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APPLICATION OF SOUTHWESTERN §
PUBLIC SERVICE COMPANY FOR § BEFORE THE STATE OFFICE
AUTHORITY TO CHANGE RATES, TO §
RECONCILE FUEL AND PURCHASED § OF
POWER COSTS FOR 2006 AND 2007, §
AND TO PROVIDE A CREDIT FOR § ADMINISTRATIVE HEARINGS
FUEL COST SAVINGS §

SOUTHWESTERN PUBLIC SERVICE COMPANY'S
RESPONSE TO STAFF'S FIRST REQUEST FOR INFORMATION
QUESTION NOS. CR-1-1 THROUGH CR-1-3
(Filename: Staff1stRFI(Redacted).doc; Total Pages: 22)

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**PUC DOCKET NO. 35763
SOAH DOCKET NO. 473-08-3436**

<u>APPLICATION OF SOUTHWESTERN</u>	§	
PUBLIC SERVICE COMPANY FOR	§	BEFORE THE STATE OFFICE
AUTHORITY TO CHANGE RATES, TO	§	
RECONCILE FUEL AND PURCHASED	§	OF
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FUEL COST SAVINGS	§	

**SOUTHWESTERN PUBLIC SERVICE COMPANY'S
RESPONSE TO STAFF'S FIRST REQUEST FOR INFORMATION
QUESTION NOS. CR-1-1 THROUGH CR-1-3**

Southwestern Public Service Company ("SPS") files this response to Commission Staff's ("Staff") First Request for Information.

I. WRITTEN RESPONSES

SPS's written responses to the Staff's First Request for Information are attached and incorporated by reference. Each response is stated on or attached to a separate page on which the request has been restated. SPS's responses are made in the spirit of cooperation without waiving SPS's right to contest the admissibility of any of these matters at hearing. Pursuant to P.U.C. PROC. R. 22.144(c)(2)(A), each response lists the preparer or person under whose direct supervision the response was prepared and any sponsoring witness. When SPS provides certain information sought by the request while objecting to the provision of other information, it does so without prejudice to its objection in the interests of narrowing discovery disputes pursuant to P.U.C. PROC. R. 22.144(d)(5). Pursuant to P.U.C. PROC. R. 22.144(c)(2)(F), SPS stipulates that its responses may be treated by all parties as if they were made under oath.

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II. INSPECTIONS.

If responsive documents are more than 100 pages but less than eight linear feet in length, the response will indicate that the attachment is VOLUMINOUS and, pursuant to P.U.C. PROC. R. 22.144(h)(2), the attachment will be made available for inspection at SPS's voluminous room at 401 Congress Avenue, Suite 2200, Austin, Texas 78701; telephone number (512) 480-5724. If a response or the responsive documents are provided pursuant to the protective order in this docket, the response will indicate that it or the attachment is either CONFIDENTIAL or HIGHLY SENSITIVE as appropriate under the protective order. Highly sensitive responses will be made available for inspection at SPS's voluminous room, unless they form a part of a response that exceeds eight linear feet in length; then they will be available at their usual repository in accordance with the following paragraph. Please call in advance for an appointment to ensure that there is sufficient space to accommodate your inspection.

If responsive documents exceed eight linear feet in length, the response will indicate that the attachment is subject to the FREIGHT CAR DOCTRINE, and, pursuant to Commission Procedural Rule 22.144(h)(3), the attachment will be available for inspection at its usual repository, SPS's offices in Amarillo, Texas, unless otherwise indicated. SPS requests that parties wishing to inspect this material provide at least 48 hours' notice of their intent by contacting Ron Moss of Graves, Dougherty, Hearon & Moody P.C., 401 Congress Avenue, Suite 2200, Austin, Texas 78701; telephone number (512) 480-5724; facsimile transmission number (512) 480-5824. Inspections will be scheduled to accommodate all requests with as little inconvenience to the requesting party and to SPS's operations as possible.

Respectfully submitted,

XCEL ENERGY SERVICES INC.

Stephen Fogel
Assistant General Counsel
State Bar No. 07202010
816 Congress Avenue, Suite 1650
Austin, Texas 78701
office: (512) 478-9229
facsimile: (512) 478-9232
e-mail: stephen.e.fogel@xcelenergy.com

GRAVES, DOUGHERTY, HEARON & MOODY P.C.

Ron H. Moss
State Bar No. 14591025
Thomas B. Hudson, Jr.
State Bar No. 10168500
401 Congress Avenue, Suite 2200
Austin, Texas 78701
office: (512) 480-5724
facsimile: (512) 480-5824
e-mail: rmoss@gdhm.com
thudson@gdhm.com

COURTNEY, COUNTISS, BRIAN & BAILEY, L.L.P.

