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1.0 PURPOSE

The purpose of this procedure is to document Energy Supply’s process to review items in materials and supplies inventory for obsolescence, perform “write-offs” to remove them from the inventory asset accounts, physically dispose of them, document the transactions, track and account for the disposal and describe what records need to be kept.

2.0 APPLICABILITY


This procedure is applicable to all Xcel Energy, Energy Supply (ES), non-nuclear employees.

3.0 RESPONSIBILITIES

- 3.1 Strategic Material Logistics (SML) personnel are accountable for this procedure and responsible for performing the specific functions described in this procedure with the exception described in step 3.3 following and paragraph 6.0 below.
- 3.2 Operations management/staff at individual power plants are responsible for providing management support and establishing local practices that comply with the Obsolete Material Handling procedure.
- 3.3 Designated Plant operations personnel at those generating facilities that do not have permanently assigned SML personnel and have inventory, will perform the specific functions described in this procedure.
- 3.4 The Director, Strategic Material Logistics (or designate) is responsible for management oversight of this process by reviewing a quarterly report, summarizing the write-off transactions performed at each plant, and acting upon it as necessary.
- 3.5 Plant Operations management is responsible for determining whether material is still useable by the Plant and if not authorizing the release of the material for transfer, re-sale or recovery by approving the corporate Investment Recovery Equipment Release form, listing the material being released and its estimated value. The material items being released must be individually identified on the form (or have a listing attached) that identifies each item approved for release (no longer useable) from the Plant.
- 3.6 The corporate Supply Chain, Investment Recovery Agent, is responsible for direction as to final disposition of the material and collection of any revenues associated with the sale.
- 3.7 The ES, Business Area Finance group is responsible for establishing and administering the annual budget required to complete the write-off of un-useable materials and the budget variance process required to document the expense for each region.

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4.0 REQUIREMENTS


4.1 General Requirements:

The overall process to identify potentially obsolete material items and remove them from inventory is performed throughout the year. Similar to cycle counting, the process is affected by resource constraints and plant operating priorities. Therefore, the dollar amount of write-offs is not always consistent from month to month or year to year.

- 4.1.1 This procedure lists all the general steps required to complete this process, however, these steps may be applied in combination, different order, or may not be applicable to every item or situation.
- 4.1.2 It is required that anyone disposing of any material or equipment, follow this procedure. Quarterly audits of the process will be conducted to ensure compliance.
- 4.1.3 Authorization to remove the material that is no longer useable at a Plant or facility must be obtained from the Plant/facility management, via the corporate Investment Recovery (IR) Equipment Release form, prior to the transfer or sale of all materials. Local Logistics management must review and confirm the authorization with their signature as well.
- 4.1.4 The corporate Investment Recovery group, as directed by corporate policy 4.11, is responsible for the resale/disposal of all materials or equipment for Energy Supply, and for all reporting, booking and collections of any revenue resulting from such sale or disposal.
- 4.1.5 The Director of Strategic Material Logistics (or designee) receives a quarterly report, prepared by the Strategic Material Logistics department, summarizing all write-off transactions, from M & S inventory, performed quarterly at each plant. The Director, Strategic Material Logistics, reviews the report and acts upon it as necessary.
- 4.1.6 Copies of detail material lists of actual write-offs will be retained by SML for future reference and audit. The list will be retained as per the Xcel Energy Corporation's Records Retention Schedule.
- 4.1.7 Refer to the Sarbanes-Oxley Material/Services Acquisition Process, specifically key control MSA 11, for additional narrative of the process and applicable controls.

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5.0 IDENTIFICATION AND WRITE-OFF PROCEDURE

The identification of potentially obsolete inventory items is done through either of two basic methods.

5.1 The **informal method** of identification relies primarily on the knowledge and experience of individual Plant operations and maintenance employees, as well as storeroom employees, identifying potentially obsolete materials through:

*Personal knowledge of plant equipment.

*Changes to plant operations.

*Retirement of equipment or assets having spare parts in inventory.

