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SOAH DOCKET NO. 473-13-1173
DOCKET NO. 40824

APPLICATION OF SOUTHWESTERN PUBLIC SERVICE COMPANY FOR AUTHORITY TO CHANGE RATES AND TO RECONCILE FUEL AND PURCHASED POWER COSTS FOR THE PERIOD JANUARY 1, 2010 THROUGH JUNE 30, 2012	§ § § § § § §	**BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS**

SOUTHWESTERN PUBLIC SERVICE COMPANY'S RESPONSE TO ALLIANCE OF XCEL MUNICIPALITIES' SEVENTH REQUEST FOR INFORMATION QUESTION NOS. 7-1 THROUGH 7-28

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SOUTHWESTERN PUBLIC SERVICE COMPANY'S RESPONSE TO ALLIANCE OF XCEL MUNICIPALITIES' SEVENTH REQUEST FOR INFORMATION QUESTION NOS. 7-1 THROUGH 7-28

Southwestern Public Service Company ("SPS") files this response to Alliance of Xcel Municipalities' ("AXM") Seventh Request for Information Question Nos. 7-1 through 7-28.

I. WRITTEN RESPONSES

SPS's written responses to AXM's Seventh 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.

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 provided on CD and made available for inspection at SPS's voluminous room at 401 Congress Avenue, Suite 2100, Austin, Texas 78701; telephone number (512) 370-2867. In addition, SPS will provide voluminous exhibits to all parties on CD. 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 P.U.C. PROC. R. 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 Winstead , P.C., 401 Congress Avenue, Suite 2100, Austin, Texas 78701; telephone number (512) 370-2867; facsimile transmission number (512) 370-2850; email address rhmoss@winstead.com. 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
State Bar No. 07202010
Matthew P. Loftus
State Bar No. 24052189
816 Congress Avenue, Suite 1650
Austin, Texas 78701-2471
Office: (512) 478-7267
Facsimile: (512) 478-9232
e-mail: stephen.e.fogel@xcelenergy.com
e-mail: matthew.p.loftus@xcelenergy.com

WINSTEAD P.C.

Ron H. Moss
State Bar No. 14591025
401 Congress Avenue, Suite 2100
Austin, Texas 78701
Office: (512) 370-2867
Facsimile: (512) 370-2850
e-mail: rhmoss@winstead.com

GRAVES, DOUGHERTY, HEARON & MOODY P.C.

Thomas B. Hudson, Jr.
State Bar No. 10168500
401 Congress Avenue, Suite 2200
Austin, Texas 78701
Office: (512) 480-5740
Facsimile: (512) 480-5840
e-mail: thudson@gdhm.com

COURTNEY, COUNTISS, BRIAN & BAILEY, LLP

Amy M. Shelhamer
State Bar No. 24010392
600 S. Tyler, Suite 1700
Amarillo, Texas 79101
Office: (806) 372-5569
Facsimile: (806) 372-9761
e-mail: ashelhamer@courtneylawfirm.com

BY: Amy M Shelh

ATTORNEYS FOR
SOUTHWESTERN PUBLIC SERVICE COMPANY

RESPONSES

QUESTION NO. AXM 7-1:

Please provide SPS's total transmission revenue requirement for each of the last five calendar years, including charges from SPP separately identified by SPP rate schedule.

RESPONSE:

AXM has clarified that it is requesting that SPS provide net transmission plant, depreciation expense, and transmission O&M expenses.

Please refer to Exhibit SPS-AXM 7-1. Please note that SPS did not calculate Texas-specific depreciation balances for 2008 and 2010, and therefore the exhibit does not contain accumulated depreciation amounts for those years.

Preparers: Arthur P. Freitas, Ken Walsh
Sponsors: Kathy McNulty Kropp, Ruth M. Sakya

QUESTION NO. AXM 7-2:

Please provide SPS's total forecasted transmission revenue requirement for each of the next five years, including charges from SPP separately identified.

RESPONSE:

AXM has clarified that it is requesting that SPS provide net transmission plant, depreciation expense and transmission O&M expenses.

Please refer to Exhibit SPS-AXM 7-2.

Preparers: Arthur P. Freitas, Ken Walsh
Sponsors: Kathy McNulty Kropp, Ruth M. Sakya

QUESTION NO. AXM 7-3:

Please provide project descriptions and cost/benefit summaries for each power plant capital project having a cost in excess of $3 million which is being requested in this case that was completed and placed in service before January 1, 2010, and explain why such projects have not been previously approved by the Commission.

RESPONSE:

SPS is collecting responsive documents and is discussing with AXM the nature and extent to which additional documents and information will be produced in response to this Request for Information. SPS is not certain when responsive documents pertaining can be produced.

QUESTION NO. AXM 7-4:

Please provide documentation supporting the amount and reasonableness of affiliate charges included in each production plant capital project having a cost in excess of $3 million which SPS is seeking approval to include in rate base in this case.

RESPONSE:

Please refer to the Direct Testimony of Alan J. Davidson (Vol. RR 8, pgs. 100-102 of 577) for a description of the services for which affiliate costs were incurred on production plant capital projects. Projects with total costs in excess of $3 million can be identified by reviewing column H in Mr. Davidson's Attachment AJD-RR-1. The total affiliate costs incurred on projects costing more than $3 million are listed in column K of the same Attachment AJD-RR-1. Please refer to the Direct Testimony of David A. Low (Vol. RR 7, pp. 345-389 of 579 and 403-430 of 579) for a discussion of the reasonableness of the cost of affiliate services provided by the Energy Supply organization.

Please refer to Exhibit SPS-AXM 7-4 for a breakdown of the types of affiliate charges for the projects over $3 million. This breakdown shows that the affiliate charges are for labor, labor loadings, expenses and small materials.