By:


Amy M. Shelhamer
State Bar No. 24010392
1700 Chase Tower
P. O. Box 9238
Amarillo, Texas 79101
office: (806) 372-5569
facsimile: (806) 372-9761
email: ashelhamer@courtneylawfirm.com

ATTORNEYS FOR
SOUTHWESTERN PUBLIC SERVICE COMPANY

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RESPONSES

QUESTION NO. STAFF-CR- 1-1:

Please refer to Schedule G-7.4(CONF – Doc #21)

- a. Provide the same information by FERC account and sub-account. If not available by FERC account and sub-account, please explain why not.
- b. Does SPS record ADIT for all timing temporary differences between the tax return and books at time of origination, including amounts on Form 3115? If no, please explain why not.
- c. Does SPS net any ADIT items? If so, please present the schedule so that each item giving rise to tax deferrals is segregated (as required per RFP instructions).
- d. Please provide all effects of FIN 48 on the amounts reported on this schedule.
- e. Are any of the "As Adjusted" amounts reflective of management's risk assessment and measurement under FIN 48? If yes, please specify which balances.
- f. Please explain the "Current" designation on this schedule and its significance, if any, in the rate application.

RESPONSE:

- a. Refer to Exhibit STAFF1-1a.
- b. SPS records Accumulated Deferred Income Tax ("ADIT") for all known temporary differences between the current year's tax return (including amounts on Form 3115) and the books of SPS at the time of origination, and it records the change in ADIT on a quarterly basis. Most nonplant ADIT items result from assets or liabilities recognized for book purposes, but not recognized for tax purposes. The nonplant ADIT items correspond to specific book accounts called "tax sensitive accounts," and the corresponding change in their respective account balance is used to update their ADIT balance. (Procedures are in place to identify new general ledger accounts to determine if they are in fact "tax sensitive accounts" and therefore subject to deferred tax accounting.) Employees in Xcel Energy Services' Capital Asset Accounting group are responsible for all plant-related ADIT items, and they

provide information on a quarterly basis to reflect ADIT associated with both originating plant related temporary differences (i.e., Allowance for Funds Used During Construction debt, Contributions In Aid of Construction, repair expenditures, etc.) and book and tax depreciation temporary differences, based on forecasted plant activity (additions, retirements, transfers, etc.) for the year. In addition to recording ADIT for all known temporary differences between the current year's tax return and the books of SPS, adjustments are made to ADIT balances during the quarter in which audit adjustments become known. Procedures are in place to review and update on a quarterly basis the "audit reserve" (which reflects the amount of current tax expected to be paid or received upon completion of the audit cycle) and to record the corresponding change in ADIT balances related to those temporary differences resolved on audit. Finally, an analysis of material uncertain tax positions is also performed on a quarterly basis, and a liability or reserve is recorded to de-recognize tax benefits as required by Financial Accounting Standards Board Interpretation Number 48 ("FIN 48"). For any tax benefits relating to temporary differences, the quarterly changes in the FIN 48 liability are offset in the related ADIT balance. The impact of FIN 48 is a reduction in the amounts recorded as ADIT liabilities and an increase in the new liability set up for the FIN 48 reserve.

- c. SPS does not net ADIT items, but properly segregates ADIT assets and liabilities. Refer to Schedule G-7.4(CONF), which has been DECLASSIFIED, Bates Stamp C-5, which shows each item giving rise to tax deferrals as required per the rate filing package instructions.
- d. All effects of FIN 48 on this schedule have been eliminated. This is consistent with Federal Energy Regulatory Commission ("FERC") Docket No. A107-2-000, which requires entities to reclassify FIN 48 liabilities for purposes of determining the reduction to rate base for deferred income tax liabilities. As indicated in the response to SPS-Staff CR-1a, the FIN 48 ADIT amounts that impact ADIT balances associated with the Federal Net Operating Loss ("NOL") (contribution carryovers converted to Federal NOL) and plant related depreciation and basis differences have been reclassified to FERC Account 253 (Other Deferred Credits) for FERC reporting purposes. This eliminates the impact of FIN 48 on ADIT.
- e. No. As indicated in the response to subpart (d) above, all effects of FIN 48 on this schedule have been eliminated.

- f. The "Current" designation on this schedule denotes accumulated deferred income taxes expected to be paid (liabilities) or refunded (assets) within 12 months of the balance sheet date. This designation has no significance in the rate application.

Preparer(s): David Picconi

Sponsor(s): Christopher A. Arend, Lisa H. Perkett

QUESTION NO. STAFF-CR-1-2:

Please refer to Schedule G-7.4b, Adjustments to ADFIT.

- a. Please explain in greater detail the purpose of the adjustments on Line 22 and Line 45 (DIN48) [sic] and why the adjustments are "out-of-period" adjustments.
- b. Please provide the FIN 48 entry that was booked at YE 2007 in total and in detail by item and by account.
- c. Please provide the financial statement disclosure at YE 2007 required by FIN 48 and reconcile to the response for (b) above.