*Physical walk-through/inspections of materials on the shelves in the storerooms or other areas of the Plants.

*Creation and review of random, smaller lists of materials that have not been issued in a specific amount of time.

*Any other “informal” means by which potential obsolete materials are identified.

5.1.1 This method of identification is a routine, ongoing process that occurs, throughout the year, through the course of regular operations.

5.1.2 Any individual items, informally identified, will be reviewed and evaluated, to confirm they are no longer needed. This review and evaluation should be from Plant operations personnel, Material Logistics personnel or others as appropriate.


5.1.3 Where feasible, items identified as useable, in another facility or Plant within the same operating company, will be transferred to that facility as inventory.

5.1.4 Items identified as useable at a facility in another operating company, within Xcel Energy, can be sold to that operating company via a purchase order process through the corporate Investment Recovery group, per specific operating company policies. Energy Supply, Strategic Material Logistics will facilitate this process on a case-by-case basis.

5.1.5 Those material items that can be returned to vendors/suppliers should be shipped back to the supplier for credit or cash as per the Material Returns Procedure #SML-1.0_P08.

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- 5.2 A more **formal method** of identification is through the regular review of “slow-moving” inventory. In power plant operations, slow moving inventory is defined as material that has **not** been issued, (used), for a period of five (5) years or more.
- 5.2.1 Beginning with the 2006 year, slow moving inventory reports will be generated annually and will include inventory items (by system assigned material ID number) that have not been issued in the previous 5-year (rolling cycle) period.
- 5.2.2 Potentially obsolete items will be processed in accordance with this procedure. (Although the reviews were started in 2005, the current report was developed in 2006).
- 5.2.3 The Strategic Material Logistics (SML), Inventory Management group will generate the Slow Moving Inventory report, stated above, annually, in the 1st quarter of each business year.
- 5.3 The Slow Moving Inventory report, once generated, will be processed in accordance to the steps listed below:
- 5.3.1 Once generated the report will be reviewed for completeness by the SML organization, then forwarded, along with a cover letter, a set of instructions and a stated timeline to each facility for their review, input and return.
- 5.3.2 Upon receipt of the Slow Moving Material report Plant personnel will review the material items on the list and make a determination as to whether the items are “useable”, or not, at their facility, (details in paragraph 5.6, below).
- 5.3.3 Upon review, Plant personnel will identify each line item as useable “yes” or “no” and sign and date each line (a “reviewed by” section is provided for each line) prior to continuing on to the next item. If a person is unsure about an item the report should be passed on to a person who has the knowledge and the entire list is completed.
- 5.3.4 The initial review process is assigned a time period in which all reviews must be completed and returned. The timeline, may vary, but will generally not exceed 90 days.
- 5.3.5 Once completed, the material list must be sent back to the SML, Inventory Management group, for further evaluation and processing.

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- 5.4 SML, Inventory Management Group, will review the returned material lists and develop a secondary list, by facility, of all the items identified as not useable from the original facilities.
 - 5.4.1 The new list of non-useable items will then be routed to all “other” Energy Supply plants and organizations to determine if the items can be used elsewhere in Energy Supply.
 - 5.4.2 All “other” facilities/organizations, within Energy Supply, will review these lists and determine if any items on them could be used in either their facilities or on any projects currently in progress. (See paragraph 5.6, below, for details of the review process.)
 - 5.4.3 Again, a time period for completion of the secondary review and response from the “other” facilities will be assigned and may vary, but will generally, not exceed 90 days.
 - 5.4.4 Once completed, they will return the second list back to the SML, Inventory Management group, for further review and processing.
- 5.5 The SML, Inventory Management Group, will evaluate the data returned and develop a “final” list of all items determined to be un-useable.
 - 5.5.1 Once the final list of items, deemed un-useable anywhere in Energy Supply, is completed the process of writing off the materials, as obsolete, will begin.
 - 5.5.2 This actual write-off process will also be assigned a timeline for completion and may vary, however, generally will not exceed 90 days.
- 5.6 The process of reviewing and writing-off the final list of obsolete materials is the same regardless of whether the list was initially identified through the **in-formal method** (5.1 above) or the **formal method** (5.2 above). The detailed steps of reviewing each individual item to confirm it is “un-useable” anywhere within Energy Supply or cannot be disposed of in some other manner, (other than writing it off), are listed below. Again, note that these steps may be done in combination with one another; a different order or certain steps may not be applicable to every particular item or situation.
 - 5.6.1 The Maximo system “Item Status” designations should be adjusted for all individual material items identified as potentially obsolete. This designation, (unless otherwise stated), will be “Hold for Review” or “Slow Moving Review”.

