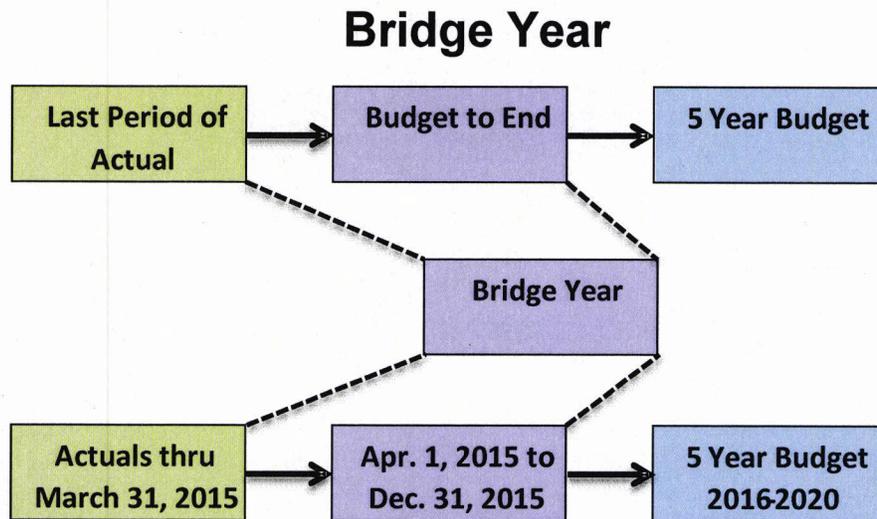


What is a Bridge Year?

The bridge year information is used to compute the beginning plant balances for the 2016 budget. Finally, capital forecasts support the estimation of the cash flow needs for the company into the future. All of these reasons make it important that the capital budget accurately reflect the expenditures and expected in-service dates for the bridge year and upcoming budget period and is consistent with the requirements stated below:



General Guidance

Capital budgets must meet the capitalization criteria and minimum levels of detail. In addition, proper documentation must include a description of each project and a financial explanation as to how expenditures were derived. Describe the benefits of the capital project, such as: productivity, process efficiency, reliability, safety, required due to law or covenant, etc. When writing descriptions and justifications for capital projects please be as precise as possible. Refer to the [Capital Asset Accounting Policy - Capital Budget Principles](#) for additional information.

Support for routine projects requires a five-year expenditure and in-service history, or the assumptions used to develop the expenditure pattern and closing pattern. Closing patterns are developed to move dollars out of CWIP to plant in-service based upon their historic construction period for routines or completed phase of construction for non-routine projects. Construction completed in phases (more than one estimated in-service date per parent work order) has a closing pattern called "percent of work complete". Contact Capital Asset Accounting (CAA) if you need a project set up to close to plant in-service in phases for the budget. See the CAA Business Area Liaison list for contacts.

Capital budgeting data requirements for all projects are six years (i.e., 2015-2020) of monthly expenditures beginning with the remaining months of the forecast for the current bridge year (i.e., April to December 2015, assuming actual expenditures through March 2015), estimated in-service dates and closing patterns, where applicable. To capture total project expenditures, current forecasts must be reviewed and updated. In addition, actual CWIP balances need to be reviewed for estimated in-service dates, as well as any additional expenditure. Please see the "Requirements" section for more information.

Assumptions

Corporate Escalation Rates

Business areas, when preparing their six-year budgets (i.e., 2015-2020) of capital and O&M data, should NOT use "current year" dollars, but should use an appropriate escalation factor to cover costs for inflation. For general inflation increase estimates refer to the [Corporate Escalation Rates](#) published on the Corporate Budgeting Home Page. Other economic drivers may exist that require the use of more specific

escalation factors for certain expenditures, such as nuclear fuel, steel or copper or long lead-time items such as power transformers. The support for all factors used should be well documented. Contact Supply Chain for relevant pricing information on many key categories.

