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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

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SOUTHWESTERN PUBLIC SERVICE COMPANY'S RESPONSE TO ALLIANCE OF XCEL MUNICIPALITIES' EIGHTH REQUEST FOR INFORMATION QUESTION NOS. 8-1 THROUGH 8-46

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SOUTHWESTERN PUBLIC SERVICE COMPANY'S RESPONSE TO ALLIANCE OF XCEL MUNICIPALITIES' EIGHTH REQUEST FOR INFORMATION QUESTION NOS. 8-1 THROUGH 8-46

Southwestern Public Service Company ("SPS") files this response to Alliance of Xcel Municipalities' ("AXM") Eighth Request for Information Question Nos. 8-1 through 8-46.

I. WRITTEN RESPONSES

SPS's written responses to AXM's Eighth 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,

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BY: Amy M Shell
ATTORNEYS FOR
SOUTHWESTERN PUBLIC SERVICE COMPANY

RESPONSES

QUESTION NO. AXM 8-1:

[Pension Asset] **Ref: Moeller Direct, pp. 33-38.** At page 33, Mr. Moeller states: "Given that the regulatory process is based on expense, the prepaid pension asset also represents amounts that have been contributed by SPS but that have not yet been recovered, or that have been returned through negative pension expense in rates. It is shareholder capital sitting in the pension plan." Please provide the following:

a. Other than Attachment MPM-RR-8, have any studies or analyses been conducted by, or for, the Company to identify or quantify the annual and/or cumulative pension costs SPS has recovered in rates from its customers? If so, please provide a copy of all such studies, including narrative discussions and spreadsheet files.

b. If the response to part (a) above is that no such studies or analyses have been conducted, please provide a detailed explanation of the basis for the Company's contention that the prepaid pension asset balance represents shareholder capital.

RESPONSE:

a. Since the current prepaid pension asset came into existence in 1997, all of SPS's rate cases have resulted in black-box settlements. Therefore, the Commission-approved rates contain no specific amounts for pension expense, and SPS has not attempted to quantify the portions of the rates that recover pension expense. What can be determined, however, is that the pension expense that SPS has requested in each of the rate cases since 1997 has been lower than it would have been in the absence of the prepaid pension asset. Therefore, ratepayers have benefitted from the prepaid pension asset by paying reduced rates.

b. The entire accumulated prepaid pension asset was contributed by shareholders because the balance was built either from contributions that were in excess of pension expense or from negative pension expense. As with other assets on SPS's balance sheet, the prepaid pension asset represents a difference in timing between cash flow and expense recognition. For example, capital assets represent the difference between cash expended on the assets at the time of acquisition and when the assets are expensed through depreciation. Likewise, accounts receivable and other prepaid expense assets also represent a difference between cash flow and recognized expense. These assets are funded by investors. The prepaid pension asset is no different; it is a timing difference between recognized expense, in this case the negative expense, and actual cash flow.

Preparer:	Todd Degrugillier
Sponsor:	Mark P. Moeller

QUESTION NO. AXM 8-2:

[Pension Asset] **Ref: Moeller Direct, pp. 33-38.** At page 33, Mr. Moeller states: "Given that the regulatory process is based on expense, the prepaid pension asset also represents amounts that have been contributed by SPS but that have not yet been recovered, or that have been returned through negative pension expense in rates. It is shareholder capital sitting in the pension plan." Please provide the following:

a. Does Mr. Moeller believe that the utility ratemaking process provides any mechanism or opportunity for SPS to recover pension costs that are charged to non-expense accounts (e.g., capitalized, billed to others through overhead loadings, etc.)? Please explain.

b. Does Mr. Moeller agree that a key component of the regulatory process is to allow the utility to also earn a return on and a return of its investment in capital projects? If not, please explain.

c. Does Mr. Moeller agree that a return of its investment in capital projects typically occurs through the inclusion of depreciation and amortization expense in the cost of service? If not, please explain.

d. Does Mr. Moeller agree that the recovery of capital investment through depreciation and amortization expense would include any pension costs that have been charged to previously completed capital projects? If not, please explain.

RESPONSE:

a. Mr. Moeller believes that the utility ratemaking process provides a mechanism to recover amounts that are capitalized, including the portions of current pension expense that are capitalized and included in rate base. But that has no bearing on the prepaid pension asset, which is the issue that Mr. Moeller was discussing in the portion of his testimony quoted in the question. As explained in SPS's response to Question No. Staff 5-34 to Staff's Fifth Request for Information, only a part of *current* pension expense is capitalized. By definition, the amounts that led to the creation of the prepaid pension asset were never part of prior years' current pension expense, but instead were composed of amounts in excess of the current pension expense. Accordingly, none of SPS's prepaid pension asset reflects costs that have been capitalized.

b. Yes.

c. Yes, although as noted in subpart (a), a return of investment in capital projects does not provide any return of or on the prepaid pension asset, because none of the prepaid pension asset amount has been capitalized.

d. Mr. Moeller agrees that the recovery of capital investment through depreciation and amortization expense would include any pension expense that has been charged to previously completed capital projects, but the amounts in the prepaid pension asset were never included in pension expense. Therefore, they are not being recovered through depreciation and amortization expense associated with capital projects.

Preparer: Todd Degrugiller
Sponsor: Mark P. Moeller

QUESTION NO. AXM 8-3:

[Pension Asset] **Ref: Moeller Direct, pp. 33-38.** At page 33, Mr. Moeller states: "Given that the regulatory process is based on expense, the prepaid pension asset also represents amounts that have been contributed by SPS but that have not yet been recovered, or that have been returned through negative pension expense in rates. It is shareholder capital sitting in the pension plan." Please provide the following:

a. Please provide a detailed calculation of the "negative pension expense" reflected in rates since SPS adopted FAS87, showing both Total Company and Texas Retail amounts.

b. Referring to part (a) above, please provide a copy of all documentation relied upon in preparing the requested calculation, including the effective date of each change in the Company's Texas retail rates which incorporated negative pension costs.

