

Southwestern Public Service Company

Balance Sheet

Line No.	Account Title	(a) Base Period	Test Year Period	Difference ⁽⁴⁾
1	Utility Plant			
2	Utility Plant	\$ 7,826,471,978	\$ 8,266,430,372	\$ 439,958,394 ⁽²⁾
3	Construction Work In Progress	975,377,786	0	(975,377,786) ⁽²⁾
4	Total Utility Plant	\$ 8,801,849,764	\$ 8,266,430,372	\$ (535,419,392)
5	(Less) Accum. Prov. For Depr., Amort. & Depl.	2,352,840,403	2,545,291,864	192,451,461 ⁽²⁾
6	Net Utility Plant	\$ 6,449,009,361	\$ 5,721,138,508	\$ (727,870,853)
7	Other Property and Investments			
8	Nonutility Plant	\$ 4,422,200	\$ 4,422,200	\$ -
9	(Less) Accum. Prov. For Depr. and Amort.	399,844	399,844	-
10	Investments in Assoc. Companies	-	-	-
11	Investments in Subsidiary Companies	-	-	-
12	Noncurrent Portion of Allowances	-	-	-
13	Other Investments	2,256,477	2,256,477	-
14	Special Funds	-	-	-
15	Long-Term Portion of Derivative Instrument Assets	15,005,014	15,005,014	-
16	Total Other Property and Investments	\$ 21,283,847	\$ 21,283,847	\$ -
17	Current and Accrued Assets			
18	Cash	\$ -	\$ -	\$ -
19	Special Deposits	-	-	-
20	Working Fund	100,600	100,600	-
21	Temporary Cash Investments	419,261	419,261	-
22	Notes Receivable	-	-	-
23	Customer Accounts Receivable	67,140,840	67,140,840	-
24	Other Accounts Receivable	48,225,464	48,225,464	-
25	(Less) Accum. Prov. For Uncollectible Acct. - Credit	5,438,518	5,438,518	-
26	Notes Receivable from Associated Companies	-	-	-
27	Accounts Receivable from Associated Companies	3,387,961	3,387,961	-
28	Fuel Stock	8,518,270	7,963,416	(554,854) ⁽²⁾
29	Fuel Stock Expenses Undistributed	-	-	-
30	Residuals (Elec) and Extracted Products	-	-	-
31	Plant Materials and Operating Supplies	21,307,693	21,562,495	254,802 ⁽²⁾
32	Merchandise	185,246	185,246	-
33	Other Materials and Supplies	-	-	-
34	Nuclear Materials Held for Sale	-	-	-
35	Allowances	4,260,798	-	(4,260,798) ⁽²⁾
36	(Less) Noncurrent Portion of Allowances	-	-	-
37	Stores Expense Undistributed	-	-	-
38	Prepayments	6,152,912	4,006,377	(2,146,535) ⁽²⁾
39	Advances for Gas	-	-	-
40	Interest and Dividends Receivable	743,075	743,075	-
41	Rents Receivable	602,471	602,471	-
42	Accrued Utility Revenues	114,293,648	114,293,648	-
43	Miscellaneous Current and Accrued Assets	-	-	-
44	Derivative Instrument Assets	21,221,613	21,221,613	-
45	(Less) Long-Term Portion of Derivative Instrument Assets	15,005,014	15,005,014	-
46	Total Current and Accrued Assets	\$ 276,116,320	\$ 269,408,934	\$ (6,707,386)

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Line No.	Account Title	(a) Base Period	Test Year Period	Difference ⁽⁴⁾
47	Deferred Debits			
48	Unamortized Debt Expenses	\$ 20,181,407	\$ 20,181,407	\$ -
49	Extraordinary Property Losses	-	-	-
50	Unrecovered Plant and Regulatory Study Costs	-	-	-
51	Other Regulatory Assets	358,936,710	227,793,610	(131,143,100) ⁽²⁾
52	Prelim. Survey and Investigation Charges (Electric)	-	-	-
53	Prelim. Survey and Investigation Charges (Gas)	-	-	-
54	Clearing Accounts	43	43	-
55	Temporary Facilities	-	-	-
56	Miscellaneous Deferred Debits	9,253,786	49,472	(9,204,314) ⁽²⁾
57	Def. Losses from Disposition of Utility Plant	-	-	-
58	Research, Develop and Demonstration Expenditures	-	-	-
59	Unamortized Loss on Reacquired Debt	22,471,869	22,471,869	-
60	Accumulated Deferred Income Taxes	101,906,994	119,441,898	17,534,904 ⁽²⁾
61	Unrecovered Purchased Gas Costs	-	-	-
62	Total Deferred Debits	\$ 512,750,809	\$ 389,938,298	\$ (122,812,511)
63	Total Assets and Other Debits	\$ 7,259,160,337	\$ 6,401,769,587	\$ (857,390,750)
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	1,579,192,171	1,211,648,323	(367,543,848) ⁽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	602,256,716	602,256,716	-
75	Unappropriated Undistributed Subsidiary Earnings	-	-	-
76	Other Comprehensive Income	(1,362,188)	(1,362,188)	-
77	(Less) Reacquired Capital Stock	-	-	-
78	Total Proprietary Capital	\$ 2,533,185,448	\$ 2,165,641,600	\$ (367,543,848)
79	Long-Term Debt			
80	Bonds	\$ 1,800,000,000	\$ 1,441,747,464	\$ (358,252,536)
81	(Less) Reacquired Bonds	-	-	-
82	Advances from Associated Companies	-	-	-
83	Other Long-Term Debt	350,000,000	350,000,000	- ⁽³⁾
84	Unamortized Premium on Long-Term Debt	8,959,614	8,959,614	-
85	(Less) Unamortized Discount on Long-Term Debt-Debit	12,454,074	12,454,074	-
86	Total Long-Term Debt	\$ 2,146,505,540	\$ 1,788,253,004	\$ (358,252,536)
87	Other Noncurrent Liabilities			
88	Obligations Under Capital Leases-Noncurrent	\$ 515,781,287	\$ 515,781,287	\$ -
89	Accumulated Provision for Property Insurance	-	-	-
90	Accumulated Provision for Injuries and Damages	-	-	-
91	Accumulated Provision for Pensions and Benefits	72,367,684	74,059,935	1,692,251 ⁽²⁾
92	Accumulated Miscellaneous Operating Provisions	580,979	650,636	69,657 ⁽²⁾
93	Accumulated Provision for Rate Refunds	-	-	-
94	Long-Term Portion of Derivative Instrument Liabilities	15,492,653	15,492,653	-
95	Long-Term Portion of Derivative Instrument Liab. - Hedges	-	-	-
96	Asset Retirement Obligation	32,842,361	32,842,361	-
97	Total Other Noncurrent Liabilities	\$ 637,064,964	\$ 638,826,872	\$ 1,761,908

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Line No.	Account Title	(a) Base Period	Test Year Period	Difference ⁽⁴⁾
98	Current and Accrued Liabilities			
99	Notes Payable	\$ 137,000,000	\$ 137,000,000	\$ -
100	Accounts Payable	193,530,847	193,530,847	-
101	Notes Payable to Associated Companies	38,000,000	38,000,000	-
102	Accounts Payable to Associated Companies	13,147,104	13,147,104	-
103	Customer Deposits	7,458,891	7,499,541	40,650 ⁽²⁾
104	Taxes Accrued	29,686,529	29,686,529	-
105	Interest Accrued	26,081,783	26,081,783	-
106	Dividends Declared	47,553,625	47,553,625	-
107	Matured Long-Term Debt	-	-	-
108	Matured Interests	-	-	-
109	Tax Collections Payable	6,258,787	6,258,787	-
110	Miscellaneous Current and Accrued Liabilities	3,678,932	3,678,932	-
111	Obligations Under Capital Leases-Current	26,173,160	26,173,160	-
112	Derivative Instrument Liabilities	19,057,378	19,057,378	-
113	(Less) Long-Term Portion of Derivative Instrument Liabilities	15,492,653	15,492,653	-
114	Derivative Instrument Liabilities - Hedges	-	-	-
115	(Less) Long-Term Portion of Derivative Instr. Liab. - Hedges	-	-	-
116	Total Current and Accrued Liabilities	\$ 532,134,383	\$ 532,175,033	\$ 40,650
117	Deferred Credits			
118	Customer Advances for Construction	\$ -	\$ -	\$ - ⁽²⁾
119	Accumulated Deferred Investment Tax Credits	144,180	144,180	-
120	Deferred Gains from Disposition of Utility Plant	-	-	-
121	Other Deferred Credits	14,291,266	14,291,266	-
122	Other Regulatory Liabilities	660,993,838	13,329,265	(647,664,573) ⁽²⁾
123	Unamortized Gain on Recquired Debt	-	-	-
124	Accumulated Deferred Income Taxes ⁽¹⁾	734,840,718	1,249,108,367	514,267,649 ⁽²⁾
125	Total Deferred Credits	\$ 1,410,270,002	\$ 1,276,873,078	\$ (133,396,924)
126	Total Liabilities and Other Credits	\$ 7,259,160,337	\$ 6,401,769,587	\$ (857,390,750)

(c) Explanation of Adjustments

The Base Period information presented in the I Series Schedules is directly from SPS's 2019 First 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 6-18 for the Notes to Financial Statements from SPS's 2019 First 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 4.

⁽³⁾ Adjusted in order to balance the Test Year Period. See Note 4.

⁽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 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 Arthur P. Freitas for explanations of cost of service adjustments.

⁽⁵⁾ 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 Arthur P. Freitas for explanations of these cost of service adjustments.

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 06/27/2019	Year/Period of Report 2019/Q1
Southwestern Public Service Company			
FOOTNOTE DATA			

Schedule Page: 110 Line No.: 2 Column: c

Includes operating leases in accordance with Accounting Standards Codification (ASC) Topic 842 and FERC Docket No. AI19-1-000. See Note 7 to the Financial Statements on page 123 for leasing disclosures.

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Southwestern Public Service Company			
FOOTNOTE DATA			

Schedule Page: 112 Line No.: 26 Column: c

Includes operating leases in accordance with Accounting Standards Codification (ASC) Topic 842 and FERC Docket No. AI19-1-000. See Note 7 to the Financial Statements on page 123 for leasing disclosures.

Schedule Page: 112 Line No.: 49 Column: c

Includes operating leases in accordance with Accounting Standards Codification (ASC) Topic 842 and FERC Docket No. AI19-1-000. See Note 7 to the Financial Statements on page 123 for leasing disclosures.

Name of Respondent Southwestern Public Service Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report 06/27/2019	Year/Period of Report End of 2019/Q1
NOTES TO FINANCIAL STATEMENTS			
<p>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.</p> <p>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.</p> <p>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 Commission orders or other authorizations respecting classification of amounts as plant adjustments and requirements as to disposition thereof.</p> <p>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.</p> <p>5. Give a concise explanation of any retained earnings restrictions and state the amount of retained earnings affected by such restrictions.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>			
<p>PAGE 122 INTENTIONALLY LEFT BLANK SEE PAGE 123 FOR REQUIRED INFORMATION.</p>			

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Southwestern Public Service Company			
NOTES TO FINANCIAL STATEMENTS (Continued)			

1. Summary of Significant Accounting Policies

General — Southwest Public Service Company (SPS) is engaged in the regulated generation, purchase, transmission, distribution and sale of electricity. SPS is subject to regulation by the Federal Regulatory Energy Commission (FERC) and state utility commissions.

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 Federal Energy Regulatory Commission (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)	3/31/2019
Balance Sheet:	
Net utility plant	\$ (360.5)
Current assets	31.5
Current liabilities	90.6
Other long-term assets	392.6
Long-term debt and other long-term liabilities	(27.1)

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NOTES TO FINANCIAL STATEMENTS (Continued)			

Statement of Income:

Operating revenues	\$ 7.6
Operating expenses	(2.3)
Other income and deductions	1.1

Subsequent Events — Management has evaluated the impact of events occurring after March 31, 2019 up to April 26, 2019, the date SPS' GAAP financial statements were issued and has updated such evaluation for disclosure purposes through June 27, 2019. These financial 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 were as follows:

(Amounts in Millions, Except Interest Rates)	Three Months Ended March 31, 2019	Year Ended Dec. 31, 2018
Borrowing limit	\$ 100	\$ 100
Amount outstanding at period end	38	—
Average amount outstanding	19	29
Maximum amount outstanding	100	100
Weighted average interest rate, computed on a daily basis	2.44 %	1.96 %
Weighted average interest rate at period end	2.44	N/A

Commercial Paper — Commercial paper outstanding for SPS was as follows:

(Amounts in Millions, Except Interest Rates)	Three Months Ended March 31, 2019	Year Ended Dec. 31, 2018
Borrowing limit	\$ 400	\$ 400
Amount outstanding at period end	137	42
Average amount outstanding	86	30
Maximum amount outstanding	152	144
Weighted average interest rate, computed on a daily basis	2.69 %	2.27 %
Weighted average interest rate at period end	2.71	2.80

Letters of Credit — SPS uses letters of credit, generally with terms of one year, to provide financial guarantees for certain operating obligations. As of both March 31, 2019 and Dec. 31, 2018, there were \$2 million of letters of credit outstanding under the credit facility. The contract amounts of these letters of credit approximate their fair value and are subject to fees.