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- 5.6.2 Changing the system Item Status designation prevents the items from being automatically re-ordered when (and if) the quantity on hand goes below the re-order point in the system.
- 5.6.3 Any items determined to still have a use within Energy Supply, after being reviewed, will be returned to an Item Status designation of “Ready”, meaning it is available for regular use and replenishment.
- 5.6.4 Material items that can be returned to vendors/suppliers should be shipped back to the supplier for credit or cash.
- 5.6.5 Material items deemed worthy of re-sale should be sent to the Investment Recovery group for resale to external users.
- 5.6.6 All material items determined to be un-useable should be placed in an “OBSOLETE” Item Status designation once they are issued to the obsolete material work order.
- 5.7 The final step, for material that is no longer useable, is to write-off the material. The specific steps are as stated below:
 - 5.7.1 The material must be issued, from inventory, to a Maximo system work order.
 - 5.7.2 The Strategic Material Logistics group will utilize work orders, by region, specifically for the purpose of issuing obsolete material.
 - 5.7.3 The work order accounting must be specific to the plant account within the appropriate legal entity.
 - 5.7.4 Energy Supply plant or Strategic Material Logistics employees will then issue the obsolete materials to these work orders.
 - 5.7.5 The Maximo system processes this transaction electronically the same as it would any routine material “issue” to a project or job. The system inventory balance is adjusted, a record of the transaction recorded and the appropriate accounting transaction transmitted to the ES, JDE general ledger system. The ES, JDE system provides the transaction data to the corporate ledger system as appropriate.
 - 5.7.6 This process is reviewed and reconciled monthly, by Strategic Material Logistics, and any required corrections or adjustments made.

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6.0 DISPOSAL PROCEDURE

- 6.1 It is the responsibility of the corporate Supply Chain Group, Investment Recovery organization to determine the final disposition of the obsolete material and provide direction back to the Strategic Material Logistics (SML) organization, as to what that disposition is. The communication should also include any specific directions/instructions, i.e. whether the material will be picked up onsite, shipped to the dealer or placed in the scrap dumpster, dates, approvals, etc.
- 6.1.1 In accordance with the Investment Recovery organizations procedures, a list of all items deemed obsolete (ready to be written-off and disposed of) must be recorded on, (or hard copy list attached to), the Investment Recovery Equipment Release form, that should also include the proper accounting code (for booking of the revenue) and is approved by a plant management person.
- 6.1.2 If for any reason plant personnel later re-identify any inventory items as usable the write-off transaction will be reversed and the items returned back to regular inventory. See paragraph 7.0, Returns to Inventory, below.
- 6.1.3 Once the final obsolete material item list is approved, SML stockroom employees can begin to remove the items from their designated bin locations and organize them in an area segregated from regular inventory.
- 6.1.4 As items are removed from their bin locations the quantity on hand should be “issued” to the appropriate material write-off work order.
- 6.1.5 Once the material is issued, the system Critical Code should be updated to a status of “Write-off” and the Item Status code to “Obsolete”.
- 6.1.6 When all the material has been removed from the bin and the system updated, the detail list and approved Equipment Release form should be sent to the regional Investment Recovery representative for review and instruction on the final disposition of the material.
- 6.2 Investment Recovery has final responsibility for disposal of all materials and thus will determine the best process (sell the material as useable items, as scrap, or hold it for future determination, etc.) and make the final decisions as to the disposition of the material. They also should then notify the local Strategic Material Logistics Supervisor as to what that disposition decision is and provide any final details as to expectations for having the material shipped, picked-up, scrapped, etc.