RESPONSE:

SPS requires additional time to complete this response and will supplement as soon as possible.

QUESTION NO. AXM 8-4:

[Pension Asset] **Ref: Moeller Direct, pp. 33-38.** At page 36, Mr. Moeller states: "However, if the ratepayer receives a reduction in cost of service as a result of the negative pension expense, there is both benefit to the ratepayer and detriment to SPS, as the ratepayer cost reduction is not offset by an actual reduction in cash outflow for SPS." Please provide the following:

a. Please identify and describe each mechanism or approach through which SPS ratepayers would have received the benefit of a reduction in the cost of service as a result of "negative pension expense".

b. Referring to part (a) above, does the Company or Mr. Moeller believe that ratepayers receive a benefit from SPS recording "negative pension expense" even if such negative amounts are not considered in the quantification of an overall change in utility rates resulting from a rate increase (or rate decrease) proceeding? Please explain.

RESPONSE:

a. There are at least three potential mechanisms by which ratepayers would receive the benefit of a reduction in the cost of service as a result of negative pension expense. First, they would receive the benefit through lower rates that SPS accepted through settlement outcomes. SPS's base rates have been set through settlement agreements since before SPS adopted SFAS 87. Thus, although the precise components of the revenue requirement and the dollar amounts of those components are not stated, the test year level of pension expense, along with all other expenses, would have been considered by the parties in considering the settlement revenue requirement.

Second, to the extent SPS has forgone rate cases or filed rate cases less frequently as a result of negative pension expense, ratepayers have benefited. Any negative expense or credit in an environment of overall rising costs benefits ratepayers by reducing the need for incremental rate cases.

Third, the portion of negative pension expense capitalized each year has reduced SPS's overall rate base to the benefit of customers.

b. SPS and Mr. Moeller disagree with the premise that negative amounts would not be considered in the quantification of an overall change in utility rates. Because negative pension expense has an effect on the cost of service, SPS would necessarily consider negative pension expense when evaluating a settlement. If ratepayers receive a reduction in rates as a result of the negative pension expense, there is both benefit to the ratepayers and detriment to SPS, as the ratepayer cost reduction is not offset by an actual reduction in cash outflow for SPS. From the perspective of SPS, there is no financial benefit or cost from the gains of the pension fund because there is no positive cash flow back to SPS even though the negative expense must be recorded for financial statement purposes.

Preparer: Todd Degrugillier
Sponsor: Mark P. Moeller

QUESTION NO. AXM 8-5:

[Pension Asset] **Ref: Moeller Direct, pp. 33-38.** Please provide the following with regard to the regulatory recognition of FAS87 determined NPPC for SPS ratemaking purposes in Texas:

a. Has this Commission previously allowed the FAS87 based net periodic pension cost (NPPC) in prior SPS rate cases? If so, please identify each such case by docket number.

b. Referring to the response to part (a) above, please provide the total FAS87 NPPC recognized in each identified rate case test year, showing Total Company and Texas retail amounts.

c. Referring to part (b) above, please provide the allocation of total NPPC between expense and capital (and other billable) accounts. [Note: Please clearly indicate whether the NPPC amounts are positive or negative values.]

RESPONSE:

a. Not expressly. Since SPS adopted SFAS 87 in 1987, its base rates have been the results of settlements approved by the Commission. Neither the Commission orders nor the stipulations memorializing the settlements have specified the dollar amounts of the various components underlying the agreed-upon change in base rates.

b. Please refer to subpart (a).

c. Pension expense capitalized percentages are only available back to 2001. The percentage of net periodic pension expense capitalized is as follows:

2001	2002	2003	2004	2005	2006
34.21%	19.24%	21.51%	22.46%	23.96%	23.28%
2007	2008	2009	2010	2011	2012
22.64%	25.18%	26.12%	26.54%	25.59%	28.58%

SPS's NPPC amounts were negative from 2001 through 2009 and positive from 2010 through 2012. None of these capitalized amounts are included in the prepaid pension asset.

Preparer: Todd Degrugillier
Sponsor: Mark P. Moeller

QUESTION NO. AXM 8-6:

[Pension Asset] **Ref: Moeller Direct, pp. 33-38.** At pages 37-38, Mr. Moeller refers to two dockets (Docket Nos. 33309 and 38396) in which the Commission has allowed the subject utility to include the prepaid pension asset in rate base. Please provide the following: [Note: For reference purposes, see AXM RFI 13-43 in Docket No. 35763.]

a. Other than Docket Nos. 33309 and 38396, has any research into the regulatory treatment of the pension asset by the Public Utility Commission of Texas or other rate jurisdictions been conducted by, or for, SPS in support of the proposed rate base inclusion? Please explain.

b. If the response to part (a) above is affirmative, please identify and describe the nature and extent of that research.

c. If the response to part (a) above is affirmative, please provide the results of said research, along with a copy of any documentation obtained, reviewed and relied upon.

RESPONSE:

SPS has conducted some research on the issue, although it does not purport to have performed an exhaustive search for precedents. Please refer to Exhibit SPS-AXM 8-6V, provided on the enclosed CD.

Preparer: Todd Degrugillier
Sponsor: Mark P. Moeller

QUESTION NO. AXM 8-7:

[Pension Asset] **<u>Ref: Moeller Direct, pp. 33-38.</u>** At pages 37-38, Mr. Moeller refers to two dockets (Docket Nos. 33309 and 38396) in which the Commission has allowed the subject utility to include the prepaid pension asset in rate base. Please provide the following: [Note: For reference purposes, see AXM RFI 13-44 in Docket No. 35763.]

a. Has this Commission previously allowed the pension asset (or pension liability) in rate base in prior SPS rate cases? If so, please identify each such case by docket number.

b. Please provide the amount of the pension asset (or pension liability) included in rate base in each rate case identified in response to part (a) above, showing both Total Company and Texas Retail amounts.

c. Please provide the amount of the accumulated deferred income tax reserve balance associated with the pension asset (or pension liability) included in rate base in each rate case identified in response to part (a) above, showing both Total Company and Texas Retail amounts.

d. Referring to part (a) above, please explain whether any party to the rate case opposed (or concurred with) the Company's request to include the pension asset/liability in rate base.

e. Referring to the rate case dockets identified in response to part (a) above, please state whether such rate base inclusion was the result of a litigated issue or a negotiated settlement.