The labor is charged by XES employees to engineer, procure, design, manage, document, supervise safety and construction, startup and test the capital projects. To conduct the work, employees must travel to plant sites, travel to perform quality assurance checks at supplier's facilities, travel for project meetings and in some cases project specific startup training. These employees do the same functions for large as well as small capital projects and this allows the experience to be leveraged across many projects and plants. Some engineers manage the same type of project at different plants which lowers the costs of retraining different contractors or engineering companies. It is absolutely necessary to have highly skilled competent people managing the complexity of these projects. The labor rates of employees are generally lower than the cost of using a full service engineering firm to perform the same work.

In some cases, the project leads or engineers will purchase small commodity items for the project on credit cards. The materials can range from office supplies on site to gaskets, fittings, flanges, safety items, etc that are used in construction or management. In some cases local permit fees are paid for depending on the type of fee and project. These are small items that are more efficient to purchase with a credit card than with a purchase order and is conducted according to corporate purchasing procedures.

To perform their functions, the employees will charge normal expenses per the corporate policy. They will charge hotels and meals if away from home on site or at vendor's facility. The employees will charge mileage for use of their personal vehicle to travel to and from the construction site. SPS has concluded it is more effective to have employees manage the projects than to outsource this type of work.

Preparer: Alan J. Davidson
Sponsors: Alan J. Davidson, David A. Low

QUESTION NO. AXM 7-5:

Please provide the ratemaking treatment of electric commodity trading margins in each jurisdiction served by Xcel.

RESPONSE:

In Texas, SPS's revenue requirement is reduced by $400,000. Shareholders keep the first $400,000 of electric commodity margins, with 55 percent of the remainder going to customers and 45 percent going to shareholders.

In New Mexico, SPS's revenue requirement is reduced by $125,000. Shareholders keep the first $125,000, with 50 percent of the remainder going to customers and 50 percent going to shareholders.

In Colorado, PSCo's revenue requirement is reduced by $508,794. Shareholders keep the first $508,794, with 10 percent of the remainder going to customers and 90 percent going to shareholders.

In Minnesota, shareholders are entitled to 100 percent of the commodity margins, although the utility's revenue requirement must be reduced by the amount of the cost allocated to Minnesota.

In North Dakota, margins are split 50 percent to shareholders and 50 percent to customers.

In Wisconsin and Michigan, shareholders retain 100 percent of the commodity margins. However, Northern States Power Company, a Wisconsin corporation, does not receive any commodity margins.

In South Dakota, shareholders retain 75 percent of the margins and ratepayers receive 25 percent of the margins.

Preparer: Jeff Butler
Sponsors: Michael E. Mally, John Welch, Alice K. Jackson

QUESTION NO. AXM 7-6:

Please provide SPS's total allocated share of electric commodity trading margins for each of the last five calendar years, and for the test year, along with amounts credited to Texas retail customers.

RESPONSE:

Please refer to SPS's response to Question No. AXM 2-12, specifically Exhibit SPS-AXM 2-12(c) and Exhibit SPS AXM 2-12(d), to AXM's Second Request for Information. Commodity margins flow through fuel charges or credits, and they are credited only once per year. Therefore, the commodity margin included in the Test Year amount is duplicative of the amount for calendar year 2011.

Preparer: Michael E. Mally
Sponsor: Michael E. Mally

QUESTION NO. AXM 7-7:

Please provide agreements governing the electric commodity trading conducted on behalf of SPS and the methods for determining margins and the allocations of such margins to SPS.

RESPONSE:

Please refer to Attachment JTW-FR-2 (Vol. FR1, pages 333-368 of 492) to the Direct Testimony of John T. Welch.

Preparer: Jeff Butler
Sponsor: John T. Welch

QUESTION NO. AXM 7-8:

Please provide workpapers supporting the calculation and allocation of electric commodity trading margins to SPS during each month of the reconciliation period.

RESPONSE:

Please refer to Exhibit SPS-AXM 7-8.

Preparer: Daryn McCulley
Sponsor: Michael E. Mally

QUESTION NO. AXM 7-9:

For each purchased capacity contract for which SPS is seeking recovery of capacity and/or other non-fuel costs in base rates in this case, please provide the start date and termination date of the contract.

RESPONSE:

Please refer to SPS's response to Question No. AXM 1-37 to AXM's First Request for Information.

Preparer: Jeff Butler
Sponsor: Tim Kawakami

QUESTION NO. AXM 7-10:

For each purchased capacity contract for which SPS is seeking recovery of capacity and/or other non- fuel costs in base rates in this case, please provide the total test year capacity and non-fuel charges for each such agreement, the amount of capacity and non-fuel charges requested in base rates for each such agreement, along with workpapers supporting adjustments to the test year amounts for each agreement.

RESPONSE:

Please refer to Attachment TK-RR-2 (Vol. RR11, Pages 180-182 of 417) to the Direct Testimony of Tim Kawakami – Revenue Requirements for the non-fuel costs in the Test Year and as requested in base rates in this case by purchase power agreement.

Please refer to SPS's response to Question No. 1-21 to Texas Industrial Energy Consumers' First Request for Information for workpapers supporting the adjustments to the Test Year amount.

Preparer: Jeff Butler
Sponsor: Tim Kawakami

QUESTION NO. AXM 7-11:

Please identify all instances in which SPS has challenged SPP rate increases and indicate the result of such challenges.

RESPONSE:

AXM has agreed to limit the time frame of this question to the five years preceding the end of the Test Year. Therefore, this question is bounded by the period from June 30, 2007 through the present.

Dependent upon the type of rate increase that is being initiated, SPS has different venues and ways to challenge such increases. SPS is providing a comprehensive list of those Southwest Power Pool ("SPP") filings at FERC in which SPS has filed a formal challenge. In addition, SPS is providing a non-comprehensive list of actions that SPS took at the SPP stakeholder level on behalf of its customers.