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NOTES TO FINANCIAL STATEMENTS (Continued)			

Credit Facility — In order to use its commercial paper program to fulfill short-term funding needs, 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 in an aggregate amount 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.

As of March 31, 2019, SPS had the following committed credit facility available (in millions of dollars):

Credit Facility (a)	Outstanding (b)	Available
\$ 400	\$ 139	\$ 261

(a) This credit facility expires in June 2021.

(b) Includes outstanding commercial paper and 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 March 31, 2019 and Dec. 31, 2018.

3. Income Taxes

Except to the extent noted below, Note 5 to the consolidated financial statements included in SPS' Annual Report on FERC Form 1 for the year ended Dec. 31, 2018 appropriately represents, in all material respects, the current status of other income tax matters, and are incorporated herein by reference.

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 federal income tax returns expire as follows:

Tax Year(s)	Expiration
2009 - 2013	October 2019
2014 - 2016	September 2020
2017	September 2021

In the third quarter of 2015, the Internal Revenue Service (IRS) commenced an examination of tax years 2012 and 2013. In the third quarter of 2017, the IRS concluded the audit of tax years 2012 and 2013 and proposed an adjustment that would impact Xcel Energy's net operating loss (NOL) and effective tax rate (ETR). Xcel Energy filed a protest with the IRS. As of March 31, 2019, the case has been forwarded to the Office of Appeals and 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.

In the fourth quarter of 2018, the IRS began an audit of tax years 2014 - 2016. As of March 31, 2019 no adjustments have been proposed.

State Audits — SPS is a member of the Xcel Energy affiliated group that files consolidated state income tax returns. As of March 31, 2019, SPS' earliest open tax year that is subject to examination by state taxing authorities under applicable statutes of limitations is 2009. There are currently no state income tax audits in progress.

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Unrecognized Benefits — Unrecognized tax benefit balance includes permanent tax positions, which if recognized would affect the annual ETR. In addition, the unrecognized tax benefit balance includes temporary tax positions for which the ultimate deductibility is highly certain, but for which there is uncertainty about the timing of such deductibility. A change in the period of deductibility would not affect the ETR but would accelerate the payment to the taxing authority to an earlier period.

Unrecognized tax benefits - permanent vs temporary:

(Millions of Dollars)	March 31, 2019	Dec. 31, 2018
Unrecognized tax benefit — Permanent tax positions	\$ 3.1	\$ 3.0
Unrecognized tax benefit — Temporary tax positions	1.6	1.5
Total unrecognized tax benefit	\$ 4.7	\$ 4.5

Unrecognized tax benefits were reduced by tax benefits associated with NOL and tax credit carryforwards:

(Millions of Dollars)	March 31, 2019	Dec. 31, 2018
NOL and tax credit carryforwards	\$ (4.0)	\$ (3.8)

Net deferred tax liability associated with the unrecognized tax benefit amounts and related NOLs and tax credits carryforwards were \$0.9 million and \$0.8 million at March 31, 2019 and Dec. 31, 2018, respectively.

As the IRS Appeals and federal audit progress and state audits resume, it is reasonably possible that the amount of unrecognized tax benefit could decrease up to approximately \$3.6 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)	March 31, 2019	Dec. 31, 2018
Receivable for interest related to unrecognized tax benefits at beginning of period	\$ 0.7	\$ 0.5
Interest income related to unrecognized tax benefits	—	0.2
Receivable for interest related to unrecognized tax benefits at end of period	\$ 0.7	\$ 0.7

No amounts were accrued for penalties related to unrecognized tax benefits as of March 31, 2019 or Dec. 31, 2018.

4. Fair Value of Financial Assets and Liabilities

Fair Value Measurements

The 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.

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NOTES TO FINANCIAL STATEMENTS (Continued)			

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 NAVs.

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 generally utilize observable forward prices and volatilities, as well as observable pricing adjustments for specific delivery locations, and are generally assigned a Level 2 classification. When contractual settlements relate to delivery locations for which pricing is relatively unobservable, 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 (SPP). FTRs purchased from an 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 important 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 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 insignificant 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 March 31, 2019, accumulated other comprehensive losses related to interest rate derivatives included \$0.1 million 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.

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NOTES TO FINANCIAL STATEMENTS (Continued)			

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.

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.

Gross notional amounts of commodity FTRs:

(Amounts in Millions) (a)	March 31, 2019	Dec. 31, 2018
Megawatt hours of electricity	2.2	5.5

(c) 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 March 31, 2019, one of the eight most significant counterparties for these activities, comprising \$11.1 million or 24% of this credit exposure, had investment grade ratings from S&P Global Ratings, Moody's Investor Services or Fitch Ratings. Five of the eight most significant counterparties, comprising \$9.0 million or 20% of this credit exposure, were not rated by external rating agencies, but based on SPS' internal analysis, had credit quality consistent with investment grade. Two of these significant counterparties, comprising \$4.4 million or 10% of this credit exposure, had credit quality less than investment grade, based on external analysis. Six of these significant counterparties are municipal or cooperative electric entities, or other utilities.

Impact of Derivative Activities on Income and Accumulated Other Comprehensive Loss — Pre-tax losses related to interest rate derivatives reclassified from accumulated other comprehensive loss into earnings were immaterial for the three months ended March 31, 2019 and 2018.

Changes in the fair value of FTRs resulting in pre-tax net gains of \$6.3 million and \$0.3 million recognized for the three months ended March 31, 2019 and 2018, respectively, 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 of an immaterial amount and losses of \$0.5 million were recognized for the three months ended March 31, 2019 and 2018, 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.

SPS had no derivative instruments designated as fair value hedges during the three months ended March 31, 2019 and 2018.

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

	March 31, 2019						Dec. 31, 2018					
	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	\$ —	\$ —	\$ 3.1	\$ 3.1	\$ —	\$ 3.1	\$ —	\$ —	\$ 14.9	\$ 14.9	\$ (0.2)	\$ 14.7
Total current derivative assets	\$ —	\$ —	\$ 3.1	\$ 3.1	\$ —	3.1	\$ —	\$ —	\$ 14.9	\$ 14.9	\$ (0.2)	14.7
Purchase Power Agreements (PPAs) (b)						3.1						3.1
Current derivative instruments						\$ 6.2						\$ 17.8
Noncurrent derivative assets												
PPAs (b)						15.0						15.8
Noncurrent derivative						\$ 15.0						\$ 15.8
Current derivative liabilities												
Other derivative instruments:												
Electric commodity	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 0.2	\$ 0.2	\$ (0.2)	\$ —
Total current derivative liabilities	\$ —	\$ —	\$ —	\$ —	\$ —	—	\$ —	\$ —	\$ 0.2	\$ 0.2	\$ (0.2)	—
PPAs (b)						3.6						3.6
Current derivative instruments						\$ 3.6						\$ 3.6
Noncurrent derivative liabilities												
PPAs (b)						15.5						16.4
Noncurrent derivative instruments						\$ 15.5						\$ 16.4

(a) SPS nets derivative instruments and related collateral in its balance sheet when supported by a legally enforceable master netting agreement, and all derivative instruments and related collateral amounts were subject to master netting agreements at March 31, 2019 and Dec. 31, 2018. At both March 31, 2019 and Dec. 31, 2018, 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.

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NOTES TO FINANCIAL STATEMENTS (Continued)			

(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 three months ended March 31, 2019 and 2018:

(Millions of Dollars)	Three Months Ended March 31,	
	2019	2018
Balance at Jan. 1	\$ 14.7	\$ 12.7
Purchases	3.9	0.7
Settlements	(6.5)	(10.4)
Net transactions recorded during the period:		
Net (losses) gains recognized as regulatory assets and liabilities	(9.0)	2.4
Balance at March 31	\$ 3.1	\$ 5.4

SPS recognizes transfers between fair value hierarchy levels as of the beginning of each period. There were no transfers of amounts between levels for derivative instruments for the three months ended March 31, 2019 and 2018.

Fair Value of Long-Term Debt

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

(Millions of Dollars)	March 31, 2019		Dec. 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt, including current portion	\$ 2,146.5	\$ 2,220.4	\$ 2,146.1	\$ 2,139.8

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 March 31, 2019 and Dec. 31, 2018, and given the observability of the inputs, the fair values presented for long-term debt were assigned as Level 2.

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NOTES TO FINANCIAL STATEMENTS (Continued)			

5. Benefit Plans and Other Postretirement Benefits

Components of Net Periodic Benefit Cost (Credit)

(Millions of Dollars)	Three Months Ended March 31			
	2019	2018	2019	2018
	Pension Benefits		Postretirement Health Care Benefits	
Service cost	\$ 2.2	\$ 2.4	\$ 0.2	\$ 0.3
Interest cost	5.0	4.6	0.4	0.4
Expected return on plan assets	(7.2)	(7.1)	(0.5)	(0.6))
Amortization of prior service credit	—	—	(0.1)	(0.1))
Amortization of net loss (gain)	2.8	3.5	(0.1)	(0.2))
Net periodic benefit cost (credit)	2.8	3.4	(0.1)	(0.2))
(Costs) credits not recognized due to the effects of regulation	0.4	1.0	—	—
Net benefit cost (credit) recognized for financial reporting	\$ 3.2	\$ 4.4	\$ (0.1)	\$ (0.2))

In January 2019, contributions of \$150 million were made across four of Xcel Energy's pension plans, of which \$17 million was attributable to SPS. Xcel Energy does not expect additional pension contributions during 2019.

6. Commitments and Contingencies

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

Legal

SPS is involved in various litigation matters that are being defended and handled 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 complex judgments about future events. Management maintains accruals for losses that are 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 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 of such matters, including a possible eventual loss.

For current proceedings not specifically reported herein, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on SPS' financial statements. Unless otherwise required by GAAP, legal fees are expensed as incurred.

Rate Matters

SPP OATT Upgrade Costs — Under the SPP Open Access Transmission Tariff (OATT), costs of transmission upgrades may be recovered from other SPP customers whose transmission service depends on capacity enabled by the upgrade. 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.

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NOTES TO FINANCIAL STATEMENTS (Continued)			

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 these previously unbilled charges was remanded to the FERC. In February 2019, after submission of additional briefs, the FERC reversed its 2016 decision and ordered SPP to refund the charges retroactively collected from its transmission customers, including SPS, related to periods before Sept. 2015. On April 1, 2019, several parties, including SPP, filed requests for rehearing. The timing of a FERC response to the rehearing requests is uncertain. The refunds are expected to be given back to SPS customers through future rates.

In October 2017, SPS filed a separate complaint against SPP asserting that SPP has assessed upgrade charges to SPS in violation of the SPP OATT. The FERC granted a rehearing for further consideration in May 2018. The timing of FERC action on the SPS rehearing is uncertain. If SPS' complaint results in additional charges or refunds, SPS will seek to recover or refund the amounts through future SPS customer rates.

SPP Filing to Assign GridLiance Facilities to SPS Rate Zone — In August 2018, SPP filed a request with the FERC to amend its OATT to include the costs of the GridLiance High Plains, LLC. facilities in the SPS rate zone. In a previous filing, the FERC determined that some of these facilities did not qualify as transmission facilities under the SPP OATT. SPP's proposed tariff changes could result in an increase in the annual transmission revenue requirement (ATRR) of \$9.5 million per year, with \$6 million allocated to SPS' retail customers.

The remaining \$3.5 million would be paid by other wholesale loads in the SPS rate zone. In September 2018, SPS protested the proposed SPP tariff charges, and asked the FERC to reject the SPP filing. On October 31, 2018, the FERC issued an order accepting the proposed charges as of November 1, 2018. In December 2018, the FERC hosted a settlement hearing over the matter. A hearing will be ordered if a settlement is not reached.

SPS Filing to Modify Wholesale Transmission Rates - In 2018, SPS filed revisions to its wholesale transmission formula rate. The proposal includes an update to the depreciation rates for transmission plant. The new formula rate would provide flow-back of "excess" accumulated deferred income tax (ADIT) resulting from the Tax Cuts and Jobs Act (TCJA) and recover certain wholesale regulatory commission expenses.

The proposed changes would increase wholesale transmission revenues by approximately \$9.4 million, with approximately \$4.4 million of the total being recovered in SPP regional transmission rates. SPS proposed that the formula rate changes be effective February 1, 2019.

In January 2019, the FERC issued an order accepting the proposed rate changes as of February 1, 2019, subject to refund and settlement procedures. The first settlement conference is expected in April 2019.

Environmental

MGP, Landfill or Disposal Sites — SPS is currently investigating or remediating a Manufactured Gas Plant (MGP), landfill or other disposal site across its service territories, and these activities will continue through at least 2020. SPS accrued \$0.1 million as of March 31, 2019 and Dec. 31, 2018, respectively. There may be insurance recovery and/or recovery from other potentially responsible parties, offsetting a portion of the costs incurred.