RESPONSE:

a. Not expressly. All of SPS's Texas base rate cases since the adoption of SFAS 87 in 1987 have resulted in settlements. Neither the Commission orders in those dockets nor the settlements themselves have specified the dollar amounts of various components underlying the agreed-upon changes in base rates. The existence of a negative pension expense can eliminate or defer the need for a utility to file for a base rate increase. Moreover, when the utility does file for a rate increase, the negative pension expense reduces the amount of the requested increase and establishes a lower starting point for the revenue requirement that the parties discuss during settlement negotiations.

b. Please refer to SPS's response to subpart (a).

c. To the extent this subpart is asking what amount of accumulated deferred federal income taxes ("ADFIT") was associated with the prepaid pension asset included in rate base in prior rate cases, please refer to SPS's response to subpart (a) of this request. To the extent this subpart is asking what amount of ADFIT was associated with the prepaid pension asset that SPS proposed to include in rate base in prior cases, please refer to the following table:

Docket No.	ADFIT Associated with Prepaid Pension Asset (Total Company)	ADFIT Associated with Prepaid Pension Asset (Texas Retail)
38147	$64,579,914	$37,263,749
35763	$54,674,238	$33,111,836
32766	$48,016,877	$28,883,843
11520	$586,646	$355,963

d. AXM was a party in Docket Nos. 32766, 35763, and 38147; it was served with all testimony by the parties in that docket; and it has access to the Commission's Interchange Filer, which can be used to research and read the parties' testimony and positions in those three dockets. Thus, AXM and its consultants have equal access to the information requested and are equally capable of researching it.

SPS's files no longer contain copies of the parties' testimony in Docket No. 11520. But in their lists of contested issues, neither the Staff nor any Intervenor listed the treatment of the prepaid pension asset in rate base as an issue. Thus, there was no explicit opposition or concurrence with SPS's proposed treatment of the prepaid pension asset.

e. Please refer to SPS's response to subpart (a).

Preparer: Todd Degrugillier
Sponsor: Mark P. Moeller

QUESTION NO. AXM 8-8:

[Pension Asset] **Ref: Moeller Direct, pp. 33-38.** Please provide the following information for each docket referenced in the immediately preceding request for information, including but not necessarily limited to the dockets listed below: [Note: For reference purposes, see AXM RFI 23-20 in Docket No. 35763.]

a. Please identify the test year in each of the following Texas proceedings:
   i. Docket No. 32766.
   ii. Docket No. 11520.
   iii. Docket No. 6465.
   iv. Docket No. 4387.

b. Please identify the amount of any pension asset or liability the Company proposed to include in rate base in each of the following Texas proceedings:
   i. Docket No. 32766.
   ii. Docket No. 11520.
   iii. Docket No. 6465.
   iv. Docket No. 4387.

c. Please provide the amount of FAS87 based NPPC included in O&M expense in each of the following Texas proceedings:
   i. Docket No. 32766.
   ii. Docket No. 11520.
   iii. Docket No. 6465.
   iv. Docket No. 4387.

RESPONSE:

a.
   i. Docket No. 38147—January 1, 2009 through December 31, 2009
   ii. Docket No. 35763 – January 1, 2007 through December 31, 2007
   iii. Docket No. 32766—October 1, 2004 through September 30, 2005
   iv. Docket No. 11520—October 1, 1991 through September 30, 1992
   v. Docket No. 6465—July 1, 1984 through June 30, 1985
   vi. Docket No. 4387—September 1, 1980 through August 31, 1981

b.
   i. Docket No. 38147—Prepaid pension asset of $178,476,873
   ii. Docket No. 35763—Prepaid pension asset of $154,909,005.
   iii. Docket No. 32766—Prepaid pension asset of $134,881,482
   iv. Docket No. 11520—Prepaid pension asset of $1,059,937

v. Prior to the establishment of SFAS 87
vi. Prior to the establishment of SFAS 87

c.

i. Docket No. 38147—Qualified pension expense of $5,085,082 (total company)
ii. Docket No. 35763—Qualified pension expense of ($8,217,749) (total company)
iii. Docket No. 32766—Qualified pension expense of ($3,591,099)(total company)
iv. Docket No. 11520—Qualified pension expense of $8,117,804 (total company)
v. Prior to the establishment of SFAS 87
vi. Prior to the establishment of SFAS 87

Preparers: Susan Brymer, Wesley Berger
Sponsor: Mark P. Moeller

QUESTION NO. AXM 8-9:

[Pension Asset] **<u>Ref: Moeller Direct, pp. 36-37 & Attachment MPM-RR-8.</u>** At page 37, Mr. Moeller states that "the cumulative prepaid pension asset balance since the adoption of SFAS 87 can be found in my Attachment MPM-RR-8." Referring to Attachment MPM-RR-8, please provide the following:

a. With regard to the lines showing amounts identified as "Pension (Expense) Credit Accrual", please confirm that pension <u>credit</u> amounts are show as positive values while pension <u>debit</u> amounts are negative values. If the Company cannot provide the requested confirmation, please explain.

b. Please confirm that a pension credit accrual refers to negative net periodic pension costs (NPPC). If the Company cannot provide the requested confirmation, please explain.

c. With regard to the lines showing amounts identified as "Net Employer Contributions", please explain the origin and nature of the negative pension contribution shown for calendar year 1997.

d. Referring to part (c) above, please provide additional documentation supporting the negative contribution, including but not limited to correspondence with the Company's actuary, disclosures in annual shareholder reports, etc.

e. With regard to the lines showing amounts identified as "Other", please identify and describe the transactions qualifying for inclusion in this category, as listed below: [Note: For reference purposes, see AXM RFI 23-21 in Docket No. 35763.]

   i. Aug-91 -- $(8,022,000).
   ii. Dec-98 -- $9,436,000.
   iii. Dec-00 -- $(80,000).
   iv. Dec-01 -- $14,000.
   v. Dec-02 -- $306,000.

f. Referring to part (e) above, please provide additional documentation supporting each "other" amount.