For the purpose of this question, SPS will break the rate increases down into the following categories:

A. Transmission Owner Rates – These filings made by SPP with FERC are on behalf of Transmission Owners ("TOs") in the SPP Regional Transmission Organization area. These filings generally update formula rates that have been examined and approved by FERC and other intervenors, and they follow established procedures that afford customers the right to examine an update prior to it being filed by SPP with FERC. This comprises the majority of the filings made by SPP at FERC until Docket No. ER12-74, which changed the policy for SPP having to file these updates to a more formulaic update without filing at FERC. (see response to Question No. AXM 7-12 for the Final Order in this docket).

   1. Tri-County Electric Cooperative ("Tri-County") Formula Rate Filing – (Docket No. ER11-3711)
      i. Challenge: SPS intervened and protested the filing stating that Tri-County did not have any eligible transmission facilities and that its filing was incomplete.
      ii. Outcome: SPP withdrew the filing on behalf of Tri-County.

   2. Tri-County Formula Rate Filing – (Docket No. ER12-959) – Please refer to SPS's response to Question 5-10 to AXM's Fifth Request for Information for a discussion of the ongoing Tri-County proceeding.

3. Tri-County Formula Rate Update Filing – (Docket EL13-35)
   i. Challenge: SPS filed a complaint against SPP for filing to implement a rate update for Tri-County's formula rate prior to Tri County's rate being approved by FERC as just and reasonable.
   ii. Outcome: This complaint is pending at FERC.

B. Transmission Project Planning – During the five- year period being addressed in this response, the transmission planning process in the SPP region has evolved. Both the methodology of transmission planning and the cost allocation associated with those transmission projects are determined through the stakeholder process at SPP, as described in the Direct Testimony of SPS William A. Grant (Vol. RR-11, pages 195-202 of 417). Before being filed at FERC, the transmission planning methodologies and cost allocation proposals are drafted by the Regional Tariff Working Group ("RTWG") under direction from other committees (*e.g.*, the Regional State Committee ("RSC")) and then presented to the higher level stakeholder groups all the way through the Board of Directors for approval. Through these processes and then at the FERC, SPS has the opportunity to provide feedback, vote, and work with the other SPP stakeholders to challenge adverse proposals and to attempt to reach an amenable outcome for its customers. SPS has participated at these meetings, and although the results are not explicitly quantifiable, SPS has been able to realize significant cost savings for its customers. A few specific examples are provided below:

   1. SPP Transmission Cost Allocation Design
      i. Challenge: In the original cost allocation proposals at the Cost Allocation Working Group, SPP proposed that transmission projects of 300 kV and above be regionally funded ("Highway") and that transmission projects below 300 kV be direct assigned to the Zone in which the project was being constructed. SPS advocated for the lower voltage projects to receive a cost allocation of two-thirds to the Zone in which they were being built and one-third to the region ("Byway") because of the regional flows that do occur on the system on lower voltage transmission lines.
      ii. Outcome: The RSC voted to approve the Highway/Byway cost allocation methodology for transmission projects developed in the SPP area. The FERC approved this methodology. This is a substantial benefit to SPS customers given the increased construction of reliability projects in the SPS region at voltages below 300 kV.

2. Priority Projects
    i. Challenge: SPS successfully argued for a substantial transmission interconnection to be built from the SPS region as a part of the Priority Projects. This is the double-circuit 345 kV line from the Hitchland Interchange to the Woodward Interchange. Oklahoma Gas & Electric ("OG&E") initially claimed the right to build the entire line. SPS argued that under SPP tariff provisions, since one terminus of the line is in SPS's balancing area, SPS should have an equal right to build the line. Ultimately, SPS and OG&E jointly agreed to build the line. SPS has a demonstrated track record of building transmission lines at a lower cost per mile.
    ii. Outcome: SPS has begun construction on the line and expects to place it in service in June of 2014.

3. SPP Generation Interconnection Studies and Results
    i. Challenge: Generator interconnection studies for the Jones 4, Mustang 6, and Quay County generating facilities indicated the need for a $150 million 345 kV transmission line between Potter County Substation, near Amarillo, to Tuco Substation, near Lubbock, to maintain system stability. Of this amount, SPS would have had to provide approximately 60% of the initial capital cost, with Golden Spread Electric Cooperative and others in the study queue providing the rest of the money. This would have been a very expensive project, and likely would have cost more than the early estimated costs.
    ii. Outcome: SPS worked with the generation interconnection study group and examined the addition of power system stabilizers on the key generation stations in the southern part of the SPS system. With those additions, the studies indicated stable unit behavior, avoiding the need for the expensive 345 kV line. The estimated cost of the power system stabilizers, which are currently being installed, is less than $250,000.

4. Notice to Construct ("NTC") review and pushback:
    i. Challenge: SPS received NTCs as a result of the 2009 SPP Transmission Expansion Plan ("STEP") for approximately $450 million of new construction projects. The STEP included NTCs that required extensive reconductors or wreckout/rebuilds of urban SPS transmission lines in and around the City of Amarillo. One large project in that list of NTCs was the construction of the Potter Co (Amarillo) – Frio Draw (Clovis) 345 kV line.

ii. Outcome: SPS requested revaluation of many of the projects in this set of NTCs. Specifically, SPS asked for a re-evaluation of the 345 kV Potter-Frio Draw line, the extensive transmission line reconductors within the City of Amarillo, the Hobbs-Seminole 230 kV project, and the Hitchland – Pringle 230 kV line project, among others.