Leases

SPS evaluates a variety of contracts that may contain leases, including PPAs and arrangements for the use of office space and other facilities, vehicles and equipment. Under Accounting Standards Codification (ASC) Topic 842, adopted by SPS on Jan. 1, 2019, 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.

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NOTES TO FINANCIAL STATEMENTS (Continued)			

Right-of-use (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 are 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, and therefore the present value of future lease payments is calculated using the estimated incremental borrowing rate for similar borrowing periods. SPS has elected the practical expedient under which non-lease components, such as asset maintenance costs included in payments to the lessor, 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)	March 31, 2019
PPAs	\$ 500.3
Other	48.0
Gross operating lease ROU assets	548.3
Accumulated amortization	(6.3))
Net operating lease ROU assets	\$ 542.0

Given the impacts of accounting for regulated operations, and the resulting recognition of periodic expense at the amounts recovered in customer rates, cash expenditures for operating leases are consistent with recognized lease expense.

Components of lease expense:

(Millions of Dollars)	Three Months Ended March 31, 2019
Operating leases	
PPA capacity payments	\$ 12.8
Other operating leases (a)	1.2
Total operating lease expense (b)	\$ 14.0

(a) Includes short-term lease expense of \$0.4 million.

(b) PPA capacity payments and expense for other operating leases are included in electric fuel and purchased power on the statements of income.

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NOTES TO FINANCIAL STATEMENTS (Continued)			

Future commitments under operating leases as of March 31, 2019 in Accounts 227 and 243:

(Millions of Dollars)	PPA (a) (b) Operating Leases	Other Operating Leases	Total Operating Leases
2019	\$ 34.7	\$ 2.5	\$ 37.2
2020	46.2	3.4	49.6
2021	46.2	3.3	49.5
2022	46.2	3.4	49.6
2023	46.2	3.4	49.6
Thereafter	450.8	54.8	505.6
Total minimum obligation	670.3	70.8	741.1
Interest component of obligation	(176.0)	(23.1)	(199.1)
Present value of minimum obligation	494.3	47.7	542.0
Less current portion			(26.2)
Noncurrent operating lease liabilities			\$ 515.8
Weighted-average discount rate			4.4%
Weighted-average remaining lease term in years			14.8

(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.

Future commitments under operating leases as of Dec. 31, 2018:

(Millions of Dollars)	PPA (a) (b) Operating Leases	Other Operating Leases	Total Operating Leases
2019	\$ 46.7	\$ 5.2	\$ 51.9
2020	46.2	5.2	51.4
2021	46.2	5.1	51.3
2022	46.2	5.1	51.3
2023	46.2	5.1	51.3
Thereafter	450.8	56.3	507.1

(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.

7. Supplementary Cash Flow Data

(Millions of Dollars)	Three Months Ended March 31	
	2019	2018
Supplemental disclosure of cash flow information:		
Cash paid for interest (net of amounts capitalized)	\$ (18.9)	\$ (21.2)
Cash paid for income taxes, net	(4.9)	(4.0)
Supplemental disclosure of non-cash investing transactions:		
Property, plant and equipment (PPE) additions in accounts payable	\$ 68.5	\$ 36.7
Inventory transfer additions in PPE	\$ 6.4	\$ 4.8
Operating lease right-of-use assets	\$ 548.3	\$ ---
Allowance for equity funds used during construction	\$ 10.3	\$ 3.4

Southwestern Public Service Company

Income Statement

Line No.	Account Title	(a) Base Period	(b) Test Year Period	Difference ⁽⁴⁾
1	Utility Operating Income			
2	Operating Revenues	\$ 1,901,243,869	\$ 1,221,107,691	\$ (680,136,178) ⁽³⁾
3	Utility Operating Expenses			
4	Operation Expenses	\$ 1,236,784,827	\$ 519,741,713	\$ (717,043,114) ⁽³⁾
5	Maintenance Expenses	62,444,483	65,300,647	2,856,164 ⁽³⁾
6	Depreciation Expenses	171,940,312	276,567,888	104,627,576 ⁽³⁾
7	Depreciation Expenses for Asset Retirement Obligation	43,075	-	(43,075)
8	Amortization & Depletion of Utility Plant	27,967,696	28,292,345	324,649 ⁽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	4,994,563	1,860,274	(3,134,289) ⁽³⁾
13	(Less) Regulatory Credits	3,380,796	(2,077,990)	(5,458,786) ⁽³⁾
14	Taxes Other Than Income Taxes	68,810,705	80,139,608	11,328,903 ⁽³⁾
15	Income Taxes - Federal	4,516,092	(27,942,504)	(32,458,596) ⁽³⁾
16	Income Taxes - Other	2,736,407	(1,896,948)	(4,633,355) ⁽³⁾
17	Provision for Deferred Income Taxes	105,935,936	46,984,947	(58,950,989) ⁽²⁾⁽³⁾
18	(Less) Provision for Deferred Income Taxes	72,175,608	-	(72,175,608) ⁽²⁾⁽³⁾
19	Investment Tax Credit Adj. - Net	(52,421)	(52,421)	(0) ⁽³⁾
20	(Less) Gains from Disposition of Utility Plant	-	-	-
21	Losses from Disposition of Utility Plant	-	-	-
22	(Less) Gains from Disposition of Allowances	12,013	-	(12,013) ⁽³⁾
23	Losses from Disposition of Allowances	873,526	-	(873,526) ⁽³⁾
24	Accretion Expense	1,575,475	-	(1,575,475) ⁽³⁾
25	Total Utility Operating Expenses	\$ 1,613,002,259	\$ 991,073,537	\$ (621,928,722)
26	Net Utility Operating Income	\$ 288,241,610	\$ 230,034,154	\$ (58,207,456) ⁽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	185,017	185,017	-
33	(Less) Expenses of Nonutility Operations	209,131	209,131	-
34	Nonoperating Rental Income	-	-	-
35	Equity in Earnings of Subsidiary Companies	-	-	-
36	Interest and Dividend Income	1,580,201	1,580,201	-
37	Allowance for Other Funds Used During Construction	25,967,130	25,967,130	-
38	Miscellaneous Nonoperating Income	2,345	2,345	-
39	Gain on Disposition of Property	6,798	6,798	-
40	Total Other Income	\$ 27,532,360	\$ 27,532,360	\$ -
41	Other Income Deductions			
42	Loss on Disposition of Property	\$ 13,700	\$ 13,700	\$ -
43	Miscellaneous Amortization	-	-	-
44	Miscellaneous Income Deductions ⁽¹⁾	2,724,353	2,724,353	-
45	Total Other Income Deductions	\$ 2,738,053	\$ 2,738,053	\$ -

Southwestern Public Service Company

Income Statement

Line No.	Account Title	(a) Base Period	(b) Test Year Period	Difference ⁽⁴⁾
46	Taxes Applicable to Other Income and Deductions			
47	Taxes Other Than Income Taxes	\$ 25,110	\$ 25,110	\$ -
48	Income Taxes - Federal	804,285	804,285	-
49	Income Taxes - Other	35,344	35,344	-
50	Provision for Deferred Income Taxes	719,679	719,679	-
51	(Less) Provision for Deferred Income Taxes - Cr.	715,960	715,960	-
52	Investment Tax Credit Adj. - Net	-	-	-
53	(Less) Investment Tax Credits	-	-	-
54	Total Taxes on Other Income and Deductions	\$ 868,458	\$ 868,458	\$ -
55	Net Other Income and Deductions	\$ 23,925,849	\$ 23,925,849	\$ -
56	Interest Charges			
57	Interest on Long-Term Debt	\$ 82,816,496	\$ 82,816,496	\$ -
58	Amortization of Debt Discount and Expense	1,209,786	1,209,786	-
59	Amortization of Loss on Reacquired Debt	807,614	807,614	-
60	(Less) Amortization of Premium on Debt - Credit	-	-	-
61	(Less) Amortization of Gain on Reacquired Debt - Credit	-	-	-
62	Interest on Debt to Associated Companies	1,224,178	1,224,178	-
63	Other Interest Expense	3,525,800	3,525,800	-
64	(Less) Allow. for Borrowed Funds Used During Constr. - Cr.	11,722,808	11,722,808	-
65	Net Interest Charges	\$ 77,861,066	\$ 77,861,066	\$ -
66	Income Before Extraordinary Items	\$ 234,306,393	\$ 176,098,937	\$ (58,207,456)
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	\$ 234,306,393	\$ 176,098,937	\$ (58,207,456)

(c) Explanation of Adjustments

The Base Period information presented in Schedule I-2 is derived by utilizing SPS's 2018 FERC Form 1 annual results, minus the first three months 2018 results (Column (c) on SPS's 2018 First Quarter FERC Form 3), plus the first three months 2019 results (Column (c) on SPS's 2019 First Quarter FERC Form 3).

Please see pages 3-4 for the Income Statement-related notes from SPS's 2018 FERC Form 1, pages 5-6 for the Income Statement-related notes from SPS's 2018 First Quarter FERC Form 3, pages 7-8 for the Income Statement-related notes from SPS's 2019 First Quarter FERC Form 3, and pages 9-41 for the Notes to Financial Statements from SPS's 2018 FERC Form 1. Notes to Financial Statements from SPS's 2019 First Quarter FERC Form 3 are provided with Schedule I-1.

⁽¹⁾ This amount 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⁾ "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 Arthur P. Freitas for explanations of cost of service adjustments.

⁽⁵⁾ 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 Arthur P. Freitas for explanations of these cost of service adjustments.

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FOOTNOTE DATA			

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

Includes \$17,700,000 of demand-side management program expenses.

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

Includes \$15,525,000 of demand-side management program expenses.

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

NM RPS Rider Amort	\$7,348,258
TX Restruct Recoverable Meter	34,898
NM Z2 Amort	135,907
TX Z2 Amort	1,231,989
	<u>\$8,751,052</u>

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

NM RPS Rider Amort	\$7,124,281
TX Restruct Recoverable Meter	34,898
	<u>\$7,159,179</u>

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

ARO Reg Credits Electric	\$ 1,532,213
Amort of Inc Capital RL	53,949
NM Lg Cust Cap Amort	2,109,921
Retail Recovery of Credit Dist. - Funded	(948)
Retail Recovery of PTP Revenue Clawback	527
Retail Recovery Z2 DAUC	36,509
TX 47527 Revenue Accrual	5,346,815
	<u>\$ 9,078,986</u>

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

ARO Reg Credits Electric	\$ (150,096)
Amort of Inc Capital RL	53,949
NM Lg Cust Cap Amort	1,754,560
Retail Recovery of Credit Dist. - Funded	950
Retail Recovery of PTP Revenue Clawback	(103,968)
Retail Recovery of Z2 DAUC	124
TX 45524 Settlement	(14,100,000)
	<u>\$ (12,544,481)</u>

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

Gain-Disposition of SO2 Allowances	\$ 62
SO2 New Mexico Retail Sharing	(18)
SO2 Texas Retail Sharing	(35)
SO2 Amortization	5,439
Gain-Disposition of REC Allowances	6,415
	<u>\$ 11,863</u>

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

Gain-Disposition of SO2 Allowances	\$ 60
SO2 New Mexico Retail Sharing	(14)
SO2 Texas Retail Sharing	(34)
Gain-Disposition of REC Allowances	860,849
	<u>\$ 860,861</u>

Name of Respondent Southwestern Public Service Company	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/18/2019	Year/Period of Report 2018/Q4
FOOTNOTE DATA			

Schedule Page: 114 Line No.: 46 Column: c
Income on Company owned life insurance.
Schedule Page: 114 Line No.: 46 Column: d

Income on Company owned life insurance
Schedule Page: 114 Line No.: 53 Column: c
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.
Schedule Page: 114 Line No.: 54 Column: c
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.

20180529-8109 FERC PDF (Unofficial) 05/25/2018

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 05/25/2018	Year/Period of Report 2018/Q1
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FOOTNOTE DATA			

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

Unnatural balance due to billing error. This will be reversed in April 2018.

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

Unnatural balance due to billing error. This will be reversed in April 2018.

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

Unnatural balance due to billing error. This will be reversed in April 2018.

Schedule Page: 114 Line No.: 37 Column: c

Unnatural balance is due to us a loss for Q1 2018 Rabbi Trust funds.

Schedule Page: 114 Line No.: 37 Column: e

Unnatural balance is due to us a loss for Q1 2018 in Rabbi Trust funds.

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

Unnatural balance due to a true-up of an accrued gain made in 2017.

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

Unnatural balance due to a true-up of an accrued gain made in 2017.

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

Income on Company owned life insurance.

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

Income on Company owned life insurance.

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

Income on Company owned life insurance.

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

Income on Company owned life insurance.

Schedule Page: 114 Line No.: 53 Column: c

Unnatural balances for FERC 409 are relatively common because there is not an account for income tax benefits. Because of this all income tax benefits and detriments are recorded in current tax expense. SPS is in a taxable loss as of Q1 which was largely driven by bonus depreciation. The consolidated group was not in a net operating loss position therefore, SPS was not required to accrue NOLs.