RESPONSE:

a. Yes, on Attachment MPM-RR-8 the pension credit accrual amounts, which reflect negative pension expense, are shown as positive values because they increase the prepaid pension asset. Pension debits, which reflect positive pension expense, are shown as negative values because they decrease the prepaid pension asset.

b. Yes, a pension credit accrual refers to negative net periodic expense.

c.-f. Historical information is not available in the detail necessary to determine the nature of these adjustments. The 1991 adjustment would most likely indicate a plan design change, although SPS has been unable to locate documentation supporting this. The 1997 negative contribution and the 1998-2002 adjustments are most likely the result of adjustments for employee transfers between operating companies within Xcel Energy or non-qualified pension expense. Even though the exact cause of these individual negative contribution or adjustments cannot be determined based on existing records, all pension asset/liability balances and periodic expense were independently audited for accuracy and appropriateness each year.

Preparer: Todd Degrugillier
Sponsor: Mark P. Moeller

QUESTION NO. AXM 8-10:

[Pension Asset] **Ref: Moeller Direct, pp. 36-37 & Attachment MPM-RR-8.** Attachment MPM-RR-8 sets forth 26 years of actual data comprising the prepaid pension asset balance, with fifteen (15) of those years representing a pension credit. Please provide excerpts from the Company's annual actuarial study, shareholders report or Form 10-K filed with the Securities and Exchange Commission supporting the negative NPPC amounts shown on Attachment MPM-RR-8 for calendar years 1997 through 2009. If the Company cannot provide the requested confirmation, please explain.

RESPONSE:

Please refer to Exhibit SPS-AXM 8-10 for excerpts from SPS's annual actuarial studies or annual reports supporting the negative pension expense amounts shown on Attachment MPM-RR-8 for calendar years 1997 through 2009.

Preparer: Todd Degrugillier
Sponsor: Mark P. Moeller

QUESTION NO. AXM 8-11:

[Pension Asset] **<u>Ref: Moeller Direct, pp. 36-37 & Attachment MPM-RR-8.</u>** Please update Attachment MPM-RR-8 to include the following information for <u>each</u> year: [Note: For reference purposes, see part (b) of AXM RFI 13-45 in Docket No. 35763.]

a. Discount rate;
b. Expected return on plan assets;
c. Actual return on plan assets;
d. Minimum required contribution; and
e. Maximum tax deductible contribution.

RESPONSE:

Please refer to Exhibit SPS-AXM 8-11.

Preparer: Todd Degrugillier
Sponsor: Mark P. Moeller

QUESTION NO. AXM 8-12:

[Pension Asset] **<u>Ref: Moeller Direct, p. 28, Table MPM-RR-3 & Attachment MPM-RR-8.</u>** At page 28 and Table MPM-RR-3, the Company discusses and quantifies an $8.39 million deferral of pension and OPEB expense pursuant to PURA § 36.065, which includes the period 2011, 2012 and 2013 (through May). The prepaid pension asset included in rate base is based on a thirteen month average ending June 2012. Please provide the following:

a. Please explain what, if any, safeguards exist to ensure that these two rate base amounts do not overlap or do not result in rate base inclusion of the same amounts twice during the period June 2011 through June 2012.

b. Referring to part (a) above, please provide a copy of any workpapers prepared or relied upon by the Company.

RESPONSE:

a. The two assets are based on different forms of accounting guidance. The $8.39 million deferral is based on PURA § 36.065(b), which allows a utility to establish a reserve account to record the difference between the annual amount of pension and OPEB expense approved in the utility's last general rate case and the annual amount of pension and OPEB expense that the utility actually incurs. This amount is tracked separately within SPS's financial statements using a unique ledger account 13.244510.1701. In contrast, the prepaid pension asset is defined under and calculated in accordance with SFAS 87 and is tracked separately within SPS's financial statements using the unique ledger accounts 13.244510.1700 and 13.431110.1000. The use of different object accounts when accounting for these two unique benefit items provides a safeguard to ensure the two rate base amounts do not overlap. In addition, Deloitte & Touche, SPS's external auditor, reviews these accounts for accuracy during its annual year end audit.

b. The workpapers to confirm the account balances use different ledger accounts can be found in the Test Year journal entries which are summarized below:

   July 2011 to June 2012 summarized journal entries to record the deferral of pension and OPEB expense pursuant to PURA § 36.065:

Pension Deferral Per SPS Texas Retail Agreement		
Account No.	**Description**	**Amount**
13.244510.1701	SPS Reg Asset TX O&M Deferral	$3,300,000
501202.71144	SPS TX Retail O&M	($3,300,000)

July 2011 to June 2012 summarized journal entries to record the prepaid pension asset activity pursuant to SFAS 87:

SFAS 87 Expense Recognition		
Account No.	**Description**	**Amount**
13.263197	Qualified Pension Labor Loading Clearing Account	$14,702,000
13.431110.1000	Qualified Pension Liability	($12,401,000)
13.244510.1700	SPS Reg Assets	($2,301,000)

Pension Contributions		
Account No.	**Description**	**Amount**
13.431110.1000	Qualified Pension Liability	$13,921,453
13.111100.0600	Cash	($13,921,453)

Year End FAS 158 Funded Status True-Up		
Account No.	**Description**	**Amount**
13.244510.1700	SPS Reg Asset	$23,914,453
13.431110.1000	Qualified Pension Liability	($23,914,453)

Preparer: Todd Degrugillier
Sponsor: Mark P. Moeller

QUESTION NO. AXM 8-13:

[Pension Asset] **Ref: Attachment KMK-RR-1, p. 9 (Qualified):** At line 181 of the referenced attachment, the prepaid pension asset balance is $175,225,301, before allocation to Texas Retail. This amount represents a thirteen month average (see spreadsheet KMK-RR-1.3, Average Balance Sheet tab) of the qualified and non-qualified prepaid pension asset balances ending June 2012. Please provide the following:

a. Please provide a detailed description and explanation of the amounts recorded to FERC Account 228.3 (Obj Acct 431110), identified as "Accrd Qual Pen Post 15".

b. Please provide a detailed description and explanation of the amounts recorded to FERC Account 182.3 (Obj Acct 244510), identified as "FAS 158 Reg Asset Pension".

c. Please provide information to update the monthly balances on the Average Balance Sheet tab through December 2012.