1. SPP believed that the 345 kV project was necessary because at that time SPS and other load-serving entities didn't have any new generation included in the studies, according to SPP's criteria, and the load forecasts were showing significant increases over time. On the other hand, SPS considered the SPP reliability studies to be overly rigid because they assumed the existence of only new generation that had gone through all of the generation interconnection processes and that had a signed interconnection agreement. SPS worked with stakeholders and SPP to change those criteria by allowing committed projects (*i.e.,* projects that have money being spent, permit applications filed, generation and or transmission service requests filed, etc.) included in the reliability studies. Once that was done and the re-evaluation complete, the 345 kV line from Potter-Frio Draw was no longer needed. The generators under development were in the southern SPS transmission area, and they had a significant effect on the transmission impacts.

2. With the added generation shown in the studies in the re-evaluation process, the reconductors of the urban transmission lines in Amarillo were unnecessary. This was important because some of the lines paralleled city streets and were near residents' front yards.

3. The re-evaluation of the Hobbs-Seminole 230 kV line showed it was not needed because of the re-forecasting of a large industrial load near Seminole, Texas. Development plans indicated much lower electric loads, and thus the line wasn't needed. This NTC was canceled at SPS's request.

4. The re-evaluation of the Hitchland – Pringle 230 kV line showed no need for the line. This NTC was canceled.

5. NTC Issuance Based on Simulation Planning Models –
   i. Challenge: In the SPP Integrated Transmission Planning process near-term analysis done each year, SPP has proposed and stakeholders have generally agreed to study the transmission effects of a Day 2 market on the near-term planning environment. The dispatches used to simulate these conditions are economic dispatches, not the more conventional dispatches representing firm contracts. SPP staff has proposed to issue NTCs for any reliability problems that exist based on this incomplete analysis.
   ii. Outcome: SPS has opposed this methodology because (1) the model development working group has provided no direction on how to make or build these powerflow models, what should be in them, how to represent already-sold firm service, how flowgates should be treated in future years, and various other issues; (2) the NTCs should not be based on an economy energy dispatch, and (3) it is unclear how the economic benefits would be determined. Because of the importance of these issues, SPS continues to work on this problem and is advocating that NTCs not be issued as a result of this analysis.

6. Letter to the SPP regarding Balanced Portfolio benefits calculation.
   i. Challenge: When the benefit calculation was originally being performed by SPP with respect to the Balanced Portfolio group of transmission projects, SPS submitted a letter to SPP in December 2008 outlining a series of concerns.
   ii. Outcome: The process at the stakeholder level was modified, and the selected transmission projects for the Balanced Portfolio were found to be beneficial for the SPS customers.

7. Letter to the Board of Directors regarding Balanced Portfolio costs.
   i. Challenge: In July 2012 SPS requested that the SPP initiate a reconfiguration analysis of the Balanced Portfolio projects pursuant to Attachment J, Section IV.B of the SPP Open Access Transmission Tariff ("OATT").
   ii. Outcome: The letter was discussed at the July 2012 SPP Board of Directors meeting concurrent with the pending vote regarding the filing of the initiation of the Balanced Portfolio transfer

payments. Ultimately the Board amended its vote to include language in the Balanced Portfolio transfer payment filing stating that an unintended consequences review would be initiated pursuant to Attachment J, Section IV.B. (See FERC Docket No. ER12-2387).

8. 765 kV Transmission Buildout versus 345 kV Transmission Buildout
    i. Challenge: The original Priority Project analysis indicated and gave significant positive weight to a buildout of 765 kV transmission lines versus 345 kV transmission lines. SPS along with other SPP Market Participants challenged the theory at various working groups and committee meetings.
    ii. Outcome: It was determined that double-circuit 345 kV transmission lines would provide the capacity needed for the wind exports and would provide the desired regional benefits. With none of the 765 kV projects being constructed, the Priority Project estimated costs declined significantly.

9. Hitchland Transformer Waiver
    i. Challenge: SPS was issued an NTC that included the addition of a second transformer at the Hitchland substation. The additional transformer was not needed to support the reliability or growth of SPS's customers located in the area, but was identified by the SPP studies to be necessary for the projected wind resources to be interconnected. SPS argued that the cost of this transformer should not be borne by its customers but should be uplifted to the region.
    ii. Outcome: In October 2011 the SPP Board of Directors agreed with SPS's position and granted the waiver for the transformers cost to be borne by the region instead of direct-assigned to the SPS Zone.

10. SPP Integrated Transmission Planning ("ITP") process
    i. Challenge: In 2008, the SPP Board of Directors and RSC jointly determined that the existing transmission planning processes were too cumbersome and slow. The RSC and Board formed a committee to redesign the processes and redesign the transmission cost recovery rate design for future transmission projects. SPS personnel were active in the ITP formulation process, including the Notice to Construct and Notice to Plan approvals processes so that long-range planning is used to help determine the use of

near-term transmission projects on the long-term transmission network.

ii. Outcome: The ITP committee recommended, the SPP Board approved, and the FERC approved the new ITP processes, including the reformulation of cost allocation and the implementation of Priority Projects.

11. ITP 10 and 20 Participation – Wind Resource Definitions

i. Challenge: In the first cycle of the ITP process, the treatment of wind resources in the input assumptions for the production costing model in the ITP10 and ITP20 studies were unclear because they did not distinguish between wind targets and wind mandates. Thus, stakeholders interpreted the request in various ways, resulting in a large amount of wind resources being modeled in the studies. SPS opposed the amount of wind assumptions included in the first cycle.

ii. Outcome: When the input assumptions were updated in the second cycle of the ITP process, SPS demanded that the wind targets and wind mandates be specifically defined. The Economic Studies Wording Group worked to better define and document what targeted and mandated wind amounts should be. This has resulted in a significant reduction in the amount of wind modeled in the simulations, which will reduce the need for new transmission projects.