Schedule Page: 114 Line No.: 53 Column: d

Unnatural balances for FERC 409 are relatively common because there is not an account for income tax benefits. Because of this all income tax benefits and detriments are recorded in current tax expense. SPS is in a taxable loss as of Q1 which was largely driven by bonus depreciation. The consolidated group was not in a net operating loss position therefore, SPS was not required to accrue NOLs.

Schedule Page: 114 Line No.: 53 Column: e

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Schedule Page: 114 Line No.: 53 Column: f

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

Unnatural balances for FERC 409 are relatively common because there is not an account for income tax benefits. Because of this all income tax benefits and detriments are recorded in current tax expense. SPS is in a taxable loss as of Q1 which was largely driven by bonus depreciation. The consolidated group was not in a net operating loss position therefore, SPS was not required to accrue NOLs.

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

Unnatural balances for FERC 409 are relatively common because there is not an account for

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Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 05/25/2018	Year/Period of Report 2018/Q1
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FOOTNOTE DATA			

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

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

Unnatural balances for FERC 409 are relatively common because there is not an account for income tax benefits. Because of this all income tax benefits and detriments are recorded in current tax expense. SPS is in a taxable loss as of Q1 which was largely driven by bonus depreciation. The consolidated group was not in a net operating loss position therefore, SPS was not required to accrue NOLs.

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 06/27/2019	Year/Period of Report 2019/Q1
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FOOTNOTE DATA			

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

NM RPS Rider Amort	1,334,927
TX Restruct Meter Amort	8,724
NM ZZ Amort	130,123
TX ZZ Amort	327,357
	<u>\$1,801,131</u>

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

NM RPS Rider Amort	1,762,008
TX Restruct Meter Amort	8,724
Estimated Rate Change Deferral	3,786,888
	<u>\$5,557,620</u>

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

ARO Reg Credits Electric	\$458,022
TX 47527 Revenue Amort	\$ (628,051)
Amort of Inc Capital RL	13,488
	<u>-\$156,541</u>

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

TX 47527 Revenue Accrual	5,156,788
ARO Reg Credits Electric	371,685
Amort of Inc Capital RL	13,487
Retail Recovery of PTP Revenue Clawback	528
Retail Recovery of Z2 DAUC	109
Retail Recovery of Credit Dist. - Funded	(948)
	<u>5,541,649</u>

Schedule Page: 114 Line No.: 15 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.: 22 Column: d

Unnatural balance due to billing error. This will be reversed in April 2018.

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

Unnatural balance due to billing error. This will be reversed in April 2018.

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

Unnatural balance due to billing error. This will be reversed in April 2018.

Schedule Page: 114 Line No.: 37 Column: d

Unnatural balance is due to us a loss for Q1 2018 Rabbi Trust funds.

Schedule Page: 114 Line No.: 37 Column: f

Unnatural balance is due to us a loss for Q1 2018 in Rabbi Trust funds.

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

Unnatural balance in FERC 942.1 is driven by interest accruals related to the New Mexico RPS rider and Texas. The interest accrual for 2019 RPS rider is a debit rather than a credit because the mechanism is over recovered. The interest accrual for TX is related to interest earned on the over recovery of fuel that was issued to be refunded back to customers.

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

Unnatural balance due to a true-up of an accrued gain made in 2017.

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

Unnatural balance due to a true-up of an accrued gain made in 2017.

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

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 06/27/2019	Year/Period of Report 2019/Q1
Southwestern Public Service Company			
FOOTNOTE DATA			

Income on Company owned life insurance.

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

Income on Company owned life insurance.

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

Income on Company owned life insurance.

Schedule Page: 114 Line No.: 53 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.

Schedule Page: 114 Line No.: 53 Column: f

Unnatural balances for FERC 409 are relatively common because there is not an account for income tax benefits. Because of this all income tax benefits and detriments are recorded in current tax expense. SPS is in a taxable loss as of Q1 which was largely driven by bonus depreciation. The consolidated group was not in a net operating loss position therefore, SPS was not required to accrue NOLs.

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

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Unnatural balances for FERC 409 are relatively common because there is not an account for income tax benefits. Because of this all income tax benefits and detriments are recorded in current tax expense. SPS is in a taxable loss as of Q1 which was largely driven by bonus depreciation. The consolidated group was not in a net operating loss position therefore, SPS was not required to accrue NOLs.

Name of Respondent Southwestern Public Service Company	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report 04/18/2019	Year/Period of Report End of 2018/Q4
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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 Commission 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.

PAGE 122 INTENTIONALLY LEFT BLANK
SEE PAGE 123 FOR REQUIRED INFORMATION.

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Southwestern Public Service Company			
NOTES TO FINANCIAL STATEMENTS (Continued)			

1. Summary of Significant Accounting Policies

General — Southwest Public Service Company (SPS) is engaged in the regulated generation, purchase, transmission, distribution and sale of electricity. SPS is subject to regulation by the Federal Regulatory Energy Commission (FERC) and state utility commissions.

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 Federal Energy Regulatory Commission (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:

(Thousands of Dollars)	12/31/2018
Balance Sheet:	
Net utility plant	\$ 189,067
Current assets	31,947
Current liabilities	92,578
Other long-term assets	(149,999)
Long-term debt and other long-term liabilities	(21,563)

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NOTES TO FINANCIAL STATEMENTS (Continued)			

Statement of Income:

Operating revenues	\$ 37,473
Operating expenses	(1,738)
Other income and deductions	(1,289)

Use of Estimates — SPS uses estimates based on the best information available in recording transactions and balances resulting from business operations. Estimates are used on items such as plant depreciable lives or potential disallowances, asset retirement obligations (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 when actual amounts can be determined. Those 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 (OCI), are deferred as regulatory assets based on the expected ability to recover the costs in future rates; and
- 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 or cash flows.

See Note 2 for further information.

Income Taxes — SPS accounts for income taxes using the asset and liability method, which requires 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 the tax 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 its net deferred taxes upon a tax rate reduction results in the establishment of a net regulatory liability which will be refundable to utility customers over the remaining life of the related assets. A tax rate increase would result in the establishment of a similar regulatory asset.

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 (ITCs) 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.

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NOTES TO FINANCIAL STATEMENTS (Continued)			

Recognition of changes in uncertain tax positions are reflected as a component of income tax.

SPS reports interest and penalties related to income taxes within the other income and interest charges in the statements of income. Interest and penalties are recorded separately to their respective line items in the income statement.

Xcel Energy Inc. and its subsidiaries, including SPS, files 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 Notes 2 and 6 for further information.

Utility Plant and Depreciation — Utility Plant is stated at original cost. The cost of plant includes direct labor and materials, contracted work, overhead costs and AFUDC. The cost of plant retired is charged to accumulated depreciation and amortization. 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 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. Depreciation expense, expressed as a percentage of average depreciable property, was 2.9% in 2018 and 2.8% in 2017.

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. SPS also recovers through rates certain future plant removal costs in addition to AROs. The accumulated removal costs for these obligations are reflected in the balance sheets as a regulatory liability.

See Note 9 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 8 for further information.

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NOTES TO FINANCIAL STATEMENTS (Continued)			

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. If an environmental expense is related to facilities currently in use, such as 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 (PRPs) 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 9 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 on a systematic basis 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). Revenues and charges for energy transacted through SPP are recorded based upon our evaluation each hour as to whether we are a net seller or a net buyer based upon total volumes in the real time market. If SPS is a net seller, the transaction is recorded on a gross basis in electric revenues and cost of sales. If SPS is a net buyer, the transaction is recorded on a net basis in cost of sales.

See Note 4 for further information.

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.

Inventory — Inventory is recorded at average cost.

Commodity Trading Operations — Pursuant to the joint operating agreement (JOA) approved by the FERC, some of the commodity trading margins for SPS are apportioned to Northern States Power Company, a Minnesota corporation (NSP-Minnesota) and Public Service Company of Colorado (PSCo). Commodity trading activities are not associated with energy produced from SPS' 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. See Note 7 for further discussion.

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NOTES TO FINANCIAL STATEMENTS (Continued)			

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 net asset values (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 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 7 and 8 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 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.

See Note 7 for further information.

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 DSM programs) qualify as alternative revenue programs under GAAP. 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. When certain criteria are met, such as 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 the total amount collected and the 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 in the period earned.

See Note 4 for further information.

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 demand side management (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.

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Emission Allowances — Emission allowances are recorded at cost plus 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 purposes is recorded as electric fuel and purchased power expense. SPS reduces recoverable fuel costs for the cost of RECs and records that cost as a regulatory asset when the amount is recoverable in future rates.

Sales of RECs are recorded in electric revenues on a gross basis. The 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. Operating results from the regulated electric utility segment serve as the primary basis for the chief operating decision maker to evaluate the performance of SPS.

Subsequent Events — Management has evaluated the impact of events occurring after Dec. 31, 2018 up to Feb. 22, 2019, the date SPS' GAAP financial statements were issued and has updated such evaluation for disclosure purposes through April 18, 2019. These financial statements contain all necessary 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, 2018	Dec. 31, 2017
Regulatory Assets			
Pension and retiree medical obligations	Various	\$ 232.0	\$ 235.8
Excess deferred taxes – Tax Cuts and Jobs Act (TCJA)	Various	55.8	44.7
Recoverable deferred taxes on AFUDC recorded in plant	Plant lives	27.9	23.9
Net AROs (a)	Plant lives	25.7	24.2
Conservation programs (b)	One to two years	0.1	1.9
Other	Various	18.6	22.2
Total regulatory assets		\$ 360.1	\$ 352.7

(a) Includes amounts recorded for future recovery of AROs.

(b) Includes costs for conservation programs, as well as incentives allowed in certain jurisdictions.

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Components of regulatory liabilities:

(Millions of Dollars)	Remaining Amortization Period	Dec. 31, 2018	Dec. 31, 2017
Regulatory Liabilities			
Deferred income tax adjustments and TCJA refunds (a)	Various	\$ 571.9	\$ 568.6
Gain from asset sales	Various	2.4	2.5
Deferred electric energy costs	Less than one year	56.6	48.5
Other	Various	48.1	36.9
Total regulatory liabilities		\$ 679.0	\$ 656.5

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

(b) Includes the fair value of certain long-term purchased power agreements (PPAs) used to meet energy capacity requirements.

At Dec. 31, 2018 and 2017, approximately \$48 million and \$64 million, respectively, of SPS' regulatory assets represented past expenditures not earning a return. Amounts primarily related to formula rates, losses on reacquired debt and certain rate case expenditures.

3. Borrowings and Other Financing Instruments

Short-Term Borrowings

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 were as follows:

(Amounts in Millions, Except Interest Rates)	Year Ended Dec. 31	
	2018	2017
Borrowing limit	\$ 100	\$ 100
Amount outstanding at period end	—	—
Average amount outstanding	29	13
Maximum amount outstanding	100	100
Weighted average interest rate, computed on a daily basis	% 1.96 %	% 1.12 %
Weighted average interest rate at end of period	N/A	N/A

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

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Commercial paper outstanding for SPS was as follows:

(Amounts in Millions, Except Interest Rates)	2018	2017
Borrowing limit	\$ 400	\$ 400
Amount outstanding at period end	42	—
Average amount outstanding	30	69
Maximum amount outstanding	144	176
Weighted average interest rate, computed on a daily basis	2.27 %	1.13 %
Weighted average interest rate at end of period	2.80	NA

Letters of Credit — SPS may use letters of credit, typically with terms of one-year, to provide financial guarantees for certain operating obligations. At Dec. 31, 2018 and 2017, there were \$2 million and \$3 million of letters of credit outstanding, respectively, under the credit facility. Amounts approximate their fair value.

Credit Facility — In order to use its commercial paper program to fulfill short-term funding needs, 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 in an aggregate amount 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-Total Capitalization Ratio ^(a)		Amount Facility May Be Increased (millions)	Additional Periods For Which a One-Year Extension May Be Requested (b)
2018	2017		
46%	46%	\$50	2

(a) The SPS credit facility has a financial covenant requiring that the debt-to-total capitalization ratio be less than or equal to 65%.

(b) All extension requests are subject to majority bank group approval.

The credit facility has a cross-default provision that SPS will 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, 2018, SPS was in compliance with all financial covenants.

SPS had the following committed credit facilities available as of Dec. 31, 2018.

Credit Facility (a)	Drawn (b)	Available
\$400	\$44	\$356

(a) This credit facility matures in June 2021.

(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, 2018 and 2017.

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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:

(Millions of Dollars)	Maturity Range	Interest Rate Range 2018	Interest Rate Range 2017	2018	2017
Mortgage bonds	2024 - 2048	3.30% - 4.50%	3.30% - 4.50%	\$ 1,800	\$ 1,500
Unsecured senior notes	2033 - 2036	6.00%	6.00% - 8.75%	350	350
Unamortized discount				(4)	(2)
Unamortized debt issuance cost				(20)	(18)
Current maturities				—	—
Total long term debt				\$ 2,126	\$ 1,830

During the next five years, SPS has no long term debt maturities.

Deferred Financing Costs — Deferred financing costs of approximately \$20 million and \$18 million, net of amortization, are presented as deferred debits at Dec. 31, 2018 and 2017, respectively. SPS is amortizing these financing costs over the remaining maturity periods of the related debt.

