived by utilizing SPS's 2021 FERC Form 1 annual results, minus the first six months of 2021 results (Column (b) on SPS's 2021 Second Quarter FERC Form 3), plus the first six months of 2022 results (Column (b) on SPS's 2022 Second Quarter FERC Form 3).

Please see page 3 for the Cash Flow Statement-related footnotes from SPS's 2021 FERC Form 1; page 4 for the Cash Flow Statement-related footnotes from SPS's 2021 Second Quarter FERC Form 3; and page 5 for the Cash Flow-related footnotes from SPS's Second Quarter 2022 FERC Form 3. Notes to Financial Statements from SPS's 2022 Second Quarter FERC Form 3 are provided with Schedule I-1. Notes to Financial Statements from SPS's 2021 FERC Form 1 are provided with Schedule I-2.

(1) Adjusted to match the Net Income calculated for the Test Year Period in Schedule I-2. See Note 3.

(2) Adjusted to match the amount included in the Test Year Period Cost of Service. See Note 3.

(3) The Test Year Period cost of service will not directly tie to the financial information presented in the I series schedules because certain accounting and regulatory adjustments are made to the cost of service studies that are not reflected in these schedules. Please refer to the Direct Testimony of Stephanie N. Niemi for explanations of these cost of service adjustments.

(4) "Difference" column displayed in lieu of "Adjustments" due to the way the cost of service and this schedule are prepared. Line items on this schedule that are included in the cost of service reflect amounts from corresponding items in the Test Year Period cost of service. However, most of the line items on this schedule are not present in the cost of service, including the entire equity section. For this schedule, all other balances in the Test Year Period column reflect those in the Base Period column. Please refer to the Direct Testimony of Stephanie N. Niemi for explanations of cost of service adjustments.

Name of Respondent: Southwestern Public Service Company	This report is: (1) ☐ An Original (2) ☑ A Resubmission	Date of Report: 05/24/2022	Year/Period of Report End of: 2021/ Q4

FOOTNOTE DATA

(a) Concept: CashAndCashEquivalents

Cash (131)	$	—
Working Fund (135)		100,500
Temporary Cash Investments (136)		5,711,231
	$	5,811,731

(b) Concept: CashAndCashEquivalents

Cash (131)	$	—
Working Fund (135)		100,500
Temporary Cash Investments (136)		1,150,637
	$	1,251,137

(c) Concept: CashAndCashEquivalents

Cash (131)	$	—
Working Fund (135)		100,500
Temporary Cash Investments (136)		5,711,231
	$	5,811,731

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Name of Respondent	This Report is:	Date of Report (Mo, Da, Yr)	Year/Period of Report
Southwestern Public Service Company	(1) X An Original (2) _ A Resubmission	08/26/2021	2021/Q2

FOOTNOTE DATA

Schedule Page: 120 Line No.: 90 Column: b

Working Fund (130)	$	-
Cash (131)		-
Working Fund (135)		100,500
Temporary Cash Investments (136)		1,406,568
	$	1,507,068

Schedule Page: 120 Line No.: 90 Column: c

Working Fund (130)	$	-
Cash (131)		212,736,849
Working Fund (135)		100,500
Temporary Cash Investments (136)		93,506,456
	$	306,343,805

Name of Respondent: Southwestern Public Service Company	This report is: (1) ☑ An Original (2) ☐ A Resubmission	Date of Report: 08/29/2022	Year/Period of Report End of: 2022/ Q2

FOOTNOTE DATA

(a) Concept: CashAndCashEquivalents

Cash (131)	$ —
Working Fund (135)	100,500
Temporary Cash Investments (136)	73,125,534
	$ 73,226,034

(b) Concept: CashAndCashEquivalents

Cash (131)	$ —
Working Fund (135)	100,500
Temporary Cash Investments (136)	1,406,568
	$ 1,507,068