12. FERC Order 1000 and Right of First Refusal ("ROFR") – (FERC Docket Nos. ER13-366 and ER13-367)

i. Challenge: FERC Order 1000 sets out fairly specific guidelines for how regionally funded transmission projects are to be identified and built. One part of FERC Order 1000 pertains to the revocation of the federal ROFR for any transmission project that has regional funding, regardless of voltage. In the SPP region, this would have meant that projects down to 69 kV would no longer have a federal ROFR.

ii. Outcome: SPS, along with other SPP Market Participants, worked together to file the SPP compliance filing with FERC to indicate that the federal ROFR would not be revoked for projects below 300 kV. The compliance filing is pending before FERC now.

13. FERC Order 1000 and Transmission Planning
    i. Challenge: FERC Order 1000 requires not only that the federal ROFR be removed for regionally funded projects, but also that the regionally funded projects have an element of competition be built into the planning process. SPP debated two different methodologies for reaching compliance with this requirement: (1) introducing competition at the project submission planning level, or (2) introducing competition at the construction level by allowing bidding on project construction and operation. SPS advocated for competition to be introduced at the project bid level.
    ii. Outcome: The vote at the Strategic Planning Committee supported the methodology that SPS advocated to introduce competition at the project construction level. This methodology was filed as part of the compliance filing with FERC in Docket Nos. ER13-366 and ER13-367.

14. SPP NTC Re-Evaluation Business Practice
    i. Challenge: SPP staff has prepared a draft business practice that defines under what circumstances an issued NTC may be re-evaluated on a periodic or specific request basis. The purpose of the business practice is to establish rules to determine which projects will be re-evaluated. The drawback of this proposed business practice is that if it leads to cancelled NTCs with costs already incurred for those projects, SPS ratepayers may have to pay for those canceled project expenses with no tangible benefits to their electric service. SPS would prefer to alter the planning process to avoid or minimize these types of cancelled NTCs.
    ii. Outcome: SPS, along with other SPP Market Participants, are opposing SPP's proposal and suggesting modifications that would lead to less 'project churn' and ratepayer impacts. This discussion is ongoing and no final resolution has been reached.

C. <u>SPP Tariff and Operating Guide Policy</u> – The SPP OATT addresses many topics other than transmission planning. It also addresses dispute resolution, credit policies, accounting practices and the upcoming integrated marketplace, to name a few. Furthermore, the Operating Guides of the SPP provide guidance as to standard operating procedures for the operations of the market. Because the policies developed and implemented in these areas may have cost impacts on SPS retail customers, SPS personnel attend and participate in the stakeholder groups that discuss and update these documents. Below are a few examples of challenges that SPS has faced in the past number of years.

1. Balanced Portfolio Transfer Payment Initiation (FERC Docket ER12-2387)
    i. Challenge: In early August 2012 SPP filed to initiate the Balanced Portfolio transfer payments. SPS filed comments in this docket stating that SPP should not implement these payments until after the proposed reanalysis of the Balanced Portfolio was complete.
    ii. Outcome: At the October 2012 Market Operations and Policy Committee, SPP presented a couple of presentations that reviewed the original methodology employed to support the Balanced Portfolio and conducted a reanalysis of the current day outcome. After reviewing these materials and significant discussion, the SPP Market Participants voted to take no further action at this time. FERC has accepted the initiation of the Balanced Portfolio transfer payments with an effective date of October 1, 2012.

2. Implementation of FERC Order 741 – Credit Policies in ISO Markets
    i. Challenge: Beginning in November 2010 SPS has been working with the SPP Credit Practices Working Group to implement the requirements of FERC Order 741. Items discussed during this implementation period have included: length of settlement periods (which impacts credit exposures), unsecured credit limits (netting arrangements), elimination of all unsecured credit in Financial Transmission Rights markets (addressing concerns for losses related to speculative trading activity by other market participants), minimum qualifications to participate in the SPP market (establishment of a more financially stable marketplace), and the process for default actions.
    ii. Outcome: SPS worked with and continues to work with the SPP staff to implement policies that help reduce the amount of security SPS is required to post, which helps reduce costs to SPS and its customers while at the same time working for policies that protect SPS and its customers from losses due to defaults by other SPP markets participants.

3. SPP EIS Market use of Violation Relaxation Limits ("VRLs") – (FERC Docket Nos. EL07-73, EL07-319-001 and EL07-319-002)
    i. Challenge: SPS challenged SPP's contention that VRLs did not impact pricing in the market and opposed the use of a single VRL

value for Operating Constraint VRLs, which were creating price spikes in the SPS Zone.

ii. Outcome: The issue was resolved through the FERC Alternative Dispute Resolution process, which resulted in a series of Operating Guide improvements and market enhancements that have mitigated the impact of the unnecessary Locational Imbalance Price spikes.

4. SPP Protocol Revision Request 211, 204 –SPP EIS Market Curtailment of Non-Dispatchable Resources – (FERC Docket No. ER12-2292)
   i. Challenge: SPS supported assigning appropriate curtailment responsibility to non-dispatchable resources, but SPS opposed SPP's proposed treatment of qualifying facility ("QF") deliveries. SPP's proposal gave QFs the equivalent of firm delivery rights for curtailment purposes even when QFs had not been granted transmission service through the SPP OATT process. Xcel Energy Services Inc. ("XES") filed comments on behalf of SPS in the FERC Docket.
   ii. Outcome: FERC conditionally accepted the SPP proposal pending a compliance filing that is now due on or before March 1, 2013.

5. SPP Integrated Marketplace – Must Offer Requirement for Energy in the Day Ahead Market – (FERC Docket No. ER12-1179)
   i. Challenge: SPS opposed the must-offer construct approved and incorporated in the SPP Integrated Marketplace ("SPP IM") design. The SPP IM rules require Market Participants to offer resources to cover their load plus operating reserve obligations in the Day-Ahead Market. SPS believes that a more robust must-offer requirement (*i.e.*, one requiring all network resources or all registered resources to offer) is more appropriate because it reflects the assumptions in the cost/benefit study, ensures resource availability for SPP commitment/dispatch, and improves overall market efficiency.
   ii. Outcome: This docket is ongoing at FERC because it involves more than just the single issue described above. SPS continues to monitor the docket and will comment where appropriate FERC has conditionally accepted the tariff revisions to establish the energy markets on October 18, 2012 with the limited must offer requirement.