2018 financings:

Amount	Financing Instrument	Interest Rate	Maturity Date
\$300 million	First mortgage bonds	4.40 %	Nov 15, 2048

2017 financings:

Amount	Financing Instrument	Interest Rate	Maturity Date
\$450 million	First mortgage bonds	3.70 %	Aug 15, 2047

Capital Stock — SPS has the following preferred stock:

	Preferred Stock Authorized (Shares)	Par Value of Preferred Stock	Preferred Stock Outstanding (Shares) 2018 and 2017
SPS	10,000,000	1.00	0

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 commission imposes the most restrictive dividend limitations.

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Requirements and actuals as of Dec. 31, 2018:

Equity to Total Capitalization Ratio - Required Range		Equity to Total Capitalization Ratio - Actual (a)
Low	High	2018
45.0 %	55.0 %	54.4 %

(a) SPS excludes short-term debt.

	Unrestricted Retained Earnings	Total Capitalization	Limit on Total Capitalization
	2018	2018	2018
SPS (a)	\$ 605.7million	\$ 4.7billion	N/A

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

4. Preferred Stock

SPS has authorized the issuance of preferred stock.

Preferred Shares Authorized	Par Value	Preferred Shares Outstanding
10,000,000	\$ 1.00	None

5. Income Taxes

Federal Tax Reform — In 2017, the TCJA was signed into law. The key provisions impacting Xcel Energy (which includes SPS), generally beginning in 2018, include:

- Corporate federal tax rate reduction from 35% to 21%;
- Normalization of resulting plant-related excess deferred taxes;
- Elimination of the corporate alternative minimum tax;
- Continued interest expense deductibility and discontinued bonus depreciation for regulated public utilities;
- Limitations on certain executive compensation deductions;
- Limitations on certain deductions for net operating losses (NOLs) arising after Dec. 31, 2017 (limited to 80% of taxable income);
- Repeal of the section 199 manufacturing deduction; and,
- Reduced deductions for meals and entertainment as well as state and local lobbying.

Xcel Energy estimated the effects of the TCJA, which have been reflected in the financial statements.

Reductions in deferred tax assets and liabilities due to a decrease in corporate federal tax rates typically result in a net tax benefit. However, the impacts are primarily recognized as regulatory liabilities refundable to utility customers as a result of Internal Revenue Service (IRS) requirements and past regulatory treatment.

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Estimated impacts of the new tax law for SPS in December 2017 included:

- \$426 million (\$559 million grossed-up for tax) of reclassifications of plant-related excess deferred taxes to regulatory liabilities upon valuation at the new 21% federal rate. The regulatory liabilities will be amortized consistent with IRS normalization requirements, resulting in customer refunds over the average remaining life of the related property;
- \$45 million and \$28 million of reclassifications (grossed-up for tax) of excess deferred taxes for non-plant related deferred tax assets and liabilities, respectively, to regulatory assets and liabilities; and,
- \$8 million of total estimated income tax benefit related to the federal tax reform implementation, and a \$2 million reduction to net income related to the allocation of Xcel Energy Services Inc.'s tax rate change on its deferred taxes.

Xcel Energy accounted for the state tax impacts of federal tax reform based on enacted state tax laws. Any future state tax law changes related to the TCJA will be accounted for in the periods state laws are enacted.

Federal Audit — 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 Year(s)	Expiration
2009 – 2014	October 2019
2015	September 2019
2016	September 2020
2017	September 2021

In 2012, the Internal Revenue Services (IRS) commenced an examination of tax years 2010 and 2011, including the 2009 carryback claim. In 2017, Xcel Energy and the Office of Appeals reached an agreement and the benefit related to the agreed upon portions was recognized. SPS did not accrue any income tax benefit related to this adjustment. In the second quarter of 2018, the Joint Committee on Taxation completed its review and took no exception to the agreement. As a result, the remaining unrecognized tax benefit was released and recorded as a payable to the IRS.

In the third quarter of 2015, the IRS commenced an examination of tax years 2012 and 2013. In the third quarter of 2017, the IRS concluded the audit of tax years 2012 and 2013 and proposed an adjustment that would impact Xcel Energy's Net Operating Loss (NOL) and Effective Tax Rate (ETR). Xcel Energy filed a protest with the IRS. As of Dec. 31, 2018, the case has been forwarded to the Office of Appeals and 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.

In the fourth quarter of 2018, the IRS began an audit of tax years 2014 - 2016, however no adjustments have been proposed.

State Audits — SPS is a member of the Xcel Energy affiliated group that files consolidated state income tax returns. As of Dec. 31, 2018, SPS' earliest open tax year that is subject to examination by state taxing authorities under applicable statutes of limitations is 2010. There are currently no state income tax audits in progress.

Unrecognized Tax Benefits — Unrecognized tax benefit balance includes permanent tax positions, which if recognized would affect the annual ETR. In addition, the unrecognized tax benefit balance includes temporary tax positions for which the ultimate deductibility is highly certain, but for which there is uncertainty about the timing of such deductibility. A change in the period of deductibility would not affect the ETR but would accelerate the payment to the taxing authority to an earlier period.

Unrecognized tax benefits - permanent vs temporary:

(Millions of Dollars)	Dec. 31, 2018	Dec. 31, 2017
Unrecognized tax benefit — Permanent tax positions	\$ 3.0	\$ 2.3
Unrecognized tax benefit — Temporary tax positions	1.5	2.0
Total unrecognized tax benefit	\$ 4.5	\$ 4.3

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Changes in unrecognized tax benefits:

(Millions of Dollars)	2018	2017
Balance at Jan. 1	\$ 4.3	\$ 28.7
Additions based on tax positions related to the current year	0.6	0.9
Reductions based on tax positions related to the current year	(0.1)	(0.6)
Additions for tax positions of prior years	0.1	1.3
Reductions for tax positions of prior years	(0.3)	(19.9)
Settlements with taxing authorities	(0.1)	(6.1)
Balance at Dec. 31	\$ 4.5	\$ 4.3

Unrecognized tax benefits were reduced by tax benefits associated with NOL and tax credit carryforwards:

(Millions of Dollars)	Dec. 31, 2018	Dec. 31, 2017
NOL and tax credit carryforwards	\$ (3.8)	\$ (5.9)

As the IRS Appeals and federal audit progress and state audits resume, it is reasonably possible that the amount of unrecognized tax benefit could decrease up to approximately \$3.6 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)	2018	2017
Receivable (payable) for interest related to unrecognized tax benefits at Jan. 1	\$ 0.5	\$ (0.9)
Interest income related to unrecognized tax benefits recorded during the year	0.2	1.4
Receivable for interest related to unrecognized tax benefits at Dec. 31	\$ 0.7	\$ 0.5

No amounts were accrued for penalties related to unrecognized tax benefits as of Dec. 31, 2018, or 2017

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)	2018	2017
Federal NOL carryforward	\$ —	\$ 127.6
Federal tax credit carryforwards	7.4	6.3
State NOL carryforwards	2.9	40.5

Federal carryforward periods expire between 2021 and 2038 and state carryforward periods expire between 2021 and 2036.

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.

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Effective income tax rate for years ended Dec. 31:

	2018	2017 (a)
Federal statutory rate	21.0 %	35.0 %
State income tax on pretax income, net of federal tax effect	2.3 %	2.0 %
Increases (decreases) in tax from:		
Regulatory differences – average rate assumption method (ARAM) (b)	(4.2)	—
Tax Reform	—	(3.5)
Adjustments attributable to tax returns	(1.5)	(0.4)
Regulatory differences - other utility plant items	(1.3)	(0.8)
Amortization of excess nonplant deferred taxes	(1.2)	—
Tax credits recognized, net of federal income tax expense	(0.7)	(0.7)
Regulatory differences - Deferral of ARAM (c)	0.7	—
Other, net	0.3	(1.5)
Effective income tax rate	15.4 %	30.1 %

- (a) Prior periods have been reclassified to conform to current year presentation.
- (b) ARAM is a method to flow back excess deferred taxes to customers.
- (c) ARAM has been deferred when regulatory treatment has not been established. As Xcel Energy received direction from its regulatory commissions regarding the return of excess deferred taxes to customers, the ARAM deferral was reversed. This resulted in a reduction to tax expense with a corresponding reduction to revenue.

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

(Millions of Dollars)	2018	2017
Current federal tax expense (benefit)	\$ 12.3	\$ (20.9)
Current state tax expense (benefit)	2.3	(12.7)
Current change in unrecognized tax expense (benefit)	0.7	(2.2)
Deferred federal tax expense	20.0	90.0
Deferred state tax expense	3.6	14.4
Deferred change in unrecognized tax (benefit) expense	(0.1)	(0.1)
Deferred ITCs	0.1	(0.1)
Total income tax expense	\$ 38.9	\$ 68.4

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

(Millions of Dollars)	2018	2017
Deferred tax expense (benefit) excluding items below	\$ 45.8	\$ (436.3)
Amortization and adjustments to deferred income taxes on income tax regulatory assets and liabilities	(22.0)	540.7
Tax (expense) benefit allocated to other comprehensive income, net of adoption of FASB Accounting Standards Update (ASU) No. 2018-02, and other	(0.2)	—
Deferred tax expense	\$ 23.6	\$ 104.4

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

(Millions of Dollars)	2018	2017
Deferred tax liabilities:		
Differences between book and tax bases of property	\$ 772.8	\$ 740.3
Regulatory assets	(90.9)	(94.6)
Pension expense	32.3	33.8
Other	4.0	3.9
Total deferred tax liabilities	\$ 718.2	\$ 683.4
Deferred tax assets:		
Differences between book and tax bases of property	\$ 84.9	\$ 80.1
Regulatory liabilities	(23.2)	(26.8)
NOL carryforward	0.2	28.9
Deferred fuel costs	12.7	10.4
Other employee benefits	5.6	5.8
Tax credit carryforward	7.4	6.3
Other	13.8	7.7
Total deferred tax assets	\$ 101.4	\$ 112.4
Net deferred tax liability	\$ 616.8	\$ 571.0

In December 2017, SPS re-measured 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 re-measurement of our 2017 deferred tax assets and liabilities to the new corporate tax rate. SPS received guidance from some jurisdictions in 2018 and started the amortization of the deficient and excess 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 ADIT's, are amortized according to each jurisdiction. The Non-plant Unprotected have amortization periods of 5 years while, Plant Unprotected will use ARAM.

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The amount of deficient and excess accumulated deferred income tax assets and liabilities that are considered protected and unprotected as of December 31, 2018 and 2017 is reflected below:

(Amounts in Millions)	2018		2017	
<i>FERC Account</i>	182.3	254	182.3	254
Protected				
Plant	\$ -	\$ 468.9	\$ -	\$ 469.9
Nonplant	54.8	-	43.1	-
Unprotected				
Plant	-	69.8	-	70.7
Nonplant	1.0	(23.0)	1.6	(28.0)
Total				
Plant	\$ -	\$ 538.7	\$ -	\$ 540.6
Nonplant	\$ 55.8	\$ (23.0)	\$ 44.7	\$ (28.0)

Excess and deficient accumulated deferred income taxes (ADITs) in 2018 were amortized in the Statement of Income as follows:

(Amounts in Millions)	2018
Protected	
Plant	(6.6)
Nonplant	0.5
Unprotected	
Plant	(2.3)
Nonplant	(3.4)
Total	
Plant	(8.9)
Nonplant	(2.9)

6. Fair Value of Financial Assets and Liabilities

Fair Value Measurements

The 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.

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- 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 — Fair values of cash equivalents are based on cost plus accrued interest; money market funds are measured using quoted NAVs.

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 forecasts of forward prices and volatilities 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 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 important 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 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 insignificant to the financial statements of SPS.

Derivative 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 Dec. 31, 2018, accumulated other comprehensive losses related to interest rate derivatives included \$0.1 million 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.

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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.

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.

Gross notional amounts of commodity FTRs at Dec. 31, 2018 and 2017:

(Amounts in Millions) (a)	Dec. 31, 2018	Dec. 31, 2017
Megawatt hours (MWh) of electricity	5.5	4.3

(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 Dec. 31, 2018, two of the eight most significant counterparties for these activities, comprising \$11.6 million or 28% of this credit exposure, had investment grade ratings from Standard & Poor's, Moody's or Fitch Ratings. Five of the eight most significant counterparties, comprising \$8.7 million or 21% of this credit exposure, were not rated by external rating agencies, but based on SPS' internal analysis, had credit quality consistent with investment grade. Another of these significant counterparties, comprising \$0.6 million or less than 1% of this credit exposure, had credit quality less than investment grade, based on external analysis. Six of these significant counterparties are municipal or cooperative electric entities, or other utilities.

Qualifying Cash Flow Hedges — Financial impact of qualifying interest rate cash flow hedges on SPS' accumulated other comprehensive loss, included in the statements of common stockholder's equity and in the statements of comprehensive income:

(Millions of Dollars)	2018	2017
Accumulated other comprehensive loss related to cash flow hedges at Jan. 1	\$ (0.8)	\$ (0.7)
After-tax net realized losses on derivative transactions reclassified into earnings	0.1	—
Adoption of ASU 2018-02 (a)	—	(0.1)
Accumulated other comprehensive loss related to cash flow hedges at Dec. 31	\$ (0.7)	\$ (0.8)

(a) In 2017, SPS implemented ASU No. 2018-02 related to TCJA, which resulted in reclassification of certain credit balances within net accumulated other comprehensive loss to retained earnings.