RESPONSE:

a. Account 431110, which is a liability account, represents SPS's accrued net service cost, interest cost and expected return on assets for Qualified Pensions (SFAS 87), based on Towers Watson actuarial reports. An accrual entry of 1/12th of the annual pension expense (increase) or 1/12th of the annual pension income (decrease) is recorded monthly. Contributions to the pension plan reduce the balance in this account. Year-end entries will adjust the balance to the funded status of the plan as calculated by the actuaries.

b. Account 244510, which is an asset account, represents SPS's net unamortized prior service cost and net gain/loss for Qualified Pensions (SFAS 87), based on Towers Watson actuarial reports. A monthly entry records 1/12th of the annual amortization of these costs. Year-end entries will adjust the balance to the funded status of the plan as calculated by the actuaries.

c. Please refer to Exhibit SPS-AXM 8-13.

Preparer: Todd Degrugillier
Sponsor: Mark P. Moeller

QUESTION NO. AXM 8-14:

[Pension Asset] **Ref: Attachment KMK-RR-1, p. 9 (Qualified):** At line 181 of the referenced attachment, the prepaid pension asset balance is $175,225,301, before allocation to Texas Retail. Referring to the supporting Average Balance Sheet tab of spreadsheet KMK-RR-1.3, please provide the following with respect to FERC Account 228.3 (Obj Acct 431110), identified as "Accrd Qual Pen Post 15":

a. Please explain why the monthly credit balance increased from ($29,281,047) in November 2011 to ($53,313,000) in December 2011.

b. Please explain why the monthly credit balance decreased from ($53,313,000) in December 2011 to ($40,627,167) in January 2012.

RESPONSE:

a. The $24,031,953 credit balance increase to the qualified pension liability (object account 431110) from November 2011 to December 2011 was caused by the SFAS 158 year-end journal entry in December of $23,914,453 and the December net periodic pension cost recognition (service costs, interest and expected return on asset) of $117,500. SFAS 158 requires companies to fully recognize the funded status of each pension as a liability or asset on their balance sheet at the end of the reporting period, with all unrecognized amounts to be recorded in other comprehensive income ("OCI"). Thus, under SFAS 71 paragraph 9, SPS transfers the amounts in OCI to a regulatory asset because SPS has determined that it is probable that these costs will be recovered.

b. The $12,685,833 credit balance decrease to the qualified pension liability (object account 431110) from December 2011 to January 2012 was caused by cash contributions to the pension plan in January of $12,941,000, offset by net periodic pension cost recognition (service costs, interest, and expected return on asset) for January of $255,167.

Preparer: Todd Degrugillier
Sponsor: Mark P. Moeller

QUESTION NO. AXM 8-15:

[Pension Asset] **<u>Ref: Attachment KMK-RR-1, p. 9 (Qualified):</u>** At line 181 of the referenced attachment, the prepaid pension asset balance is $175,225,301, before allocation to Texas Retail. Referring to the supporting Average Balance Sheet tab of spreadsheet KMK-RR-1.3, please provide the following with respect to FERC Account 182.3 (Obj Acct 244510), identified as "FAS 158 Reg Asset Pension":

a. Please explain why the monthly debit balance increased from $202,215,290 in November 2011 to $225,250,493 in December 2011.

b. Please explain why the monthly debit balance decreased from $225,250,493 in December 2011 to $224,083,076 in January 2012.

RESPONSE:

a. The $23,035,203 debit balance increase to the qualified pension regulatory asset (object account 4244510) from November 2011 to December 2011 was caused by the SFAS 158 year-end journal entry in December of $23,914,453, offset by the December net periodic pension cost recognition (amortization of prior service costs and net gain/loss) of $879,250. SFAS 158 requires companies to fully recognize the funded status of each pension as a liability or asset on their balance sheet, at the end of the reporting period, with all unrecognized amounts to be recorded in other comprehensive income ("OCI"). Thus, under SFAS 71 paragraph 9, SPS transfers the amounts in OCI to a regulatory asset because SPS has determined that it is probable that these costs will be recovered.

b. The $1,167,417 debit balance decrease to the qualified pension regulatory asset from December 2011 to January 2012 was caused by the January net periodic pension cost recognition (amortization of prior service costs and net gain/loss) of $1,167,417.

Preparer: Todd Degrugillier
Sponsor: Mark P. Moeller

QUESTION NO. AXM 8-16:

[Pension Asset] **Ref: Attachment KMK-RR-1, pp. 9 & 12:** At line 181 of the referenced attachment, the prepaid pension asset balance is $175,225,301, before allocation to Texas Retail. At line 285, Account 283 shows "Pension Expense" related ADIT reserve amounts of $(64,994,135) [per book balance], $1,781,688 [adjustments], $(63,212,448) [adjusted balance], before allocation to Texas Retail. Please provide the following:

a. Please confirm the pension expense ADIT reserve balance is directly related to the pension asset SPS proposes to include in rate base. If this cannot be confirmed, please explain.

b. If the Commission were to conclude that all or part of the pension asset balance should be excluded from rate base, does the Company concur that all or part of the related ADIT reserve balance should also be excluded from rate base? If the Company does not concur, please explain.

c. Please explain the calculation of the adjusted ADIT reserve amount of $(63,212,448), showing how this balance is derived from the tax deductible elements of the average prepaid pension asset balance of $175,225,301 and reconciling any differences.