RESPONSE:

- a. The purpose of adjustments on Line 22 and Line 45 of Schedule G-7.4b is to eliminate from the reduction to rate base the impact of Financial Accounting Standards Board Interpretation No. ("FIN") 48 on temporary differences. The recording of FIN 48 liabilities resulted in an offsetting reduction in the Accumulated Deferred Income Tax ("ADIT") balances associated with the Federal net operating losses ("NOL") (contribution carryovers converted to Federal NOL) and plant related depreciation and basis differences, respectively. The adjustments are "out-of-period" to the extent that the impact of FIN 48 on the ADIT balances is not from tax positions taken on previously filed tax returns or tax positions expected to be taken on future tax returns, but rather from the recognition and measurement requirements of FIN 48. The elimination of the impact of FIN 48 from the reduction to rate base for deferred tax liabilities is consistent with Federal Energy Regulatory Commission ("FERC") Docket No. A107-2-000, whose subject was "Accounting and Financial Reporting for Uncertainty in Income Taxes." In that docket, the FERC specifically addressed how entities are to account for unrecognized tax benefits related to temporary differences:

Under existing Commission requirements, entities measure and recognize current and deferred tax liabilities (and assets) based on the positions taken or expected to be taken in a filed tax return and recognize uncertainties regarding those positions by recording a separate liability for the potential future payment of taxes when the criteria for recognition of a liability

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contained in FASB Statement No. 5, *Accounting for Contingencies*, are met, generally as part of the accrual for current payment of income tax. Where uncertainties exist with respect to tax positions involving temporary differences, the amounts recorded in the accounts established for accumulated deferred income taxes are based on the positions taken in the tax returns filed or expected to be filed. Recognition of a separate liability for any uncertainty related to temporary differences is therefore not necessary because the entity has already recorded a deferred tax liability for the item or would be entitled to record a deferred tax asset for the item if a separate liability for the uncertainty was recognized.

- b. Refer to Exhibit STAFF1-2b for the FIN 48 entry that was booked at Year End ("YE") 2007 in "total" by account. This FIN 48 entry booked at YE 2007 has been broken out by "total permanent differences" by account and "total temporary differences" by account. The total permanent differences by account and total temporary differences by account are "proforma" entries since all 2007 FIN 48 entries were booked only in total by account.
- c. The following is the financial statement disclosure at YE 2007 required by FIN 48 found in the Notes to Financial Statements per FORM 10-K for the fiscal year ended Dec. 31, 2007, for SPS, filed with the United States Securities and Exchange Commission:

Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109 (FIN 48) — SPS adopted FIN 48 as of Jan. 1, 2007. SPS is a member of the Xcel Energy affiliated group that files consolidated income tax returns. Xcel Energy has been audited by the Internal Revenue Service (IRS) through tax year 2003, with a limited exception for 2003 research tax credits. The IRS commenced an examination of Xcel Energy's federal income tax returns for 2004 and 2005 (and research credits for 2003) in the third quarter of 2006, and that examination is anticipated to be complete by March 31, 2008. As of Dec. 31, 2007, the IRS had not proposed any material adjustments to tax years 2003 through 2005. The statute of limitations applicable to Xcel Energy's 2000 through 2002 federal income tax returns expired as of June 30, 2007.

SPS is also currently under examination by the state of Texas for tax years 2003 through 2005. A \$2.0 million adjustment has been proposed by the state of Texas in their audit of these years. As of Dec. 31, 2007, SPS's earliest open tax year in which an audit can be initiated by state taxing authorities under applicable statutes of limitations is 2003.

The amount of unrecognized tax benefits was \$5.0 million and \$2.3 million on Jan. 1, 2007 and Dec. 31, 2007, respectively. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	(Millions of Dollars)
Balance at Jan. 1, 2007.....	\$ 5.0
Additions based on tax positions related to the current year	1.1
Reductions based on tax positions related to the current year	(0.1)
Additions for tax positions of prior years.....	0.5
Reductions for tax positions of prior years	(0.1)
Settlements with taxing authorities	(4.1)
Balance at Dec. 31, 2007.....	\$ 2.3

These unrecognized tax benefit amounts were reduced by the tax benefits associated with tax credit carryovers of \$0.2 million and \$0.1 million as of Jan. 1, 2007 and Dec. 31, 2007, respectively.

The unrecognized tax benefit balance included \$0.2 million and \$0.3 million of tax positions on Jan. 1, 2007 and Dec. 31, 2007, respectively, which if recognized would affect the annual effective tax rate. In addition, the unrecognized tax benefit balance included \$4.8 million and \$2.0 million of tax positions on Jan. 1, 2007 and Dec. 31, 2007, respectively, 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 effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period.

The decrease in the unrecognized tax benefit balance of \$2.7 million from Jan. 1, 2007 to Dec. 31, 2007, was due to the addition of similar uncertain tax positions related to ongoing activity and the resolution of certain federal audit matters. SPS's amount of unrecognized tax benefits could significantly change in the next 12 months as the IRS and state audits progress. At this

time, due to the uncertain nature of the audit process, it is not reasonably possible to estimate an overall range of possible change.

The liability for interest related to unrecognized tax benefits is partially offset by the interest benefit associated with tax credit carryovers. The amount of interest income related to unrecognized tax benefits reported within interest charges in 2007 was \$0.5 million. The liability for interest related to unrecognized tax benefits was \$0.1 million on Dec. 31, 2007. No amounts were accrued for penalties as of Dec. 31, 2007.

Refer to Exhibit STAFF1-2c for a reconciliation of the FIN 48 financial statement disclosure.

It should be noted that the FIN 48 implementation entry was booked in the first quarter of 2007, and all subsequent FIN 48 entries for 2007 were booked quarterly.