Pre-tax losses related to interest rate derivatives reclassified from accumulated other comprehensive loss into earnings were \$0.1 million for the years ended Dec. 31, 2018 and 2017, respectively.

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Changes in the fair value of FTRs resulting in pre-tax net gains of \$7.0 million and \$0.5 million recognized for the years ended Dec. 31, 2018 and 2017, respectively, 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 of \$4.4 million and \$0.8 million were recognized for the years ended Dec. 31, 2018 and 2017, 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.

SPS had no derivative instruments designated as fair value hedges during the years ended Dec. 31, 2018 and 2017.

Recurring Fair Value Measurements — The following table presents for each of the fair value hierarchy levels, SPS' derivative assets and liabilities measured at fair value on a recurring basis at Dec. 31, 2018 and 2017:

	Dec. 31, 2018						Dec. 31, 2017						
	Fair Value			Fair Value Total	Netting (a)	Total	Fair Value			Fair Value Total	Netting (a)	Total	
(Millions of Dollars)	Level 1	Level 2	Level 3				Level 1	Level 2	Level 3				
Current derivative assets													
Other derivative instruments:													
Electric commodity	\$ —	\$ —	\$ 14.9	\$ 14.9	\$ (0.2)	\$ 14.7	\$ —	\$ —	\$ 14.7	\$ 14.7	\$ (2.0)	\$ 12.7	
Total current derivative assets	\$ —	\$ —	\$ 14.9	\$ 14.9	\$ (0.2)	14.7	\$ —	\$ —	\$ 14.7	\$ 14.7	\$ (2.0)	12.7	
PPAs (b)						3.1						3.2	
Current derivative instruments						\$ 17.8						\$ 15.9	
Noncurrent derivative assets													
PPAs (b)						15.8						19.0	
Noncurrent derivative instruments						\$ 15.8						\$ 19.0	
Current derivative liabilities													
Other derivative instruments:													
Electric commodity	\$ —	\$ —	\$ 0.2	\$ 0.2	\$ (0.2)	\$ —	\$ —	\$ —	\$ 2.0	\$ 2.0	\$ (2.0)	\$ —	
Total current derivative liabilities	\$ —	\$ —	\$ 0.2	\$ 0.2	\$ (0.2)	—	\$ —	\$ —	\$ 2.0	\$ 2.0	\$ (2.0)	—	
PPAs (b)						3.6						3.6	
Current derivative instruments						\$ 3.6						\$ 3.6	
Noncurrent derivative liabilities													
PPAs (b)						16.4						19.9	
Noncurrent derivative instruments						\$ 16.4						\$ 19.9	

- (a) SPS nets derivative instruments and related collateral in its balance sheet 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, 2018 and 2017. At both Dec. 31, 2018 and 2017, 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.

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- (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, 2018 and 2017:

(Millions of Dollars)	Year Ended Dec. 31	
	2018	2017
Balance at Jan. 1	\$ 12.7	\$ 2.0
Purchases	32.3	41.2
Settlements	(41.6)	(55.8)
Net transactions recorded during the period:		
Net gains recognized as regulatory assets	11.3	25.3
Balance at Dec. 31	\$ 14.7	\$ 12.7

SPS recognizes transfers between levels as of the beginning of each period. There were no transfers of amounts between levels for derivative instruments for 2017 – 2018.

Fair Value of Long-Term Debt

As of Dec. 31, other financial instruments for which the carrying amount did not equal fair value:

(Millions of Dollars)	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt, including current portion	\$ 2,146.5	\$ 2,139.8	\$ 1,848.2	\$ 2,002.0

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, 2018 and 2017, and given the observability of the inputs, fair values presented for long-term debt were assigned as Level 2.

7. Benefit Plans and Other Postretirement Benefits

Xcel Energy, which includes SPS, has several noncontributory, defined benefit pension plans that cover almost all employees. Generally, benefits are based on a combination of years of service and average pay. 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 supplemental executive retirement plan (SERP) and a nonqualified pension plan. The SERP is maintained for certain executives that were participants 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 operating cash flows. Obligations of the SERP and nonqualified plan as of Dec. 31, 2018 and 2017 were \$33 million and \$37 million, respectively, of which \$2 million was attributable to SPS in 2018 and 2017. In 2018 and 2017, Xcel Energy recognized net benefit cost for the SERP and nonqualified plans of \$4 million and \$5 million, respectively, of which immaterial amounts were attributable to SPS.

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In 2016, Xcel Energy established rabbi trusts to provide partial funding for future distributions of the SERP and its deferred compensation plan. Rabbi trust funding of deferred compensation plan distributions attributable to SPS will be supplemented by SPS's operating cash flows.

Xcel Energy has a contributory health and welfare benefit plan that provides health care and death benefits to certain Xcel Energy retirees.

- Xcel Energy discontinued health care benefits for SPS bargaining employees hired after Jan. 1, 2012.
- Xcel Energy discontinued subsidizing health care benefits for nonbargaining employees of the former New Century Energies, Inc. (NCE), which includes SPS employees, who retired after June 30, 2003.

Xcel Energy, which includes SPS, bases the investment-return assumption on expected long-term performance for each of the asset classes in its pension and postretirement health care portfolios. For pension assets, Xcel Energy considers the historical returns achieved by its asset portfolio over the past 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 2018 were below the assumed level of 6.78%;
- Investment returns in 2017 were above the assumed level of 6.78%;
- In 2019, Xcel Energy's expected investment-return assumption is 6.78%.

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 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.

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Pension Plan Assets

The following presents, for each of the fair value hierarchy levels, SPS' pension plan assets measured at fair value:

(Millions of Dollars)	Dec. 31, 2018					Dec. 31, 2017				
	Level 1	Level 2	Level 3	Measure d at NAV	Total	Level 1	Level 2	Level 3	Measure d at NAV	Total
Cash equivalents	\$ 21.6	\$ —	\$ —	\$ —	\$ 21.6	26.9	—	—	—	\$ 26.9
Commingled funds:	128.6	—	—	132.5	261.1	145.7	—	—	142.7	288.4
Debt securities:	—	98.1	—	—	98.1	—	105.3	—	—	105.3
Equity securities:	14.4	—	—	—	14.4	15.2	—	—	—	15.2
Other	0.2	0.8	—	(4.0)	(3.0)	(3.3)	0.6	—	0.1	(2.6)
Total	\$ 164.8	\$ 98.9	\$ —	\$ 128.5	\$ 392.2	\$ 184.5	\$ 105.9	\$ —	\$ 142.8	\$ 433.2

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

(Millions of Dollars)	Dec. 31, 2018 (a)					Dec. 31, 2017 (a)				
	Level 1	Level 2	Level 3	Measure d at NAV	Total	Level 1	Level 2	Level 3	Measure d at NAV	Total
Cash equivalents	\$ 1.8	\$ —	\$ —	\$ —	\$ 1.8	\$ 2.8	\$ —	\$ —	\$ —	\$ 2.8
Insurance contracts	—	4.3	—	—	4.3	—	4.7	—	—	4.7
Commingled funds:	12.8	—	—	3.8	16.6	14.1	—	—	—	14.1
Debt securities:	—	17.2	—	—	17.2	—	19.0	—	—	19.0
Equity securities:	—	—	—	—	—	3.3	—	—	—	3.3
Other	—	0.1	—	—	0.1	—	0.2	—	—	0.2
Total	\$ 14.6	\$ 21.6	\$ —	\$ 3.8	\$ 40.0	\$ 20.2	\$ 23.9	\$ —	\$ —	\$ 44.1

(a) See Note 7 for further information on fair value measurement inputs and methods.

No assets transferred in or out of Level 3 for the years ended Dec. 31, 2018 or 2017.

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Funded Status — Comparisons of the actuarially computed benefit obligation, changes in plan assets and funded status of the pension and postretirement health care plans for Xcel Energy are presented in the following table:

(Millions of Dollars)	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Change in Benefit Obligation:				
Obligation at Jan. 1	\$ 515.9	\$ 483.6	\$ 47.0	\$ 41.9
Service cost	9.7	9.8	1.1	0.9
Interest cost	18.4	19.7	1.6	1.7
Plan amendments	—	(1.0)	—	—
Actuarial (gain) loss	(34.8)	31.2	(5.1)	4.7
Plan participants' contributions	—	—	0.6	0.6
Benefit payments ^(a)	(31.4)	(27.4)	(3.4)	(2.8)
Obligation at Dec. 31	\$ 477.8	\$ 515.9	\$ 41.8	\$ 47.0
Change in Fair Value of Plan Assets:				
Fair value of plan assets at Jan. 1	\$ 433.2	\$ 380.4	\$ 44.1	\$ 42.3
Actual return on plan assets	(17.6)	56.7	(1.3)	3.8
Employer contributions	8.0	23.5	—	0.2
Plan participants' contributions	—	—	0.6	0.6
Benefit payments	(31.4)	(27.4)	(3.4)	(2.8)
Fair value of plan assets at Dec. 31	\$ 392.2	\$ 433.2	\$ 40.0	\$ 44.1
Funded status of plans at Dec. 31	\$ (85.6)	\$ (82.7)	\$ (1.8)	\$ (2.9)
Amounts recognized in the Balance Sheet at Dec. 31:				
Noncurrent liabilities	(85.6)	(82.7)	(1.8)	(2.9)
Net amounts recognized	\$ (85.6)	\$ (82.7)	\$ (1.8)	\$ (2.9)
Significant Assumptions Used to Measure Benefit Obligations:				
Discount rate for year-end valuation	4.31%	3.63%	4.32%	3.62%
Expected average long-term increase in compensation level	3.75	3.75	N/A	N/A
Mortality table	RP-2014	RP-2014	RP-2014	RP-2014
Health care costs trend rate — initial: Pre-Medicare (Pre-65)	N/A	N/A	6.50%	7.00%
Health care costs trend rate — initial: Post-Medicare (Post-65)	N/A	N/A	5.30%	5.50%
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

(a) Includes approximately \$6.9 million in 2018 and \$0 million in 2017, of lump-sum benefit payments used in the determination of a settlement charge.

Accumulated benefit obligation for the pension plan was \$445.8 million and \$478.8 million as of Dec. 31, 2018 and 2017, respectively.

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

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

(Millions of Dollars)	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Service cost	\$ 9.7	\$ 9.8	\$ 1.1	\$ 0.9
Interest cost	18.4	19.7	1.6	1.7
Expected return on plan assets	(28.3)	(27.9)	(2.5)	(2.4)
Amortization of prior service credit	(0.1)	—	(0.4)	(0.4)
Amortization of net loss	14.1	13.0	(0.4)	(0.6)
Settlement charge (a)	3.2	—	—	—
Net periodic pension cost (credit)	17.0	14.6	(0.6)	(0.8)
Costs not recognized due to effects of regulation	(2.2)	0.3	—	—
Net benefit cost (credit) recognized for financial reporting	\$ 14.8	\$ 14.9	\$ (0.6)	\$ (0.8)
Significant Assumptions Used to Measure Costs:				
Discount rate	3.63%	4.13%	3.62%	4.13%
Expected average long-term increase in compensation level	3.75	3.75	—	—
Expected average long-term rate of return on assets	6.78	6.78	5.80	5.80

- (a) A settlement charge is required when the amount of all lump-sum distributions during the year is greater than the sum of the service and interest cost components of the annual net periodic pension cost. In 2018, as a result of lump-sum distributions during the 2018 plan year, SPS recorded a total pension settlement charge of \$3.3 million the majority of which \$0 million was not recognized due to the effects of regulation.

(Millions of Dollars)	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Amounts Not Yet Recognized as Components of Net Periodic Benefit Cost:				
Net loss	\$ 230.9	\$ 237.0	\$ (9.6)	\$ (8.6)
Prior service credit	(1.2)	(1.3)	(1.8)	(2.2)
Total	\$ 229.7	\$ 235.7	\$ (11.4)	\$ (10.8)
Amounts Not Yet Recognized as Components of Net Periodic Benefit Cost Have Been Recorded as Follows Based Upon Expected Recovery in Rates:				
Current regulatory assets	\$ 12.9	\$ 13.9	\$ —	\$ —
Noncurrent regulatory assets	216.8	221.8	—	—
Current regulatory liabilities	—	—	(0.9)	(0.8)
Noncurrent regulatory liabilities	—	—	(10.5)	(10.0)
Total	\$ 229.7	\$ 235.7	\$ (11.4)	\$ (10.8)
Measurement date	Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017

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Cash Flows — Cash funding requirements can be impacted by changes to actuarial assumptions, actual asset levels and other calculations prescribed by the funding requirements of income tax and other pension-related regulations. Required contributions were made in 2017 - 2019 to meet minimum funding requirements.