RESPONSE:

a. The prepaid pension asset balance on Line 181 of Attachment KMK-RR-1, Page 9, includes both the qualified net prepaid pension asset and non-qualified net pension liability balances. The corresponding ADIT balances are recorded in Account 283 and Account 190, respectively. Upon further review of workpapers, the ADIT reserve balance in Account 283 $(64,994,135) [per book balance], includes $(1,533,862) related to the Regulatory Asset – Deferred Pension Costs and $(63,392,736) directly related to the qualified pension asset SPS proposes to include in rate base. The "Non-qualified Pension Plans" ADIT amount of $682,194 [per book balance], $(18,701) [adjustments], $663,493 [adjusted] in Account 190 (line 226 of KMK-RR-1, Page. 10 of 120 (RR12, Page 97 of 580)) is directly related to the non-qualified pension liability SPS proposes to include in rate base.

The Regulatory Asset – Deferred Pension Costs, $4,036,538 [per book balance] on Line 205 of Attachment KMK-RR-1, Page 9 of 20, was eliminated from rate base as discussed on pages 20–21 of Ms. McNulty Kropp's Direct Testimony. However, the related ADIT balance in Account 283, $(1,533,862) [per book balance] was not eliminated from rate base. SPS will include an adjustment to eliminate this ADIT balance in Account 283 in an errata filing of the revenue requirement, if any such filing is made. As noted on page 21 of Ms. McNulty Kropp's testimony, if the Commission determines that regulatory assets should be amortized for a period longer than one year, SPS proposes that the regulatory asset be included in rate base. (The related ADIT balance in Account 283 would also be included in rate base.)

b. Yes.

c. Please refer to Schedule G-7.1(HS), pages 13-14 of 16, for an explanation of the book and tax treatment of the items.

Ms. McNulty Kropp's direct testimony on page 17 discusses the methods used to measure rate base. The prepaid pension asset is measured using a 13-month average. ADIT amounts in Account 190 and 283 are measured using the year-end balance at June 30, 2012. Please refer to Exhibit SPS-AXM 8-16 for the calculation of the ADIT balance included in the cost of service.

Preparer: Kathy McNulty Kropp
Sponsor: Kathy McNulty Kropp

QUESTION NO. AXM 8-17:

[Income Taxes] **<u>Ref: Attachment KMK-RR-1, Excel File tab "Total Company", Numbered Lines 369-431, Schedule M Items (Permanent and Temporary Timing Differences)</u>** Please provide the following information regarding the Company's income tax expense calculations:

a. Explain the data sources, periods of analysis, and methods used to quantify each of the permanent and temporary timing differences reflected in the Company's test year income tax expense calculations.
b. Confirm that, for each item in the "Texas Retail" column marked as "T" in the "Account" column, pro-forma deferred income tax expenses are provided within the total Texas Retail Deferred Income taxes of $32,772,783 shown on numbered line 507 applying the statutory FIT rate of 35%.
c. If anything but an unqualified confirmation is provided in response to part (b), please identify and explain each departure from the procedure described in part (b) by line item, indicating each reason for not fully normalizing the temporary difference item.
d. Identify and explain <u>each</u> Pro-forma deferred tax expense line item for "Texas Retail" on Attachment KMK-RR-1 that does not result from the procedure described in part (b) and explain the basis for including the line item in the amount shown.
e. Explain each of Permanent difference amounts captioned "Plant Deferred Tax-...." at numbered lines 374-377 and provide supporting explanations, assumptions and calculations for each of the Per Book and Adjustments used to derive the test year "Adjusted" amounts prior to being functionally allocated to Texas Retail.
f. Does SPS include any deduction for dividends paid on qualifying preferred stock in computing its Federal income taxes? If affirmative, provide the amounts of such deductions on Xcel tax returns filed for 2010 and 2011 and describe the treatment of such dividend deductions in the company's proposed revenue requirement income tax expense calculations.
g. Does Xcel include any deduction for dividends paid on common stock held in employees' ESOP retirement accounts? If affirmative, provide the amounts of such deductions on tax returns filed for 2010 and 2011 and describe the treatment of such dividend deductions in the company's proposed revenue requirement income tax expense calculations.

RESPONSE:

a. Data sources for each temporary and permanent differences reflected in SPS's Test Year income tax expense calculations include the general ledger, capital asset accounting subsystems, and prior year filed tax returns, with the period of analysis being July 1, 2011 to June 30, 2012. The majority of the non-plant temporary differences are based on the activity in selected balance sheet accounts. Please refer to the workpaper for Schedule G-7.4 for a detailed listing of each adjustment.

b. Confirmed, with the exception of Rate Case/Restructuring. Please refer to Exhibit SPS-AXM 8-17(b).

c. The Rate Case / Restructuring Schedule M used a Net Plant In-Service Jurisdictional allocator; however, the Deferred Income Tax Expense is directly assigned to Texas. Therefore, the calculated Federal Income Tax Rate as shown in Exhibit SPS-AXM 8-17(b) does not equal 35%. The jurisdictional allocator for this particular Schedule M should be a direct assignment to Texas. SPS will correct the allocator used on this Schedule M in any errata filing. The Deferred Expense amount is properly calculated using the federal income tax rate of 35%. Correcting this error will reduce the overall revenue requirement by approximately $3,080.

d. Please refer to the response to subpart (c) above.

e. There are two components of the plant deferred tax permanent differences. They are AFUDC Equity and book depreciation related to the permanent component of the asset. SPS calculates the Adjusted amounts and then compares those to the Per Book amounts to derive the Adjustments. Please refer to Exhibit SPS-AXM 8-17(e).

f. SPS does not include any deduction for dividends paid on qualifying preferred stock because SPS does not have any preferred stock. However, Xcel Energy Inc. includes a deduction for dividends paid on qualifying preferred stock in computing its federal income taxes. The deductions included in 2010 and 2011 were $396,000 and $330,000, respectively. These deductions are not included in SPS's proposed revenue requirement income tax expense calculations.

g. Xcel Energy Inc. includes a deduction for dividends paid on common stock held in employees' ESOP retirement accounts. The deductions for 2010 and 2011 were $15,181,247 and $14,878,056, respectively. SPS does not include any portion of this deduction in its calculation of taxable income; however, a portion of the deduction is capitalized under the rules of Internal Revenue Code §263A to each of the operating companies. For the test period, $498,252 was capitalized for tax purposes and is part of the plant related tax adjustments used to calculate current tax expense in the proposed revenue requirement.