Capital PC Refresh and IT Asset Management

Efficient use of personal computing assets enables Xcel Energy to leverage volume purchases, minimize support costs through product standardization, promote compatibility between IT assets and Xcel Energy's computing environment, monitor compliance with software licensing/data security, and maximize return on investment by carefully managing the lifecycle and use of these assets. For additional information about IT management standards please refer to the following link: [Business Systems Standard](#)

IT Asset Management will determine an appropriate schedule for refreshing personal computers (PCs). At the start of the year, a list of the PCs to be refreshed during the year will be generated with a tentative schedule. The schedule will be maintained and updated during the course of the year.

Requirements for PCs outside of the refresh schedule will be closely scrutinized. The following justifications are acceptable for securing a new workstation: 1) hiring of a new employee, 2) PC lost or stolen, and 3) malfunctioning PC that is not repairable. Please refer to the section below for requesting and budgeting new PCs that are not included in the refresh project.

Budgeting for New IT Initiatives

All IT capital project budgets are budgeted by Business Systems and should not be part of the business areas' budgets. This includes software implementations, as well as hardware capital purchases for PCs, LANs and printers that meet the capital guidelines. Business areas should not budget for software/hardware projects. If you have any questions, contact Diane Prentis at 612-330-5744.

If you have a new IT initiative, such as a new application system, new support or a non-standard purchase, please contact Business Systems area directly to discuss your initiative. The contact list can be found under the following link [Business Systems Contacts](#). This information is important so that Business Systems can budget and plan accordingly.

Overheads – E&S and A&G

CAA does not add E&S and Administrative and General (A&G) overheads to the expenditure stream for project budgets or forecasts as part of its budget processing. These project overheads are assumed to be **included** in the capital expenditure forecast provided. Each business area should assess the potential impact to their projects, especially for E&S charges for their large projects, and budget accordingly.

Allowance for Funds Used During Construction

Capital expenditures input by the business areas should **not** include AFUDC, which is calculated outside of FMS by CAA. CAA manages the actual accounting for AFUDC as well as the AFUDC associated with forecasted capital expenditures.

Environmental

Environmental capital expenditures associated with air, water and waste remediation should be budgeted in accordance with the [Environmental Budget Guidelines](#) published on the Corporate Budgeting Home Page. A clear distinction is made in the guidelines and Capitalization Policy identifying environmental charges that can be capitalized verses those that are required to be expensed.

Demand Side Management

Costs associated with Demand Side Management (DSM) or Conservation Investment Program (CIP) are not included in the capital forecast unless the resulting transaction involves a capital asset. Most DSM or CIP assets are accounted for as regulatory assets. These costs should be budgeted with a deferred parent work order, which is different than a capital parent work order. There are specific rules for these deferred work orders and they require Corporate Accounting approval. If you have any questions, contact Deanne Mencimer at 303-294-2055.

Capital Help

If you need assistance from CAA, contact the CAA Hotline at 612-330-6490.

In addition, please refer to the [Capital Budget/Forecast-Parent Checklist](#) on the CAA website. This checklist should be used for the budget and every month a capital forecast is reviewed and modified to assure that there is no missing information in the data provided. This checklist will be used as a basis to measure how accurate and complete the capital budget/forecast you provide is.

Requirements

The total of capital expenditures for each of the next six years is significant and accordingly, we must prepare detailed budgets with transparency on where these amounts are being planned. The information below explains how to prepare your budgets to facilitate accurate budgeting and forecasting. CAA maintains the accounting policies and procedures and should be consulted, as needed, to insure proper accounting.

The primary balance sheet items that are impacted by **capital expenditures and estimated in-service dates or closing patterns** are CWIP, Plant In-Service, Accumulated Depreciation and Plant-Related Accumulated Deferred Income Taxes. Income statement influences include AFUDC and depreciation expense. The capital expenditures and dates are gathered across the business areas using FMS, Tamcast and Workbook and passed along to PowerPlant for the calculations of plant additions, book and tax depreciation, equity and debt AFUDC, and deferred income tax expense. The accurate forecasting of these amounts requires that the capital data (both spend and dates) be gathered and input into FMS, Tamcast or Workbook in accordance with the designed financial system and business process requirements.

Capital Expenditures

Accurate Monthly Expenditure Pattern - One of the critical responsibilities of the CFO organization is to ensure that sufficient cash is available to cover cash requirements. To accomplish this, the company must be able to derive meaningful cash flow forecasts from the financial budget and its monthly forecasts. Even though an expenditure is booked to capital; a dollar is spent and that dollar must be available to be paid out. The Financial Operations organization needs the pattern of expenditures from the budget or the forecast to assure that funds are available and consistent with long-term and short-term financing plans.