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

- \$150 million in January 2019, of which \$17 million was attributable to SPS;
- \$150 million in 2018, of which \$8 million was attributable to SPS;
- \$162 million in 2017, of which \$24 million was attributable to SPS; and,

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

The postretirement health care plans have no funding requirements under income tax and other retirement-related regulations 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:

- Expects to contribute approximately \$11 million during 2019;
- \$11 million during 2018;
- \$20 million during 2017; and,
- Amounts attributable to SPS were immaterial.

Target asset allocations:

	Pension Benefits		Postretirement Benefits	
	2018	2017	2018	2017
Domestic and international equity securities	35%	34%	18 %	24 %
Long-duration fixed income securities	32	31	—	—
Short-to-intermediate fixed income securities	16	19	70	60
Alternative investments	15	14	8	9
Cash	2	2	4	7
Total	100%	100%	100 %	100 %

Plan Amendments — Xcel Energy, which includes SPS, amended the Xcel Energy Inc. Nonbargaining Pension Plan (South) in 2017 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.

In 2018, there were no plan amendments made which affected the benefit obligation.

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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
2019	29.7	3.2	—	3.2
2020	30.0	3.1	—	3.1
2021	29.3	3.2	—	3.2
2022	30.8	3.2	—	3.2
2023	30.8	3.2	—	3.2
2024-2028	156.2	14.4	0.2	14.2

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 2018 and 2017.

8. Commitments and Contingencies

Legal

SPS is involved in various litigation matters that are being defended and handled 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 complex judgments about future events. Management maintains accruals for losses that are 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 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 of such matters, including a possible eventual loss.

For current proceedings not specifically reported herein, management does not anticipate that the ultimate liabilities, if any, arising from such current proceedings would have a material effect on SPS' financial statements. Unless otherwise required by GAAP, legal fees are expensed as incurred.

Rate Matters

SPP OATT Upgrade Costs — Under the SPP Open Access Transmission Tariff (OATT), costs of transmission upgrades may be recovered from other SPP customers whose transmission service depends on capacity enabled by the upgrade. The SPP OATT has allowed SPP to charge for these upgrades since 2008, but SPP had not been charging its customers for these upgrades. In 2016, the FERC granted SPP's request to recover the charges not billed since 2008. SPP subsequently billed SPS approximately \$13 million for these charges.

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 these charges was remanded to the FERC. SPS' recovery of these charges (from 2008 through 2016) is being reviewed by the FERC, which is expected to rule in the first quarter of 2019.

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In October 2017, SPS filed a complaint against SPP regarding the amounts billed asserting that SPP has assessed upgrade charges to SPS in violation of the SPP OATT. The FERC has granted a rehearing of further consideration in May 2018. The timing of the FERC action on the SPS rehearing is uncertain. If SPS' complaint results in additional charges or refunds, SPS will seek to recover or refund the differential in future rate proceedings.

SPP Filing to Assign GridLiance Facilities to SPS Rate Zone — In August 2018, SPP filed a request with the FERC to amend its OATT to include the costs of the GridLiance High Plains, LLC. facilities in the SPS rate zone. In a previous filing, the FERC determined that some of these facilities did not qualify as transmission facilities under the SPP OATT. SPP's proposed tariff changes could result in an increase in the annual transmission revenue requirement (ATRR) of \$9.5 million per year, with \$6 million allocated to SPS' retail customers.

The remaining \$3.5 million would be paid by other wholesale loads in the SPS rate zone. In September 2018, SPS protested the proposed SPP tariff charges, and asked the FERC to reject the SPP filing. On October 31, 2018, the FERC issued an order accepting the proposed charges as of November 1, 2018. In December 2018, the FERC hosted a settlement hearing over the matter. A hearing will be ordered if a settlement is not reached.

SPS Filing to Modify Wholesale Transmission Rates - In 2018, SPS filed revisions to its wholesale transmission formula rate. The proposal includes an update to the depreciation rates for transmission plant. The new formula rate would provide flow-back of "excess" ADIT resulting from the TCJA and recover certain wholesale regulatory commission expenses.

The proposed changes would increase wholesale transmission revenues by approximately \$9.4 million, with approximately \$4.4 million of the total being recovered in SPP regional transmission rates. SPS proposed that the formula rate changes be effective February 1, 2019.

In January 2019, the FERC issued an order accepting the proposed rate changes as of February 1, 2019, subject to refund and settlement procedures. The first settlement conference is expected in the first quarter of 2019.

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 its 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.

MGP, Landfill or Disposal Sites — SPS is currently investigating or remediating one MGP, landfill or other disposal site across its service territories, and these activities will continue through at least 2019. SPS accrued \$0.1 million as of Dec. 31, 2018 and 2017, respectively, for this site. There may be insurance recovery and/or recovery from other potentially responsible parties, offsetting some portion of costs incurred.

Environmental Requirements — Water and Waste

Federal Clean Water Act (CWA) Waters of the United States (WOTUS) Rule — In 2015, the United States Environmental Protection Agency (EPA) and Corps published a final rule that significantly broadened the scope of waters under the CWA that are subject to federal jurisdiction, referred to as "WOTUS". The Rule has been subject to significant litigation and is currently stayed in a portion of the country. SPS cannot estimate potential impacts until the legal and administrative processes are finalized, but expects costs will be recoverable through regulatory mechanisms.

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Federal CWA effluent limitations 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 (CCRs). In 2017, the EPA delayed the compliance date for flue gas desulfurization wastewater and bottom ash transport until November 2020. After 2020, SPS estimates that ELG compliance will be immaterial.

The EPA, however, is conducting a rulemaking process to potentially revise the effluent limitations and pretreatment standards, which may impact compliance costs. SPS estimates these costs will be fully recoverable through regulatory mechanisms.

Environmental Requirements — Air

Regional Haze Rules — The regional haze program requires sulfur dioxide (SO₂), nitrogen oxide (NO_x) and particulate matter (PM) 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 as described below.

BART Determination for Texas: The EPA has issued a revised final rule adopting a BART alternative Texas only SO₂ trading program that applies to all Harrington and Tolk units. Under the trading program, SPS expects the allowance allocations to be sufficient for SO₂ 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 United States District Court for the District of Columbia 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. In January 2018, the court granted SPS' motion to intervene in the Fifth Circuit litigation in support of the EPA's final rule. 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. It is not known when the EPA will make a final decision on this proposal.

Reasonable Progress Rule: In January 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 SO₂ emission limitations that would require the installation of dry scrubbers on Tolk Units 1 and 2, with compliance 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 SO₂ emission reductions beyond those required in the BART alternative rule are needed at Tolk under the "reasonable progress" requirements. The EPA has not announced a schedule for acting on the remanded rule.

Implementation of the National Ambient Air Quality Standard (NAAQS) for SO₂ — The EPA has designated all areas near SPS' generating plants as attaining the SO₂ NAAQS with an exception. The EPA issued final designations which found the area near the Harrington plant as "unclassifiable." The area near the Harrington plant is to be monitored for three years and a final designation is expected to be made by December 2020.

If the area near the Harrington plant is designated nonattainment in 2020, the Texas Commission on Environmental Quality (TCEQ) will need to develop an implementation plan, designed to achieve the NAAQS by 2025. The TCEQ could require additional SO₂ controls at Harrington as part of such a plan. SPS cannot evaluate the impacts until the final designation is made and any required state plans are developed.

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NOTES TO FINANCIAL STATEMENTS (Continued)			

SPS believes that should SO₂ control systems be required for a plant, 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 position or cash flows.

AROs — AROs have been recorded for SPS' assets.

SPS' AROs were as follows:

(Millions of Dollars)	Dec. 31, 2018			
	Balance Jan. 1, 2018	Accretion	Cash Flow Revisions (a)	Balance Dec. 31, 2018 (b)
Electric				
Steam production	\$ 21.4	\$ 1.3	\$ 0.5	\$ 23.2
Distribution	7.0	0.3	1.8	9.1
Common	0.1	—	—	0.1
Total liability	\$ 28.5	\$ 1.6	\$ 2.3	\$ 32.4

(a) In 2018, AROs were revised for changes in timing and estimates of cash flows. Changes in electric distribution AROs were primarily related to increased labor costs.

There were no ARO amounts incurred or settled in 2018.

(Millions of Dollars)	Dec. 31, 2017			
	Balance Jan. 1, 2017	Accretion	Cash Flow Revisions (a)	Balance Dec. 31, 2017 (b)
Electric plant				
Steam production	\$ 21.8	\$ 1.3	\$ (1.7)	\$ 21.4
Distribution	6.8	0.2	—	7.0
Common	0.1	—	—	0.1
Total liability	\$ 28.7	\$ 1.5	\$ (1.7)	\$ 28.5

(a) In 2017, an asbestos ARO was revised for changes in timing of estimated cash flows.

(b) There were no ARO amounts incurred or settled in 2018.

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, 2018. Therefore, an ARO has not been recorded for these facilities.

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NOTES TO FINANCIAL STATEMENTS (Continued)			

Leases — SPS leases a variety of equipment and facilities. These leases, primarily for office space, generating facilities, vehicles, aircraft and power-operated equipment, are accounted for as operating leases.

Total expenses (including capacity payments) under operating lease obligations for SPS and the corresponding capacity payments for PPAs accounted for as operating leases for the year ended Dec. 31:

(Millions of Dollars)	2018	2017
Total expense	\$ 59.0	\$ 57.8
Capacity payments	51.1	51.4

Included in the future commitments under operating leases are estimated future capacity payments under PPAs that have been accounted for as operating leases.

Future commitments under operating leases are:

(Millions of Dollars)	Operating Leases	PPA (a) (b) Operating Leases	Total Operating Leases
2019	\$ 5.2	\$ 46.7	\$ 51.9
2020	5.2	46.2	51.4
2021	5.1	46.2	51.3
2022	5.1	46.2	51.3
2023	5.1	46.2	51.3
Thereafter	56.3	450.8	507.1

(a) Amounts do not include PPAs accounted for as executory contracts.

(b) PPA operating leases contractually expire through 2033.

Non-Lease PPAs — SPS has entered into PPAs with other utilities and energy suppliers with expiration dates through 2033 for purchased power to meet system load and energy requirements and meet operating reserve obligations.

In general, these agreements provide for energy payments, based on actual energy delivered and capacity payments. Capacity payments are contingent on the independent power producing entity (IPP) meeting contract obligations, including plant availability requirements. Certain contractual payments are adjusted based on market indices. The effects of price adjustments on our financial results are mitigated through purchased energy cost recovery mechanisms.

Included in electric fuel and purchased power expenses for PPAs accounted for as executory contracts, were payments for capacity of \$57.6 million and \$58.4 million in 2018 and 2017, respectively.

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NOTES TO FINANCIAL STATEMENTS (Continued)			

At Dec. 31, 2018, 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
2019	\$ 20.3
2020	12.0
2021	12.2
2022	12.4
2023	12.6
Thereafter	5.7
Total	\$ 75.2

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 2019 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, 2018:

(Millions of Dollars)	Coal	Natural gas supply	Natural gas storage and transportation
2019	\$ 127.3	\$ 20.3	\$ 30.3
2020	83.9	—	30.3
2021	41.0	—	25.2
2022	41.2	—	19.3
2023	—	—	14.1
Thereafter	—	—	33.6
Total	\$ 293.4	\$ 20.3	\$ 152.8

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NOTES TO FINANCIAL STATEMENTS (Continued)			

9. Other Comprehensive Income

Changes in accumulated other comprehensive loss, net of tax, for the year ended Dec. 31:

(Millions of Dollars)	2018		
	Gains and Losses on Cash Flow Hedges	Defined Benefit Pension and Postretirement Items	Total
Accumulated other comprehensive loss at Jan. 1	\$ (0.8)	\$ (0.7)	\$ (1.5)
Losses reclassified from net accumulated other comprehensive loss:			
Interest rate derivatives (net of taxes of \$0 and \$0, respectively)	0.1 (a)	—	0.1
Amortization of net actuarial loss (net of taxes of \$0 and \$0, respectively)	—	— (b)	—
Net current period other comprehensive income	0.1	—	0.1
Accumulated other comprehensive loss at Dec. 31	\$ (0.7)	\$ (0.7)	\$ (1.4)

(Millions of Dollars)	2017		
	Gains and Losses on Cash Flow Hedges	Defined Benefit Pension and Postretirement Items	Total
Accumulated other comprehensive loss at Jan. 1	\$ (0.7)	\$ (0.6)	\$ (1.3)
Losses reclassified from net accumulated other comprehensive loss:			
Interest rate derivatives (net of taxes of \$0.1 and \$0, respectively)	— (a)	—	—
Amortization of net actuarial loss (net of taxes of \$0 and \$0, respectively)	—	0.1 (b)	0.1
Net current period other comprehensive income (loss)	—	0.1	0.1
Adoption of ASU No. 2018-02 (c)	(0.1)	(0.2)	(0.3)
Accumulated other comprehensive loss at Dec. 31	\$ (0.8)	\$ (0.7)	\$ (1.5)

(a) Included in interest charges.

(b) Included in the computation of net periodic pension and postretirement benefit costs. See Note 9 for further information.