Preparers: Kathy McNulty Kropp, Paul Boger
Sponsors: Christopher A. Arend, Kathy McNulty Kropp

QUESTION NO. AXM 8-18:

[Rate Base ADIT] **Ref: Attachment KMK-RR-1, Excel File tab "Total Company", Numbered Lines 209-304 (Schedule M ADIT Balances).** Please provide the following information regarding the Company's test year ADIT balance calculations:

a. Explain the data sources, periods of analysis, and general methods used to analyze and adjust each of the ADIT line items in determination of amounts to be allocated to Texas Retail.

b. For each Account 190 and Account 283 ADIT line item that is removed by "Adjustments" and not attributed or allocated to Texas Retail, please explain the rationale for such exclusion.

c. For <u>each</u> Account 190 and Account 283 ADIT line item unadjusted per books balance that is treated as allocable to Texas Retail or otherwise included in proposed rate base without adjustment, explain the basis for such inclusion and identify the related asset/liability balance or income statement transactions with citations to where such balance/transactions are included in Texas Retail operations within the Company's filing.

d. For <u>each</u> Account 190 and Account 283 ADIT line item that is treated as allocable to Texas Retail or otherwise included in proposed rate base only after adjustments are made to the recorded per books balance, explain the basis for each adjustment and provide supporting calculations (or reference to where such calculations have been provided in workpapers). For example, how are the test year adjusted ADIT balances for FAS106 and FAS112 determined?

e. Explain all assumptions made and provide supporting source information and calculations for each element of the "Texas NOL Carryforward-Beginning Balance" and "Texas NOL Carryforward" appearing at numbered lines 248 and 249.

f. If the Texas NOL Carryforward amounts are maintained by separate isolation of SPS' NOL position by jurisdiction from filed tax returns and analysis of jurisdictional income, please provide monthly balances for the overall SPS NOL position and its attribution among states.

g. Explain the procedures and calculation methods used to derive the "Unblend" adjustment amounts for ADIT set forth at numbered lines 270-273.

h. Explain the assumptions and calculation methods used to derive the "State Tax Portion Exclusion" adjustment amounts for ADIT set forth at numbered line 274. Explain the elements of the amount shown and provide a reconciliation of the "FAS 109 Related" balance that is eliminated at numbered line 275 in relation to the associated per books ADIT balances and regulatory asset balances.

RESPONSE:

SPS requires additional time to complete this response and will supplement as soon as possible.

QUESTION NO. AXM 8-19:

[Consolidated Tax] **Ref: Confidential Attachment CAA-RR-1, Excel Native File (CTSA Adjustment Calculation).** Please provide the following additional information regarding the CTSA calculations performed by Mr. Arend:

a. A description of the business purpose and scope of operations, assets and employees for each of the entities listed within the calculation, indicating dates of formation, inaction, divestiture and other events explaining appearance or removal of taxable income/loss for the entity across the analysis period.

b. Confirm that for each of the "year" tabs listing taxable income/loss "As Originally Filed", the amounts shown reflect stand-alone taxable income for each entity from the initially filed tax return and that all known "Audit Adjustments" as of year-end 2012 that have been formally approved by the IRS are accurately attributed to each entity for each year. Explain and quantify any exceptions.

c. Explain and provide documentation for all amounts included as "Supplemental Audit Adj" amounts in each applicable year.

d. Identify, quantify and explain any uncertain tax positions that impact the taxable income/loss shown for any year, by entity.

e. Provide a tax year 2012 set of data by entity as a new tab, using the best available estimates of taxable income/loss for each entity that will be recorded as provisions for current and deferred federal income tax expense as of December 31, 2012.

f. Provide a schedule showing the Company's best available estimate of the SPS Federal NOL carryforward position and carryforward tax credit amounts (if any) as of December 31, 2012, with supporting workpapers and a statement of assumptions employed in development of such estimate.

g. Provide a schedule showing the Company's best estimate of future utilization by tax year of the SPS Federal NOL carryforward position extant at December 31, 2012, with supporting workpapers and a statement of assumptions employed in development of such estimate.

RESPONSE:

a. Please refer to Exhibit SPS-AXM 8-19(a)(CONF). The exhibit contains brief descriptions of the various companies and identifies the primary reasons for an entity's cumulative losses of $10 million or more for an entity's loss years. The cumulative losses for the loss years are based on the Total column in the loss summary pages in Attachment CAA-RR-1(CONF) to the Direct Testimony of Christopher A. Arend.

b. The taxable incomes in the "year" tabs in Attachement CAA-RR-1(CONF) reflects the separate company taxable incomes for each entity from the originally filed tax returns. The tabs also refect all known audit adjustments formally approved by the IRS as of the year ended December 31, 2012.

c. Please refer to the voluminous workpapers to Schedule G-7.13V(HS), pages 263-267 of 12833, which were provided on CD in the Rate Filing Package.

d. Uncertain tax positions, as defined by ASC 740 (formerly FIN 48), are accrued for financial reporting purposes only and do not affect taxable income included on Xcel Energy's tax returns.

e. Please refer to Exhibit SPS-AXM 8-19(e)(CONF) for 2012 taxable income/loss for each Xcel Energy entity, forecasted as of December 15, 2012.

f. Please refer to Exhibit SPS-AXM 8-19(f.1)(CONF) for the best available estimate of SPS's federal NOL and tax credit carry-forwards at December 31, 2012. The NOL and tax credits accrued are based on filed returns, adjusted for audits when applicable. NOL utilizations through 2011 are based on filed returns and audits, where applicable. Please refer to Exhibit SPS-AXM 8-19(f.2)(CONF) for support of the 2012 NOL utilization. This exhibit is based on forecasted financial data as of December 15, 2012. This forecast does not include the effects of the *American Taxpayer Relief Act of 2012* signed into law on January 2, 2013.

g. Please refer to Exhibit SPS-AXM 8-19(g.1)(CONF) for SPS's best estimate of future utilization of the SPS federal NOL carry-forward by tax year. Please refer to Exhibit SPS-AXM 8-19(g.2)(CONF) for taxable income summaries for 2013-2014. These taxable income summaries support SPS's 2013-2014 NOL utilization and are based on forecasted financial data as of December 15, 2012. The forecasts do not include the effects of the *American Taxpayer Relief Act of 2012* signed into law on January 2, 2013.