The cash flows or expenditures are provided when input into FMS, Tamcast or Workbook and these expenditures can be patterned or levelized, but should be representative of what one expects the monthly pattern of actual expenditures to be. This is important because the Company will plan its cash needs based on the expected cash outflows for construction. A large expenditure that was not anticipated could cause the company to incur higher than necessary carrying charges to obtain the funds than it may have if it could have planned for the large outflow of cash.

Separate Install Expenditures from Removal Expenditures - Capital expenditures cover both the capital dollars spent to install and remove capital assets. Expenditures associated with removal, as part of an asset retirement, should be budgeted as RWIP not CWIP. The importance of this is threefold:

1. RWIP does not accumulate AFUDC, whereas CWIP does,
2. RWIP is considered part of rate base for rate making when it is spent; CWIP is not part of rate base until it becomes an addition to plant in-service.
3. Estimated removal expense has been recovered from rate payers through the depreciation expense in the past, whereas CWIP will be recovered through depreciation expense in the future

If a project includes removing an existing asset before a new one is installed those removal expenditures should be budgeted as such. An estimate can be used to split the project expenditures and the removal estimate is entered into FMS, Tamcast or Workbook by using the RWIP JDE object accounts 740000-

743350. Removal and installation expenditures can be tracked through the same parent work order. If significant salvage transactions are anticipated, they should be considered. It may be desirable to budget or forecast removal net of any salvage.

Alignment of Estimated In-Service Dates

Accurate estimated in-service dates are **critical** to ensuring that the financial systems (PowerPlant and CFM) know when to stop AFUDC, when to move the constructed asset from CWIP to plant in-service, and when to start book and tax depreciation. Also, for most projects, they are included in rate cases (rate base) when they are forecasted to move from CWIP to plant in-service.

For specific capital projects, the estimated in-service date must align with the expenditure pattern.

The in-service date is when commercial operation begins, such as when the line is energized or main pressurized. If a project has two or more phases of construction with different in-service dates, contact one of the CAA Business Area liaisons for assistance to set up a special closing pattern, called percent of work complete (see "Percent of Work Complete" section for more information).

The estimated in-service date is not the same as the estimated complete date. Typically, there are trailing expenditures, such as restoration, after the in-service date until the complete date. Each time a user updates their expenditures forecast, estimated in-service dates also need to be re-evaluated. It is also important to reevaluate and revise estimated in-service dates for projects expected to go in-service in the bridge year, 2015. The bridge year information computes the beginning plant in-service balances for the 2016 Budget. Inaccurate estimated in-service dates can negatively impact the forecast accuracy of depreciation expense, AFUDC, and plant in-service.

The general rules for the forecast expenditures alignment with dates:

- estimated in-service date **should not** be past the last month of the forecasted expenditures,
- there should be **no more than three months** (four months for Nuclear operations) of expenditures past the estimated in-service date (for large projects, the spend may go beyond three months),
- the estimated complete date cannot be before the estimated in-service date,
- the estimated complete date should be at the end of the last expenditure.

Routine projects are treated as short-term construction projects that are generally ready for service the month of the construction expenditures. For example, construction expenditures for routine projects like battery replacements at substations or general plant equipment forecasted in May will go into service in May for budget or forecast purposes.

For routine projects closing patterns must be aligned with the expenditures pattern. There are several closing patterns to choose from for routine projects that in-service a certain portion of the CWIP or RWIP balance (built from beginning actual CWIP/RWIP balance plus forecast spend for a project plus AFUDC on the CWIP portion) based on the number of months of construction or other percent.

Closing patterns are developed to move dollars out of CWIP to plant in-service based upon the estimated construction period. For these kinds of routines the rules set forth by closing patterns are used to move dollars from CWIP to plant in-service **until** the estimated in-service date is reached, then that is used to move dollars from CWIP to plant in-service for any additional expenditures. Please refer to the illustration below that shows the roll forward example of a routine project with CWIP activity: