Southwestern Public Service Company's Written Response to Golden Spread Electric Cooperative, Inc. Preliminary Challenge

Golden Spread Electric Cooperatives Inc.'s Preliminary Challenge was submitted on December 12, 2014, by Mr. Tom Burke, Director of Regulatory and Transmission Policy, and the notice below was posted to the applicable Xcel Energy OATT, SPS OASIS, and SPP Member Postings page websites on December 16, 2014. Pursuant to Section 5.b of SPS Transmission Formula Rate Implementation Procedures, SPS hereby provides its written response to Golden Spread's Preliminary Challenge.

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

Appendix 1 to Attachment O – SPS
Annual Formula Rate Implementation Procedures
Preliminary Challenge Submitted in Accordance with Section 5a
Date Submitted: Friday, December 12, 2014
Response Posted December 23, 2014

2013 True-up:

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

SPS RESPONSE

SPS is under no obligation to credit to its transmission service customers the net proceeds realized on the sale of certain transmission assets to Sharyland through the Attachment O-SPS formula. Contrary to GSEC's suggestion, these assets were not financed or constructed using customer funds, but were investments undertaken by SPS. As a result, GSEC and other transmission service customers have no claim to any gain on the sale of these assets. Moreover, such crediting is contrary to the Commission's accounting regulations and to SPS' Formula Rate. Under the Commission's accounting requirements, a gain on the disposition of electric plant is to be booked to Account 421.1. *See* 18 C.F.R. § 101 Electric Plant Instructions 5.F. Under SPS' Formula Rate, there is no provision for crediting to customers amounts properly booked to Account 421.1.

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

SPS RESPONSE

As indicated in SPS' response to the data request, SPS agrees and will adjust the True-Up accordingly.

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

SPS RESPONSE

SPS does not agree that any change is warranted. In Docket No. ER08-313, the Commission approved an uncontested settlement ("Settlement") that, among other items, approved the current transmission formula rate and, in particular a transmission formula rate template ("Template") and formula rate implementation procedures ("Protocols"). Section 4.3 of the Settlement and Section 9 of the Protocols provided that the PBOP charges shall be the 2009 actual costs booked to FERC Account 926 until this value is changed as directed by the Commission in a proceeding under section 205 or 206 of the FPA. No such proceeding has been initiated or Commission order issued.

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

SPS RESPONSE

As indicated in the SPS response to the data request, SPS agrees and will adjust the True-Up accordingly.

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

SPS RESPONSE

SPS does not agree that the ADIT balances in FERC Account 190 associated with Contributions in Aid of Construction (CIAC) should be excluded from the transmission formula. First, these balances are associated with customer contributions in all of SPS's jurisdictions, including wholesale transmission. The ADIT balances include balances associated with facilities constructed for Golden Spread and other transmission customers. Second, these ADIT balances generally arise because SPS must pay income tax on the historic CIACs, and are a cost of providing service. It is reasonable for all customers to pay these historical income taxes. SPS has modified its line extension policies in Texas, New Mexico, and at

FERC in recent years in order to direct assign the related income taxes to the customer paying the CIAC. This is expected to decrease the amount of ADIT booked to FERC Account 190. However, even with these policy changes, an ADIT is required.

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

SPS RESPONSE

SPS disagrees that any adjustment is necessary. SPS did inadvertently misstate that FERC Account No. 566 is not included in the transmission formula in its response to GSEC Data Request No. 13. However, in reviewing the True-Up the "other legal and transaction costs" recorded to FERC Account No. 566 in the amount of $1,062 have already been manually removed from the transmission formula. Therefore, the 2013 True-Up needs no adjustment.

2015 Projection:

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

SPS RESPONSE

As indicated in the SPS response to the data request, SPS agrees and will adjust the Projection accordingly.

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

SPS RESPONSE

SPS does not agree it is necessary to remove the referenced plant additions in order to avoid a large true-up. First, direct assignment of transmission facilities pursuant to Attachment AI is performed on an historical basis pursuant to the Attachment AI Settlement in Docket No. ER08-313. While SPS provided Golden Spread its best estimate based on current system configuration, it will not be known whether these facilities should be direct assigned until the historical study is performed. Second, the plant additions referenced by Golden Spread will not be in service for all of 2015. Instead, these additions are expected to go into service at various times throughout 2015. Thus, their impact on rate base and, consequently, the projected transmission formula rate is minimal.

Prepared by:

Southwestern Public Service Company
December 23, 2014