Preparer(s): David Picconi
Sponsor(s): Christopher A. Arend

QUESTION NO. STAFF-CR-1-3:

Please refer to the testimony of Christopher Arend regarding consolidated tax savings.

- a. Has Mr. Arend considered that the "interest credit method" (also called the "tax shield method") may understate savings because it treats losses as temporary savings even though they may actually be permanent savings?
- b. If the response to (a) is yes, please provide Application references to support that Mr. Arend has done so. Please also specify which CTSA's provided by Mr. Arend have been modified to account for losses that would never turnaround on a separate return basis and explain the modification.
- c. Does the Year-by Year CTSA reflect losses in the year of utilization?
- d. If the response to (c) above is no, please support that the significant difference described on page 25 of Mr. Arend's testimony (beginning on line 13) is sufficient to represent the "fair share" as described by Mr. Arend.

RESPONSE:

- a. SPS understands the term "permanent savings" in Question No. STAFF-CS-1-3(a) to refer to a situation in which the tax savings resulting from tax losses would never be used without cover by the income of SPS. Based on that understanding and the following analysis, there does not appear to be any realistic possibility that SPS's income could provide permanent savings or that the application of the interest credit method would understate the savings provided by SPS's income, which is temporary.

SPS's proposed \$3.6 million Consolidated Tax Share Adjustment ("CTSA") was designed to present a fair and reasonable adjustment that reflected the intent of Public Utilities Regulatory Act ("PURA") § 36.060 in light of the unique facts concerning SPS. SPS's proposed CTSA took into account both those unique facts and the quantitative consequences of those facts in relation to federal income tax law. The SPS adjustment is intended to acknowledge the policy underlying PURA § 36.060, which is the source of the only consolidated income tax adjustment in any jurisdiction served by Xcel Energy utilities.

The corporate and financial history of SPS shows that all tax losses through 2000 were covered, in the years in which the losses were incurred, by the

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income from other members of the Xcel Energy and preceding consolidated groups without use of SPS's income. That indicates that SPS's income did not provide even temporary savings with respect to losses through 2000.

The stock loss resulting from the investment in NRG Energy Inc. ("NRG") was unique in its combination of: (i) being a one-time, non-recurring loss; and (ii) the scale of the loss, which reduced the consolidated net book value of the Xcel Energy group by 86%, from \$2.6 billion as of December 31, 2001 to \$369 million as of December 31, 2003.

Including the NRG loss in the fair share calculation would reduce SPS's revenues by approximately \$117 million over the 15-year period included in the fair share calculation (\$7.8 million per year x 15 years). Such a cumulative impact of the fair share calculation would greatly exceed any temporary benefit that could have possibly been provided by SPS's income in covering the NRG loss a few years earlier than would otherwise occur. That cover could have been provided without SPS's income because the income from other members of the Xcel Energy consolidated group is more than sufficient to cover all tax losses, including the NRG loss, within the 2-year carry back and 20-year carry forward provisions of federal income tax law.

SPS's income did not provide permanent savings because: (i) the SPS's income is a relatively modest part of the overall income of the Xcel Energy consolidated group; and (ii) the income from other members of the Xcel Energy consolidated group is more than enough to cover all tax losses within the applicable 2-year carry-back and 20-year carry forward periods without the need for SPS's income.¹ As a result, there is no realistic possibility that tax losses from the Xcel Energy consolidated group (or any losses within the 15 year calculation period) would have remained uncovered without SPS's income.

¹ If a Texas utility is the primary or a more significant contributor of income in a consolidated group, the cover and resulting savings that the Texas utility provides could be more significant and might be characterized as permanent, in that there would not be sufficient income from other companies within the consolidated group to cover Net Operating Losses ("NOLs") but for the income from the Texas utility. However, that is not the case for SPS because the other members of the Xcel Energy consolidated group provide more than enough income to cover all tax losses.

The ability to cover all tax losses without use of SPS's income is demonstrated by the following analysis:

For the years 1993-1996, Attachment CAA-RR-1(CONF) to the Direct Testimony of Christopher A. Arend, Bates Stamp pages C-1 through C-10, which is CONFIDENTIAL, shows that there were no "continuing losses" (losses that had not been covered by the loss companies' own income).

For the years 1997-2000, refer to Exhibit STAFF1-3a-1(CONF), which shows that other companies in the consolidated group had net income in each year after elimination of the SPS income. This fact shows that the income from other companies (after excluding SPS income) was sufficient to cover all losses within the consolidated group in those years without any use of SPS's income for cover.

To determine whether the cover provided by SPS's income is temporary or permanent for the years starting with 2001, the following analysis demonstrates that the Xcel Energy consolidated group's income (excluding the SPS income) will be sufficient to cover all tax losses, including ongoing losses and NOLs from the NRG loss.

For the years 2001-2007, SPS's income has been used to provide cover for losses. However, that cover is temporary, not permanent, because (as demonstrated below) the combination of past and future income from the Xcel Energy consolidated group (excluding SPS's income), is sufficient to cover all tax losses, including the NRG loss (which was incurred in 2003 and 2004) within the applicable 2-year NOL carry-back and 20-year carry forward provisions of Federal Income Tax Law.