6. SPP Integrated Marketplace – Marketplace Protocol Revision Request 1 (MPRR1) – Removal of Internal Reserve Zone Transfers and Reserve Zone Minimum Clause
    i. Challenge: A recommendation to remove the language that restricts the operating reserve minimum to be less than or equal to the available operating reserves in a zone was made at the Market Working Group. SPS opposed this recommendation because of the impact to SPS given SPP's plans to define the reserve zones splitting SPS into a North and South Zone.
    ii. Outcome: Despite SPS's vote of 'no' at the Market Working Group, the proposal moved forward.

7. SPP Integrated Marketplace – Marketplace Protocol Revision Request (MPRR42) – Remove Import Interchange Transaction Bids for Supplemental Reserves (FERC Docket No. ER12-1179)
    i. Challenge: MPRR42 removes the ability of Market Participants to provide supplemental reserves through a curtailable interchange transaction due to operational complexity and cost/benefit concerns. SPS opposed this change because it limited the availability of supplemental reserves in the market, which has a potential negative effect on reliability and limits SPS's ability to provide this product through existing contract provisions.
    ii. Outcome: MPRR42 went before the Market Operations and Policy Committee and SPS was able to get the recommendation changed so that the limitation only applied to alternating current ties, thereby allowing SPS to use the direct current ties to carry supplemental reserves on export interchange transactions. This was captured in the tariff filed in Docket ER12-1179, as well as the current version of the SPP IM protocols.

8. Seams Project Cost Allocation –
    i. Challenge: Transmission projects that are built between or along the seams of two RTOs are known as "seams projects." The SPP Cost Allocation Working Group, which feeds up to the RSC, recommended that all seams projects be 100% regionally funded, regardless of voltage level. SPS contested that recommendation and proposed that participants in these types of projects be allowed to petition for regional funding through a process not dissimilar to the existing waiver process. That would ensure that

projects that do not benefit the entire region would not have their costs allocated to the entire region.

ii. Outcome: Despite strong efforts by SPS and the Commissioners representing the SPS customers, the RSC passed the proposed cost allocation methodology to regionally fund all seams projects at the October 2012 meeting.

9. SPP LOLE Studies –
    i. Challenge: In 2008 and 2009 SPP performed a Loss of Load and Energy ("LOLE") study that showed that the SPS region should have a significantly higher reserve margin than the 12 percent that was in place. SPS challenged a number of the incorrect assumptions and data that the SPP utilized in performing the LOLE studies.
    ii. Outcome: SPS was able to show SPP that SPS was compliant with the requirements of the Tariff and that the 12 percent reserve margin was appropriate for the SPS Zone.

10. SPP Stability Task Force Criteria
    i. Challenge: SPP created a task force to define system stability criteria to use in SPP studies as required by a yet-to-be-approved NERC planning standard. SPS had a member on the task force. SPP does not currently have system stability criteria. While much positive work occurred, the task force did not reach resolution on universally accepted criteria, and the task force was disbanded.
    ii. Outcome: SPS voted against the consensus-derived criteria because no economic analysis had been done showing the potential cost to SPS ratepayers from the changes that may be required to the transmission system to be in compliance with the new criteria. Without knowing the cost impacts, it would have been akin to signing a "blank check" to approve the criteria without further examination.

11. Regional Funding of Hub and Spoke Design –
    i. Challenge: A proposal was presented to provide regional funding of transmission infrastructure to allow for easier and more cost effective interconnection of wind farms. SPS challenged the cost allocation because the benefits of interconnecting the wind farms are not necessarily realized by customers in the SPP Region or the SPS Zone.

ii. Outcome: A vote was taken at the RSC meeting to support the hub-and-spoke design methodology, but the RSC did not approve regional cost allocation to support hub-and-spoke construction.

D. SPP Administrative Rates – Under Schedule 1-A of the SPP OATT, SPP assesses its Load Serving members an administrative charge for the services that SPP provides. This service charge is intended to cover the costs of SPP operations. Below are a few challenges that SPS has taken upon in the past to ensure that the costs being assessed by the SPP are fair and reasonable.

1. Consolidated Balancing Authority Costs –
   i. Challenge: In November 2007 SPP presented a budget including $1.2 million annually for 2008 to defray the cost of becoming the Consolidated Balancing Authority ("CBA") for the SPP region. SPS and one other Market Participant challenged the budget because the Day Ahead market was not developed and the SPP would have had little ability to act as the CBA at that time. SPS proposed an alternative to the CBA as implementing Area Control Error ("ACE") diversity.
   ii. Outcome: Ultimately the ACE diversity was implemented and the staffing of the Balancing Authority desk was delayed until the appropriate time for the start of the Day Ahead market.

2. SPP Probabilistic Planning proposal
   i. Challenge: SPP staff proposed a new methodology to evaluate transmission projects which are recommended for NTCs loosely based on a method of looking at (1) the societal effects and costs, (2) any economic impacts that can be quantified, and (3) the probability of the event which caused the need. This method requires extensive data, which SPP or its members to do not have readily available, and specialized software/consultant help to do the analysis. The estimated cost of the full implementation to the SPP operating budget was approximately $1.9 million, and annual operation costs were $1.3 million. SPP staff proposed expenditures starting in 2013 on this project.
   ii. Outcome: SPS and other stakeholders did not approve any expenditure for 2013. Additional review of the proposal is to be made in 2014, with no expenditures before 2015. Many SPP stakeholders, including SPS, do not see a strong technical or regulatory reason to perform this planning effort, but will further look into the proposal over time.