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- 6.2.1 When the Investment Recovery organization receives payment for the disposed materials, they will record the transaction in the CRS software system, which transmits appropriate accounting information to the corporate general ledger.
- 6.2.2 If it is possible, the credits generated by the revenue collected from the sale of this material should be applied back to the same plant account that was charged for the write-off.
- 6.2.3 When it is impractical to identify individual plant accounts, the credits should be applied to the next level of accounts (regional or corporate level) by legal entity.

7.0 RETURNS TO INVENTORY


- 7.1.1 If for any reason plant personnel re-identify any items as usable, after the write-off process is complete, those items can be set back up and returned to inventory, with approval from Strategic Material Logistics, as per the next step.
- 7.1.2 The “modify” portion of the Maximo “Add/Modify/Delete” Item request form should be completed, approved by the Plant, and submitted (to Strategic Material Logistics), clearly identifying the circumstances for adding the item back to inventory.
- 7.1.3 Once approved the Item Change request shall be sent to the Strategic Material Logistics, Logistics Support Specialist, for input and processing.
- 7.1.4 They will input the new information and change the status of the item back to a “Ready”, Item Status, within Maximo.

8.0 REQUIRED RECORDS

- 8.1 Completed reports are to be retained as a record in accordance with the Xcel Energy Records Retention Schedule. (At least 6 years).
- 8.2 Copies of the detail item lists will be retained at the local storeroom facility, by the Strategic Material Logistics Supervisor, along with a signed copy of the Investment Recovery Equipment Release form, a copy of the Investment Recovery disposal instructions, bills-of-lading, material pick-up receipts, scrap supplier weight slips, etc.
- 8.3 Copies of the above

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9.0 REFERENCES & DEFINITIONS

9.1 REFERENCES

- 9.1.1 Strategic Material Logistics Procedure, EPR-2.300_P01, “Logistics and Materials Procedures (Master Policy).”
- 9.1.2 Xcel Energy Records Retention Schedule
- 9.1.3 The Investment Recovery Policy and Equipment Release Form is maintained by the corporate Supply Chain, Investment Recovery organization and can be found on the following web site address;

<http://xpressnet/scandps/SC-MSP/Collateral/Investment-Recovery.htm>

9.2 DEFINITIONS

- 9.2.1 **LOGISTICS:** The work group within Supply Chain with responsibility for tracking, control and accounting of corporate inventory at the Plant sites, for invoice processing, stock reordering and physical inventory cycle counting. This group is commonly referred to as “the stockroom”, “storeroom”, “warehouse”, “SML”, “Strategic Material Logistics”, etc.
- 9.2.2 **SML:** Acronym for the Strategic Material Logistics group.

10.0 REVISION HISTORY

Date	Revision	Change
11/11/2009	1.0	Original Issue
6/28/2012	1.1	Changed original number from EPR -2.300_P03 to SML – 1.0_P03

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Southwestern Public Service Company

Inventory Evaluation

SPS Natural Gas Inventory

The Northern Natural Gas Federal Energy Regulatory Commission approved tariff that determines natural gas inventories can be found at:

<http://www.northernnaturalgas.com/Pages/default.aspx>

SPS Fuel Oil Burn Analysis

Plant	Gallons/hr	Gallons/day	Gross Inventory	Usable Gallons (1 Tank)	Run Time (Days)
Jones #1	8,876	213,024			
Jones #2	8,876	213,024			
	<u>17,752</u>	<u>426,048</u>	1,700,000	1,482,560	3.48
Plant X #2	3,021	72,504			
Plant X #4	4,721	113,304			
	<u>7,742</u>	<u>185,808</u>	700,000	600,000	3.23
Quay County	2,671	64,104	200,000	165,312	2.58