SPS total income for the years 2001 - 2007 (the years in which income has been used to cover the NRG loss) was \$ [REDACTED], as shown on Exhibit STAFF1-3a-2(CONF). As of the end of 2007, the Xcel Energy consolidated group has \$ [REDACTED] of unused NOLs, all of which have arisen since 2003.² If SPS's income had not been available or had not been used, the pro-forma amount of unused NOLs as of the end of 2007 would have been \$ [REDACTED] (the sum of the actual unused NOLs [\$ [REDACTED]] + SPS income for the years 2001-2007 that has been used to provide cover [\$ [REDACTED]]), as also shown on Exhibit STAFF1-3a-2(CONF).

The Xcel Energy income (not including SPS's income) will be sufficient to cover all ongoing losses and the pro-forma \$ [REDACTED] NOL balance by 2011, which is well within the 20-year NOL carry forward period for that NRG-based NOL, which will not expire until 2023. The analysis set forth on Exhibit STAFF1-3a-3(CONF) demonstrates this fact.

Current Xcel Energy consolidated net income covers all ongoing losses, which are included in the calculation of the Xcel Energy consolidated net income. The Xcel Energy consolidated group is very unlikely to experience tax losses beyond the current level of annual losses (not including NRG) because Xcel Energy has adopted a strategy focused on regulated utility operations² and has divested most of its unregulated operations, as shown on Bates Stamp pages C-2 through C-4 of Attachment CAA-RR-1(CONF). Since all ongoing losses are accounted for in the determination of the Xcel Energy consolidated income, the only losses that remain to be covered are the 2007 pro-forma balance of NOLs that would have remained if the SPS income from 2001 - 2007 had not been used for cover. That 2007 pro-forma NOL balance is \$ [REDACTED]. Thus, the \$ [REDACTED] pro-forma level of NOLs represents the balance that must be used within the 20-year tax loss carry forward period under applicable Federal Income Tax Law.

The determination of the amount of Xcel Energy consolidated income (excluding SPS income) that will be available to cover the 2007 balance of NOLs was based on the averages of Xcel Energy consolidated income and the SPS income for all years since the merger in 2000, excluding 2003 and 2004. Those years were excluded because they were highly unusual years in which losses exceeded all income (including SPS and all other companies) as a result of the NRG loss. Exhibit STAFF1-3a-3(CONF) shows that the average Xcel Energy consolidated income (excluding SPS income) is \$ [REDACTED].

If the \$ [REDACTED] average of available Xcel Energy annual income (excluding SPS income) is applied to the \$ [REDACTED] pro-forma NOL balance each year, that NOL balance will be covered by that income in 4 years (by 2011) as shown on Exhibit STAFF1-3a-3(CONF). This is well within the 20-year NOL carry forward, which lasts until 2023. This shows that the NOLs can be readily covered by Xcel Energy income without the use

² See Xcel Energy 2004 Annual Report page 8.

of any SPS income, which in turn shows that the SPS income has provided no more than temporary benefits or savings.

- b. As demonstrated in subpart (a) above, there is no basis to support the premise that the savings provided by SPS's income are any more than temporary. Accordingly, there was no basis to reflect that incorrect premise in Mr. Arend's CTSA or in the Application.

The question also suggests that the only alternative to cover of losses by SPS's income is a "turnaround" and generation of income by the company that incurred the loss. To the contrary, SPS's income and the potential future income of loss companies do not represent the only sources of cover for tax losses. As shown in the response to (a): (i) the income of other companies in the Xcel Energy consolidated group is more than sufficient to cover all Xcel Energy NOLs and ongoing losses without any use of SPS income; and (ii) the SPS income does not provide any permanent savings. As a result, the response to subpart (a) shows that there are no losses that would remain uncovered without SPS's income, even if the loss company does not generate income.

Because the income of other members of the Xcel Energy consolidated group is sufficient to cover all accumulated NOLs and also to cover ongoing losses, there are no unused losses that would not be covered or turned around and no modification was made by Mr. Arend or is needed to reasonably reflect the value provided by SPS's income.

- c. Yes. Under Mr. Arend's year-by-year Consolidated Tax Savings Adjustment ("CTSA"), in each year in which the consolidated group generates net taxable income, the net income from that year was utilized to cover continuing losses available in that year. This is demonstrated on Bates Stamp page C-4, rows 208, 210, and 213 of Attachment CAA-RR-1(CONF). For those years in which the consolidated group generated a net taxable loss (2003 and 2004), the loss that remained (after utilization of available current year income) was carried back as far as possible (2 years), and income from those carry-back years (including SPS's income) was deemed to have been utilized to cover those NOLs. Likewise, the amount of NOLs that remained after adjusting for carry-backs was carried forward to years after 2004 in which income was utilized to cover the NOLs in those years. This is demonstrated on Bates Stamp page C-4, row 215 of Attachment CAA-RR-1 (CONF). The loss

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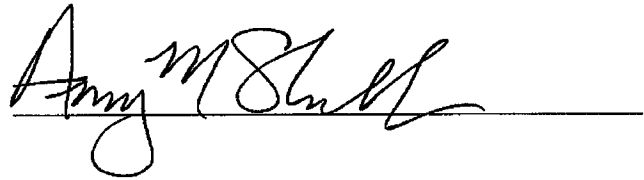
amounts on this row were taken from the actual carry-back claims and tax returns and were adjusted for IRS audit adjustments.

d. Not Applicable.