In 2017, SPS implemented ASU No. 2018-02 related to the TCJA, which resulted in reclassification of certain credit balances within accumulated other comprehensive loss to retained earnings.

10. Related Party 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 the service 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, PSCo and SPS have established a utility money pool arrangement with the utility subsidiaries.

See Note 3 for further information.

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NOTES TO FINANCIAL STATEMENTS (Continued)			

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

(Millions of Dollars)	2018	2017
Operating expenses:		
Purchased power	\$ —	\$ 1.4
Other operating expenses — paid to Xcel Energy Services Inc.	195.1	196.6
Interest expense	0.6	—

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

(Millions of Dollars)	2018		2017	
	Accounts Receivable	Accounts Payable	Accounts Receivable	Accounts Payable
NSP-Minnesota	\$ 4.7	\$ —	\$ 1.0	\$ —
PSCo	—	0.7	—	0.3
Other subsidiaries of Xcel Energy Inc.	5.8	19.2	0.3	22.3
	\$ 10.5	\$ 19.9	\$ 1.3	\$ 22.6

11. Supplementary Cash Flow Data

(Millions of Dollars)	Twelve Months Ended Dec. 31	
	2018	2017
Supplemental disclosure of cash flow information:		
Cash paid for interest (net of amounts capitalized)	\$ (71.2)	\$ (76.0)
Cash (paid) received for income taxes, net	(10.6)	41.5
Supplemental disclosure of non-cash investing transactions:		
Accrued Utility Plant additions	\$ 71.5	\$ 85.1
Inventory transfer additions in PPE	\$ 22.5	\$ 13.7
Allowance for equity funds used during construction	\$ 19.1	\$ 9.3

Southwestern Public Service Company

Statement of Changes in Financial Position

Line No.	Account Title	(a) Base Period	(b) Test Year Period	Difference ⁽³⁾	
1	Net Cash Flow from Operating Activities				
2	Net Income	\$ 234,306,393	\$ 176,098,937	\$ (58,207,456)	⁽¹⁾
3	Noncash Charges (Credits) to Income				
4	Depreciation and Depletion	\$ 173,280,633	\$ 276,567,888	\$ 103,287,255	⁽²⁾
5	Amortization of Premium, Discount & Debt Expense	2,017,400	2,017,400	-	
6	Amortization of Regulatory Assets & Liabilities	(2,159,634)	(2,159,634)	-	
7	Amortization of Software and Other	27,967,696	28,292,345	324,649	⁽²⁾
8	Deferred Income Taxes, Net	33,764,734	46,984,947	13,220,213	⁽²⁾
9	Investment Tax Credit Adjustment, Net	(52,421)	(52,421)	-	⁽²⁾
10	Net (Increase) Decrease in Receivables	(10,071,827)	(10,071,827)	-	
11	Net (Increase) Decrease in Inventory	(28,438,705)	(28,438,705)	-	
12	Net (Increase) Decrease in Allowances Inventory	(321,838)	(321,838)	-	
13	Net (Increase) Decrease in Payables and Accrued Expenses	(6,861,598)	(6,861,598)	-	
14	Net (Increase) Decrease in Other Regulatory Assets	8,583,355	8,583,355	-	
15	Net (Increase) Decrease in Other Regulatory Liabilities	2,543,146	2,543,146	-	
16	(Less) Allowance for Other Funds Used During Construction	25,967,130	25,967,130	-	
17	(Less) Undistributed Earnings from Subsidiary Companies	-	-	-	
18	Change in Accrued Utility Revenues	3,398,148	3,398,148	-	
19	Change in Other Current Assets and Liabilities	(8,924,338)	(8,924,338)	-	
20	Net Realized and Unrealized Hedging and Derivative Transactions	63,162	63,162	-	
21	Change in Other Noncurrent Liabilities and Deferreds	5,559,848	5,559,848	-	
22	Net Cash Provided by (Used In) Operating Activities	\$ 408,687,024	\$ 467,311,684	\$ 58,624,660	
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	(1,080,689,962)	(2,074,208,888)	(993,518,926)	⁽²⁾
27	Gross Additions to Nonutility Plant	(82,100)	(82,100)	-	
28	(Less) Allowance for Other Funds Used During Construction	(25,967,130)	(25,967,130)	-	
29	Other: Proceeds from Insurance Recoveries	-	-	-	
30	Cash Outflows for Plant	\$ (1,054,804,932)	\$ (2,048,323,858)	\$ (993,518,926)	
31	Other: Miscellaneous Investing Activities	\$ -	\$ -	\$ -	
32	Proceeds from Sale of Transmission Assets	-	-	-	
33	Investments in Utility Money Pool	(239,000,000)	(239,000,000)	-	
34	Repayments to Utility Money Pool	239,000,000	239,000,000	-	
35	Net Cash Provided by (Used In) Investing Activities	\$ (1,054,804,932)	\$ (2,048,323,858)	\$ (993,518,926)	
36	Cash Flows from Financing Activities				
37	Proceeds from the Issuance of:				
38	Long-Term Debt	\$ 294,959,848	\$ 294,959,848	\$ -	
39	Preferred Stock	-	-	-	
40	Common Stock	-	-	-	
41	Other: Capital Contribution from Parent	342,048,491	(25,495,357)	(367,543,848)	⁽²⁾
	Other: Borrowings Under Utility Money Pool	694,000,000	694,000,000	-	
42	Net Increase in Short-Term Debt	127,000,000	127,000,000	-	
43	Other: Borrowings from Utility Money Pool Arrangement	-	-	-	
44	Other: Borrowings to Utility Money Pool Arrangement	-	-	-	
45	Cash Provided by Outside Sources	\$ 1,458,008,339	\$ 1,090,464,491	\$ (367,543,848)	

Southwestern Public Service Company

Statement of Changes in Financial Position

Line No.	Account Title	(a) Base Period	(b) Test Year Period	Difference ⁽³⁾
46	Payment for Retirement of:			
47	Long-Term Debt	\$ (68,427)	\$ (68,427)	\$ -
48	Preferred Stock	-	-	-
49	Common Stock	-	-	-
50	Other: Repayment of Utility Money Pool	(595,000,000)	(595,000,000)	-
	Other: (Taxes Paid - Share based awards)	(31,187)	(31,187)	-
51	Net Decrease in Short-Term Debt	-	-	-
52	Other: Repayments under Utility Money Pool Arrangement	(61,000,000)	(61,000,000)	-
53	Dividends on Preferred Stock	-	-	-
54	Dividends on Common Stock	(159,183,300)	(159,183,300)	-
55	Net Cash Provided by (Used In) Financing Activities	\$ 642,725,425	\$ 275,212,764	\$ (367,543,848)
56	Net Decrease in Cash and Cash Equivalents	\$ (3,392,483)	\$ (1,305,799,410)	\$ (1,302,406,927)
57	Cash and Cash Equivalents at Beginning of Period	\$ 3,912,344	\$ 519,861	\$ (3,392,483)
58	Cash and Cash Equivalents at End of Period	\$ 519,861	\$ (1,305,279,549)	\$ (1,305,799,410)

(c) Explanation of Adjustments

The Base Period information presented in Schedule I-3 is derived by utilizing SPS's 2018 FERC Form 1 annual results, minus the first three months 2018 results (Column (b) on SPS's 2018 First Quarter FERC Form 3), plus the first three months of 2019 results (Column (b) on SPS's 2019 First Quarter FERC Form 3).

Please see pages 3-4 for the Cash Flow Statement-related footnotes from SPS's 2018 FERC Form 1, pages 5 for the Cash Flow Statement-related footnotes from SPS's 2018 First Quarter FERC Form 3, pages 6-7 for the Cash Flow Statement-related footnotes from SPS's 2019 First Quarter FERC Form 3. Notes to Financial Statements from SPS's 2019 First Quarter FERC Form 3 are provided with Schedule I-1. Notes to Financial Statements from SPS's 2018 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⁾ "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 Arthur P. Freitas for explanations of cost of service adjustments.

⁽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 studies that are not reflected in these schedules. Please refer to the Direct Testimony of Arthur P. Freitas for explanations of these cost of service adjustments.

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FOOTNOTE DATA			

Schedule Page: 120 Line No.: 6 Column: b

2018	
Demand-side management program expenses	\$ 1,673,346
Other amortization (credits), net	(2,001,281)
	<u>\$ (327,935)</u>

Schedule Page: 120 Line No.: 6 Column: c

Demand-side management program expenses	\$ 1,673,347
Other amortization (credits), net	18,030,313
	<u>\$ 19,703,660</u>

Schedule Page: 120 Line No.: 10 Column: b

Includes provision for bad debts of \$4,938,000.

Schedule Page: 120 Line No.: 10 Column: c

Includes provision for bad debts of \$5,090,886.

Schedule Page: 120 Line No.: 13 Column: b

2018	
Gain on Sale of PPE	\$ (6,905)
Payables and accrued expenses	5,752,890
	<u>\$ 5,745,985</u>

Schedule Page: 120 Line No.: 13 Column: c

2017	
Gain on Sale of PPE	\$ (28,110)
Payables and accrued expenses	19,510,688
	<u>\$ 19,482,578</u>

Schedule Page: 120 Line No.: 21 Column: b

2018	
Change in Accum Provision for Pension & Benefits	\$ 1,841,228
Change in Miscellaneous Deferred Debits/Credits	5,219,983
Change in Other	4,515,178
	<u>\$ 11,576,389</u>

Schedule Page: 120 Line No.: 21 Column: c

Change in Accum Provision for Pension & Benefits	\$ (22,331,408)
Change in Miscellaneous Deferred Debits/Credits	9,836,880
Change in Other	78,068
	<u>\$ (12,416,460)</u>

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

2018	
Cash (131)	\$

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FOOTNOTE DATA			
Working Fund (135)	\$ 43,254,838		
Temporary Cash Investments (136)	100,600		
	<u>678,238</u>		
	\$ 44,033,676		

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

Working Fund (135)	\$ 100,600
Temporary Cash Investments (136)	<u>10,770,508</u>
	\$ 10,871,108

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FOOTNOTE DATA			

Schedule Page: 120 Line No.: 6 Column: b

Demand-side management program expenses	\$ 418,337
Other amortization (credits), net	<u>3,384,522</u>
	\$ 3,802,859

Schedule Page: 120 Line No.: 6 Column: c

Demand-side management program expenses	\$ 418,337
Other amortization, net	<u>(13,258,073)</u>
	\$ (12,839,736)

Schedule Page: 120 Line No.: 13 Column: b

Gain on Sale of PPE	\$ (4)
Payables and accrued expenses	<u>(14,263,831)</u>
	\$ (14,263,835)

Schedule Page: 120 Line No.: 21 Column: b

Change in Accum Provision for Pension & Benefits	\$ (8,103,494)
Change in Miscellaneous Deferred Debits/Credits	<u>(1,817,074)</u>
Change in Other	<u>(123,971)</u>
	\$ (10,044,539)

Schedule Page: 120 Line No.: 21 Column: c

Change in Accum Provision for Pension & Benefits	\$ (22,662,433)
Change in Miscellaneous Deferred Debits/Credits	<u>14,044,522</u>
Change in Other	<u>105,110</u>
	\$ (8,512,801)

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

Working Fund (135)	\$ 100,600
Temporary Cash Investments (136)	<u>3,811,744</u>
	\$ 3,912,344

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

Working Fund (135)	\$ 101,350
Temporary Cash Investments (136)	<u>898,389</u>
	\$ 999,739

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FOOTNOTE DATA			

Schedule Page: 120 Line No.: 6 Column: b

2019	
Demand-side management program expenses	\$ -
Other amortization (credits), net	1,971,160
	<u>\$ 1,971,160</u>

Schedule Page: 120 Line No.: 6 Column: c

2018	
Demand-side management program expenses	\$ 418,337
Other amortization, net	3,384,522
	<u>\$ 3,802,859</u>

Schedule Page: 120 Line No.: 13 Column: b

2019	
Gain on Sale of PPE	\$ -
Payables and accrued expenses	(26,871,418)
	<u>\$ (26,871,418)</u>

Schedule Page: 120 Line No.: 13 Column: c

2018	
Gain on Sale of PPE	\$ (4)
Payables and accrued expenses	(14,263,831)
	<u>\$ (14,263,835)</u>

Schedule Page: 120 Line No.: 21 Column: b

2019	
Change in Accum Provision for Pension & Benefits	\$ (16,586,544)
Change in Miscellaneous Deferred Debits/Credits	1,981,811
Change in Other	(1,456,347)
	<u>\$ (16,061,080)</u>

Schedule Page: 120 Line No.: 21 Column: c

2018	
Change in Accum Provision for Pension & Benefits	\$ (8,103,494)
Change in Miscellaneous Deferred Debits/Credits	(1,817,074)
Change in Other	(123,971)
	<u>\$ (10,044,539)</u>

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FOOTNOTE DATA			

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

2019	
Cash (131)	\$ -
Working Fund (135)	\$ 100,600
Temporary Cash Investments (136)	419,261
	\$ 519,861

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

2018	
Working Fund (135)	100,600
Temporary Cash Investments (136)	3,811,744
	\$ 3,912,344