Preparers: Alice K. Jackson, William A. Grant, Jessica Collins, John S. Fulton
Sponsors: Alice K. Jackson, William A. Grant, John S. Fulton

QUESTION NO. AXM 7-12:

Please provide copies of the FERC orders approving SPP rate increases which occurred during the test year or are reflected in SPS's proposed recovery of SPP charges.

RESPONSE:

The following FERC orders approved rate changes to the SPP Tariff that either: (1) occurred during the Test Year, or (2) occurred after the Test Year but are reflected in SPS's proposed recovery of SPP charges. Please note that not all of these rate changes affect the rates that SPS is assessed by the SPP. Please refer to Exhibit AXM-SPS 7-12.

FERC Docket	Effective Date	On Behalf Of	Description	SPS Retail Impacted	Exhibit Pages
ER11-4671	7/1/2011	AEP & AEP Transcos	Annual Formula Update	No	1-2
ER11-4053	7/5/2011	SPS	Update to formula rate for Base Plan Upgrade revenue requirement calculations in SPS's Annual Transmission Revenue Requirement ("ATRR") and update to the Formula Rate Implementation Procedures to use a forward looking ATRR rather than a historical one.	No	3-4
ER12-25	8/1/2011	Grand River Dam Authority, Lincoln Electric System & Omaha Public Power District	Annual Formula Rate Updates	No	5-6
ER12-28	9/1/2011	Midwest Energy	Annual Formula Rate Update	No	7-8

FERC Docket	Effective Date	On Behalf Of	Description	SPS Retail Impacted	Exhibit Pages
ER12-74	12/13/2011	SPP	Filing to incorporate a formulaic process for updating the ATRR and the Point-To-Point Transmission Service charges for the various SPP Transmission Owners that have adopted transmission formulas and protocols, causing no filing to be made at FERC for this type of update on or after 12/13/2011.	No	9-10
ER12-140	12/20/2011	Kansas Power Pool	Application to become a Transmission Owner under the Tariff and collect transmission revenues.	No	11-19
ER12-277	1/1/2012	SPP	Tariff revisions to increase the Administrative Fee Cap in Schedule 1-A from $0.225 to $0.35	Yes	20-21
ER12-959	4/1/2012	Tri-County Electric Cooperative, Inc.	Application to become a Transmission Owner under the Tariff and to collect transmission revenues	Yes	22-28
ER12-2387	10/1/2012	SPP	Balanced Portfolio Transfer Payment Initiation	Yes	29-36

Preparer: Alice K. Jackson
Sponsor: Alice K. Jackson

QUESTION NO. AXM 7-13:

Please provide economic analysis supporting the reasonableness of each SPS wind generation resource acquisition or wind generation contract that was in effect during the reconciliation period but which has not been approved by the Commission.

RESPONSE:

Please refer to Exhibit SPS-AXM 7-13(CONF).

Preparer: Bennie F. Weeks
Sponsor: Bennie F. Weeks

QUESTION NO. AXM 7-14:

Please provide the costs incurred for each SPS wind generation resource and wind generation contract that are requested in rates in this case and indicate the amounts which are requested in base rates and the amounts requested as a component of eligible fuel expense.

RESPONSE:

Please refer to Attachment TK-FR-2 (Vol. FR1, Pages 485-489 of 492) to the Direct Testimony of Tim Kawakami (Fuel Reconciliation) for the total costs incurred under each wind contract. Although Attachment TK-FR-2 generally refers to the costs of the wind contracts being recovered through eligible fuel expense, the Renewable Energy Credits ("REC") attributable to some of the contracts in Attachment TK-FR-2 are recovered through base rates, rather than through eligible fuel expense. Please refer to the Direct Testimony of Michael E. Mally, Attachment MEM-FR-2 (Vol. FR1, Page 35 of 492), Column N for dollar amounts (total company) attributable to RECs that were excluded from eligible fuel costs during the Reconciliation Period. Months July 2011 through June 2012 constitute the Test Year. SPS witness Ruth M. Sakya discusses SPS's requests to recover historical and ongoing REC costs in base rates (Vol. RR 12 p. 244 – 255 of 417).

Preparers: Jeff Butler, Murray Chapman, Ruth Sakya
Sponsors: Tim Kawakami, Michael E. Mally, Ruth M. Sakya

QUESTION NO. AXM 7-15:

Please indicate when SPS anticipates filing an application to implement a TCRF.

RESPONSE:

As stated on page 35 (Vol. RR1, Page 35 of 547) of the Direct Testimony of Alice K. Jackson, SPS anticipates filing an application to implement a TCRF in the interim between the present case and the next anticipated rate case. Because SPS expects to file its next rate case in November 2013, it is likely that SPS will apply for a TCRF in July or August 2013.

Preparer: Alice K. Jackson
Sponsor: Alice K. Jackson

QUESTION NO. AXM 7-16:

Please provide the total costs for administering the electric commodity trading function that were incurred during the test year and the previous four calendar years.

RESPONSE:

SPS's share on a total company basis of the trading costs incurred in electric commodity trading for the time periods in question are:

Subledger Code	Subledger Descrip.	2008	2009	2010	2011	Test Year
00351016	CF SPS Prop. Book Trading Support	$89,437	$101,024	$93,648	$71,655	$57,080
00351041	ES SPS Power Trading Prop.	$536,908	$1,228,206	$1,227,033	$826,798	$824,342
	Total	**$626,345**	**$1,329,230**	**$1,364,681**	**$898,451**	**$881,422**

Preparer: Reynard A. Gray
Sponsor: Michael E. Mally

QUESTION NO. AXM 7-17:

Please provide SPS's total purchased power capacity costs for each of the last five calendar years and for the test year along with the purchased power capacity costs that were included in the Company's base rates for each such period.