Preparer(s): Christopher A. Arend
Sponsor(s): Christopher A. Arend

Certificate of Service

I, Amy M. Shelhamer, attorney for Southwestern Public Service Company, certify that a copy of this document was served on all parties of record in this proceeding on July 3, 2008, in the following manner: facsimile transmission, hand delivery, electronic mail, overnight mail and/or United States Postal Service first-class mail.

A handwritten signature in black ink, appearing to read "Amy M. Shelhamer", is written over a horizontal line.

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ACCUMULATED DEFERRED INCOME TAX BALANCES BY FERC ACCOUNT

Line No.	FERC Account	Balance @ 12-31-2007	Requested Adjustments	Adjusted Balances
1				
2				
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Note: () Indicates a credit balance.

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ACCUMULATED DEFERRED INCOME TAX BALANCES BY FERC ACCOUNT

Line No.	FERC Account	Balance @ 12 31-2007	Requested Adjustments	Adjusted Balances
58	<u>Summary by FERC Account</u>			
59				
60	<u>Accumulated Deferred Income Taxes (Account 190)</u>			
61	ADIT - Current Assets - Electric	190 21,368,980	(19,155,726)	2,213,254
62	ADIT - Non Current Assets - Electric Non-Plant	190 17,579,384	(6,040,454)	11,538,928
63	ADIT - Non Current Assets - Electric Non-Plant	190 (96,619)	96,619	0
64	ADIT - Non Current Assets - Electric Plant	190 32,860,513	0	32,860,513
65	ADIT - Non Current Assets - FAS 109 Excess Deferred Taxes	190 (2,598,953)	2,598,953	0
66	ADIT - Non Current Assets - FAS 109 Deferred ITC	190 1,612,777	(1,612,777)	0
67	ADIT (Account 190) - FERC FORM 1, Page 234, FIT EOY	70,726,081	(24,113,385)	46,612,695
68				
69	<u>Accumulated Deferred Income Taxes - Other Property (Account 282)</u>			
70	Account 282	282 (395,190,093)	0	(395,190,093)
71	Account 282	282 1,891,289	(1,891,289)	0
72	FAS 109 - Prior Flow	282 (6,095,777)	6,095,777	0
73	FAS 109 - AFUDC Equity	282 (22,495,443)	22,495,443	0
74	TOTAL Account 282 - FERC FORM 1, Page 275, Line 11	(421,890,024)	26,699,931	(395,190,093)
75				
76	<u>Accumulated Deferred Income Taxes - Other (Account 283)</u>			
77	ADIT - Current Liabilities	283 (18,413,164)	19,323,164	910,000
78	ADIT - Non-Current Liabilities	283 (68,406,992)	1,855,707	(66,551,285)
79	TOTAL Account 283 - FERC FORM 1, Page 277, Line 21	(86,820,155)	21,178,870	(65,641,285)
80				
81	<u>Other Deferred Credits (Account 253)</u>			
82	Federal NOL - FIN 48	253 * 96,619	(96,619)	0
83	Depreciation & Basis Differences - Plant Related - FIN 48	253 * (1,891,289)	1,891,289	0
84	TOTAL (incl on FERC Form 1, Page 269, Line 16)	(1,794,670)	1,794,670	0
85				

* Per FERC Docket No. A107-2-000, entities must record a reclass between ADIT and the FIN 48 liability to remove the impact of FIN 48 on net ADIT.

Note: () Indicates a credit balance.

SOUTHWESTERN PUBLIC SERVICE COMPANY
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
QUESTION NOS. CR-2b

FIN 48 ENTRY BOOKED AT YE 2007 IN TOTAL AND IN DETAIL BY ITEM BY ACCOUNT

Line No.	Account	Account Description	Total Dr. / (Cr.)	Total Permanent Differences Dr. (Cr.)	Total Temporary Differences Dr. (Cr.)
1	601955.281050	Accum Def Inc Tax - Federal Nonplant	1,000.00	0.00	1,000.00
2	601955.383305	FIN 48 Cur Fedl Inc Tax Pay	3,187,222.60	49,305.85	3,137,916.75
3	601955.383310.02	FIN 48 Curr State Inc Tax Pay - Kansas	3,993.87	63.01	3,930.86
4	601955.383310.05	FIN 48 Curr State Inc Tax Pay - New Mexico	152,961.46	2,395.78	150,565.68
5	601955.383310.07	FIN 48 Curr State Inc Tax Pay - Oklahoma	8,780.63	118.81	8,661.82
6	601955.383310.08	FIN 48 Curr State Inc Tax Pay - Texas	64,012.61	1,028.54	62,984.07
7	601955.433481	FIN 48 LT Fedl Inc Tax Pay	81,496.82	(17,178.03)	98,674.85
8	601955.433482.02	FIN 48 LT State Inc Tax Pay - Kansas	400.05	(22.90)	422.95
9	601955.433482.05	FIN 48 LT State Inc Tax Pay - New Mexico	(7,445.35)	(758.32)	(6,687.03)
10	601955.433482.07	FIN 48 LT State Inc Tax Pay - Oklahoma	(4,042.09)	(24.69)	(4,017.40)
11	601955.433482.08	FIN 48 LT State Inc Tax Pay - Texas	14,910.82	0.00	14,910.82
12	601955.411150	Accum Def Inc tax - Federal Plant	(3,263,781.98)	0.00	(3,263,781.98)
13	601955.411500.10	Accum Def Inc Tax - State Plant	(153,120.40)	0.00	(153,120.40)
14	601955.911100	Current Federal income Taxes	(3,268,719.42)	(32,127.82)	(3,236,591.60)
15	601955.911200.02	Current State Income Taxes - Kansas	(4,393.92)	(40.11)	(4,353.81)
16	601955.911200.05	Current State Income Taxes - New Mexico	(145,516.11)	(1,637.46)	(143,878.65)
17	601955.911200.07	Current State Income Taxes - Oklahoma	(4,738.54)	(94.12)	(4,644.42)
18	601955.911200.08	Current State Income Taxes - Texas	(78,923.43)	(1,028.54)	(77,894.89)
19	601955.921100	Federal Deferred Income Taxes - Operating	3,263,781.98	0.00	3,263,781.98
20	601955.921200.10	State Deferred Income Taxes - Operating	153,120.40	0.00	153,120.40
21	601955.930500	Deferred Tax Creditis - Federal	(1,000.00)	0.00	(1,000.00)
22		Entry Total :	(0.00)	(0.00)	0.00
23					
24		<u>Summary by Type of Account</u>			
25		Unrecognized Tax Benefits (UTB)	3,503,291.42	34,928.05	3,468,363.37
26		Accumulated Deferred Income Taxes (ADIT)	(3,416,902.38)	0.00	(3,416,902.38)
27		Income Statement (Inc Stmt)	(86,389.04)	(34,928.05)	(51,460.99)
28		Entry Total :	(0.00)	0.00	0.00
29					
30		<u>Unrecognized Tax Benefits (UTB's) Reconciliation</u>	Total		
31		<u>Current Year</u>			
32		Increases			
33		2007 Permanent Differences	17,983	17,983	
34		2007 Temporary Differences	73,242		73,242
35		Decreases			
36		2007 Permanent Differences	2	1	1
37		2007 Temporary Differences	(99,945)		(99,945)
38					
39		<u>Prior Years</u>			
40		Increases			
41		2004-2006 Permanent Differences	2,203	2,203	
42		Decreases			
43		2004-2005 Permanent Differences	(55,115)	(55,115)	
44		2006 Temporary Differences	(77,601)		(77,601)
45					
46		<u>Settlements with Taxing Authorities</u>			
47		Increases			
48					
49		Decreases			
50		2004-2005 Temporary Differences	(3,364,060)		(3,364,060)
51					
52		Total UTB's	(3,503,291)	(34,928)	(3,468,363)
53					
54		<u>Unrecognized Tax Benefits (UTB's) Summarized for</u>			
55		<u>Financial Disclosure</u>			
56		Additions based on tax positions related to the current year	91,225	17,983	73,242
57		Reductions based on tax positions related to the current year	(99,943)	1	(99,944)
58		Additions for tax positions of prior years	2,203	2,203	
59		Reductions for tax positions of prior years	(132,716)	(55,115)	(77,601)
60		Settlements with taxing authorities	(3,364,060)		(3,364,060)
61		Total UTB's	(3,503,291)	(34,928)	(3,468,363)