RESPONSE:

Please refer to the Direct Testimony of Tim Kawakami (Revenue Requirement), Attachment TK-RR-2 (Vol. 11, Pages 180-182 of 417), column entitled "Base - Test Year ($)" for the amount of purchased power capacity-related costs incurred by SPS in the Test Year. The capacity-related costs proposed for inclusion in base rates in this proceeding are the costs shown in the "Pro Forma Test Year" column of Attachment TK-RR-2. Capacity-related costs included in Attachment TK-RR-2 include both costs historically accounted for as purchased power "capacity costs" and costs such as variable O&M charges that SPS began to treat as capacity costs for rate-making purposes in Docket No. 38147.

Please refer to the chart below for the amounts of purchased power capacity costs for the last seven years. The costs in the chart below do not include the capacity-related costs that have only recently been treated as capacity costs for rate-making purposes, such as variable O&M charges under purchased power agreements.

Year	Capacity Costs
2006	$ 31,573,518
2007	$ 45,376,459
2008	$ 55,945,782
2009	$ 91,315,989
2010	$ 91,351,797
2011	$ 93,209,363
2012	$ 44,591,611
Total Costs	**$ 453,364,519**
Test Year	**$ 92,898,683**

* 2012 cost amount includes capacity costs for January through June 2012 only.
** Test year is July 2011 through June 2012.

It is not possible to determine what purchased power capacity costs were included in SPS's base rates during the last five calendar years because all of SPS's rates were based on black-box settlements that did not attribute a particular amount of the rate change to purchased power capacity costs.

Preparers: Jeff Butler, Reda Dillon
Sponsor: Tim Kawakami

QUESTION NO. AXM 7-18:

Please provide SPS's total annual revenues for each of the last five calendar years.

RESPONSE:

Year	Total Annual Revenues
2007	$1,677,595,170
2008	$2,011,645,228
2009	$1,474,903,769
2010	$1,623,318,460
2011	$1,719,370,563

Preparer: Deanne Mencimer
Sponsor: Michael J. Rodriguez

QUESTION NO. AXM 7-19:

Please provide non-fuel production O&M expenses by FERC account for each SPS power plant for each of the last five calendar years and the test year.

RESPONSE:

Please refer to Exhibit SPS-AXM 7-19.

PreparerS: David Mills, Deanne Mencimer
Sponsor: David A. Low

QUESTION NO. AXM 7-20:

Please provide total planned outage hours for each SPS generating unit for each of the last five calendar years and the test year.

RESPONSE:

Please refer to Exhibit SPS-AXM 7-20.

Preparer: David A. Low
Sponsor: David A. Low

QUESTION NO. AXM 7-21:

Please provide total forced outage hours for each SPS generating unit for each of the last five calendar years and the test year

RESPONSE:

Please refer to Exhibit SPS-AXM 7-21.

Preparer: David A. Low
Sponsor: David A. Low

QUESTION NO. AXM 7-22:

Please provide the current O&M and capital expenditure budgets for each SPS power plant along with supporting documentation

RESPONSE:

Please refer to Exhibit SPS-AXM 7-22 for the 2013 O&M and capital budgets for the power plants. SPS will provide supporting documentation for the budgets, which may be voluminous, in a supplemental response.

Preparers: Alan J. Davidson, David A. Low
Sponsors: Alan J. Davidson, David A. Low

QUESTION NO. AXM 7-23:

Please provide the start date and end date for each of SPS's wholesale power sales agreements having a term of greater than two years, and indicate whether each such agreement is a market-based sale.

RESPONSE:

Please refer to SPS's responses to Question No. AXM 1-17 and Question No. AXM 1-12 to AXM's First Request of Information.

Preparers: Jeff Butler, John Eichelmann
Sponsors: John T. Welch

QUESTION NO. AXM 7-24:

Please provide a copy of the FERC order approving the RPSA with Golden Spread.

RESPONSE:

Please refer to Exhibit SPS-AXM 7-24.

Preparer: Kevin Lewis
Sponsor: Alice K. Jackson

QUESTION NO. AXM 7-25:

Please provide the forecasted total reduction in wholesale load (MW and MWh) served under SPS's RPSA's for each of the next 10 calendar years.

RESPONSE:

Date	(Decrease)/Increase
12/31/2013	(117 MW)
05/31/2015	(200 MW)
05/31/2017	(100 MW)
06/01/2017	(65 MW)
04/30/2019	(200 MW)
05/31/2019	(662 MW)[1]
06/01/2019	170 MW[2]
07/31/2021	(90 MW)
06/01/2022	(291 MW)[3]

[1] estimated load at contract termination
[2] increasing at 1.2% per year through 2044
[3] estimated load at expiration of full requirements contract less partial requirements load

Megawatt Hours–Forecast for Full & Partial Requirements Wholesale Contracts)

2013	2014	2015	2016	2017
7,864,083	7,436,222	7,291,620	7,397,476	7,157,032

2018	2019	2020	2021	2022
7,132,866	5,589,195	4,887,069	4,772,889	3,514,374

Forecasted reductions and increases in megawatt hours are the year to year differences in the total sales forecasted above.

Preparer: Bennie F. Weeks
Sponsor: Bennie F. Weeks

QUESTION NO. AXM 7-26:

Please provide SPS's production and transmission allocators for each jurisdiction before and after the proposed adjustment to reflect the expiration of the Sharyland PSA.

RESPONSE:

Please refer to Exhibit SPS-AXM 7-26.

Preparers: Jeff Comer, Ian Fetters
Sponsor: Richard M. Luth

QUESTION NO. AXM 7-27:

Please provide SPS's total test year capacity and energy revenues under the Sharyland PSA along with forecasted energy and capacity credits for this PSA under the Company's proposal.

RESPONSE:

Please refer to Exhibit SPS-AXM 7-27(CONF). This estimate is based on SPS's budget finalized in October 2012.

Preparer: Tom Flores
Sponsor: Alice K. Jackson