SOUTHWESTERN PUBLIC SERVICE COMPANY
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION
QUESTION NO. CR-2c

FIN 48 FINANCIAL STATEMENT DISCLOSURE RECONCILIATION

Account Description	Implementation Dr. / (Cr.)	Q1 2007 Dr. / (Cr.)	Q2 2007 Dr. / (Cr.)	Q3 2007 Dr. / (Cr.)	Q4 2007 Dr. / (Cr.)	Total Dr. / (Cr.)
Accum Def Inc Tax - Federal Nonplant	(153,600.00)	(18,250.00)	62,350.00	11,881.00 [3]	1,000.00	(96,619.00)
FIN 48 Cur Fedl Inc Tax Pay				(3,210,353.00) [3]	3,187,222.60	(23,130.40)
FIN 48 Cur State Inc Tax Pay - Kansas				(4,024.70) [3]	3,993.87	(30.83)
FIN 48 Cur State Inc Tax Pay - New Mexico				(153,982.55) [3]	152,961.46	(1,021.09)
FIN 48 Cur State Inc Tax Pay - Oklahoma				(8,813.89) [3]	8,780.63	(33.26)
FIN 48 Cur State Inc Tax Pay - Texas				(64,012.61) [3]	64,012.61	0.00
FIN 48 LT Fedl Inc Tax Pay	(4,522,048.28)	(293,023.20)	326,562.36	2,384,492.12 [3]	81,496.82	(2,022,520.18)
FIN 48 LT State Inc Tax Pay - Kansas	(5,788.50)	(375.09)	418.01	2,932.76 [3]	400.05	(2,412.77)
FIN 48 LT State Inc Tax Pay - New Mexico	(218,903.50)	(14,184.68)	22,315.83	117,618.35 [3]	(7,445.35)	(100,599.35)
FIN 48 LT State Inc Tax Pay - Oklahoma	(10,716.02)	(694.39)	773.85	7,603.13 [3]	(4,042.09)	(7,075.52)
FIN 48 LT State Inc Tax Pay - Texas	(90,460.03)	(5,861.97)		78,654.00 [3]	14,910.82	(2,757.18)
Accum Def Inc tax - Federal Plant	4,447,016.07	293,022.80	(326,553.26)	741,585.86	(3,263,781.98)	1,891,289.49
Accum Def Inc Tax - State Plant	320,471.63	21,116.52	(23,532.87)	(76,204.99)	(153,120.40)	88,729.89
Current Federal income Taxes	4,522,048.28 [1]	293,023.20 [2]	(326,562.36) [2]	825,860.88 [2]	(3,268,719.42) [2]	2,045,650.58
Current State Income Taxes - Kansas	5,788.50 [1]	375.09 [2]	(418.01) [2]	1,091.94 [2]	(4,393.92) [2]	2,443.60
Current State Income Taxes - New Mexico	218,903.50 [1]	14,184.68 [2]	(22,315.83) [2]	36,364.20 [2]	(145,516.11) [2]	101,620.44
Current State Income Taxes - Oklahoma	10,716.02 [1]	694.39 [2]	(773.85) [2]	1,210.76 [2]	(4,738.54) [2]	7,108.78
Current State Income Taxes - Texas	90,460.03 [1]	5,861.97 [2]		(14,641.39) [2]	(78,923.43) [2]	2,757.18
Federal Deferred Income Taxes - Operating	(4,447,016.07) [1]	(293,022.80) [2]	326,553.26 [2]	(741,585.86) [2]	3,263,781.98 [2]	(1,891,289.49)
State Deferred Income Taxes - Operating	(320,471.63) [1]	(21,116.52) [2]	23,532.87 [2]	76,204.99 [2]	153,120.40 [2]	(88,729.89)
Deferred Tax Credits - Federal	153,600.00 [1]	18,250.00 [2]	(62,350.00) [2]	(11,881.00) [2]	(1,000.00) [2]	96,619.00
	0.00	0.00	0.00	0.00	(0.00)	0.00
Summary by Type of Account						
Unrecognized Tax Benefits (UTB)	(5,001,516.33)	(332,389.33)	412,420.05	(838,005.39)	3,503,291.42	(2,256,199.58)
Accumulated Deferred Income Taxes (ADIT)	4,767,487.70	314,139.32	(350,086.13)	665,380.87	(3,416,902.38)	1,980,019.38
Income Statement	234,028.63	18,250.01	(62,333.92)	172,624.52	(86,389.04)	276,180.20
Entry Total :	0.00	0.00	0.00	0.00	(0.00)	0.00

[1] - FIN 48 implementation amount booked to retained earnings.

[2] - FIN 48 2007 activity booked through income statement.

[3] - September 2007 FIN 48 entry includes reclass of a portion of FIN 48 Long Term Income Taxes Payable to FIN 48 Short Term Income Taxes Payable for financial reporting purposes.

Unrecognized Tax Benefits (UTB's) Reconciliation

UTB's as of January 1, 2007	Implementation	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Total
Increases						
2007 Permanent Differences	80,429					80,429
2007 Temporary Differences	4,921,088					4,921,088
Current Year						
Increases						
2007 Permanent Differences				53,951	17,983	71,934
2007 Temporary Differences		332,389	331,488	314,483	73,242	1,051,603
Decreases						
2007 Permanent Differences					(99,945)	(99,945)
2007 Temporary Differences			16	(9,426)	2	(9,408)
Prior Years						
Increases						
2004-2006 Permanent Differences				42,938	2,203	45,141
2006 Permanent Differences				26,068		26,068
2006 Temporary Differences				436,539		436,539
Decreases						
2004-2005 Permanent Differences					(55,115)	(55,115)
2006 Temporary Differences				(26,548)	(77,601)	(104,149)
Settlements with Taxing Authorities						
Increases						
Decreases						
2004-2005 Temporary Differences					(3,364,060)	(3,364,060)
2003-2005 Temporary Differences			(743,924)			(743,924)
Total UTB's	5,001,516	332,389	(412,420)	838,005	(3,503,291)	2,256,200

Unrecognized Tax Benefits (UTB's) Summarized for Financial Disclosure

	Implementation	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Total
Balance at January 1, 2007	5,001,516					5,001,516
Additions based on tax positions related to the current year		332,389	331,488	368,434	91,225	1,123,537
Reductions based on tax positions related to the current year			16	(9,426)	(99,943)	(109,354)
Additions for tax positions of prior years				505,545	2,203	507,748
Reductions for tax positions of prior years				(26,548)	(132,716)	(159,264)
Settlements with taxing authorities			(743,924)		(3,364,060)	(4,107,984)
Balance at December 31, 2007						2,256,200