Preparers: Christopher A. Arend, Naomi Koch
Sponsor: Christopher A. Arend

QUESTION NO. AXM 8-20:

[Consolidated Tax] **Ref: Direct Testimony of Christopher Arend, page 13, line 13 (Interest Credit Methodology).** The referenced testimony states, "Beginning in Docket No. 14695, the Commission has used an approach referred to as the 'interest credit methodology." Please provide the following information:

a. Provide citation to each of the rate cases before the Public Utility Commission of Texas ("PUCT" or "Commission") that Mr. Arend is aware of where the "interest credit methodology" that is referenced was used.
b. Provide complete copies of the "fair share calculations" that Mr. Arend understands to have been used in each of the cases referenced in your response to part (a).
c. Explain whether, in each of the cases identified in your response to part (a):
    i. Any "year-by-year" calculations, as referenced by Mr. Arend at page 24, were employed.
    ii. A "cumulative method", as referenced by Mr. Arend at page 25, lines 19-21, was employed.
    iii. Any specific application of income to losses within particular pre-merger consolidated tax groups, as referenced by Mr. Arend at pages 27-28, was employed.
    iv. Some other (described) variant of cumulative or year-by-year calculations was employed.
    v. Any extraordinarily large or unusual loss event, comparable to the Company's NRG stock loss, was excluded or received any special treatment in the fair share calculations.
d. Explain whether a litigated outcome was resolved by PUCT Order and provide citation to such order(s).

RESPONSE:

a. Mr. Arend is aware of the following Commission cases in which the interest credit methodology was used:

    Application of Central Power and Light Company for Authority to Change Rates, Docket No. 14965, Second Order on Rehearing (October 15, 1997), at Schedule V, column 1, line - Taxable Component of Return and Column 3, line - Consolidated Tax Savings.

    Application of Entergy Texas for Approval of Its Transition to Competition Plan and the Tariffs Implementing the Plan, and for the Authority to Reconcile Fuel Costs, to Set Revised Fuel Factors, and *to Recover a Surcharge for Under-Recovered Fuel Costs*, Docket No. 16705, Second Order on Rehearing (October 13, 1998), at Schedule V, column 1, line -Taxable Component of Return and column 3, line - Consolidated Tax Savings.

Application of Reliant Energy for Approval of Unbundled Cost of Service Rate Pursuant to PURA § 39.201 and Public Utility Commission Substantive Rule § 25.344, Docket No. 22355, Order (October 4, 2001), at Com. Schedule Dist-V, pp. 0010, 0016, 0022, 0028, and 0034, sum of column c, lines - Taxable Component of Return and column e, lines Consolidated Tax Savings.

Application of AEP Texas Central Company for Authority to Change Rates, Docket No. 28840, Exhibit JBB-1, Schedule11-E-3, page 2 of 2, Taxable Component of Return, and AEP's TCC Number Run (July 21, 2005), at p. 106, column 4, line 22, and Order (August 15, 2005), at pp. 38-39, ¶ R6.

Application of AEP Texas Central Company for Authority to Change Rates, Docket No. 33309, Order (December 13, 2007), at Schedule V, column c, line - Taxable Component of Return and column e, line - Consolidated Tax Savings.

Application of Centerpoint Electric Delivery Company, LLC, for Authority to Change Rates, Docket No. 38339, Order on Rehearing (June 23, 2011) at pp. 5-8.

Application of Southwestern Electric Power Company for Authority to Change Rates, Docket No. 37364, Order (April 16, 2010).

b. Please refer to Exhibit SPS-AXM 8-20, which is the fair share calculation from Docket Nos. 14965, 28840, and 37364. SPS is not certain if this is the complete calculation for Docket No. 14965.

c. i. SPS is not aware of a year-by-year approach either being used or being considered and not accepted in any of the cases identified in the response to subpart (a).

ii. It is SPS's understanding that a cumulative method calculation was used in Docket Nos. 14965 and 37364. SPS does not have direct information relating to whether the cumulative method was used in the other cases identified in the response to subpart (a).

iii. SPS is not aware of the specific history regarding members of the consolidated groups involved in cases identified in the response to subpart (a) or the details of the calculations performed in those cases. As a result, SPS is not aware that the application of income and losses within particular pre-merger consolidated groups was performed or considered and not accepted in those cases.

iv. SPS is not aware of all of the specifics or details of the calculations performed in cases identified in the response to subpart (a). As a result, SPS is not able to identify variations that may have been applied in those cases.

v. SPS is not aware of all of the specifics or details of the calculations performed in cases identified in the response to subpart (a). As a result, SPS does not know whether or not an extraordinarily large or unusual loss event was excluded in those cases.

d. Except for Docket No. 37364, it is SPS's understanding that the cases identified and cited in the response to subpart (a) involved litigated outcomes that were resolved by Commission orders. The docket numbers and the dates of the final orders in the litigated cases are set forth in response to subpart (a). All of the final order should be available on the Commission Interchange.

Preparer: Christopher A. Arend
Sponsor: Christopher A. Arend

QUESTION NO. AXM 8-21:

[Consolidated Tax] **Ref: Direct Testimony of Christopher A. Arend, page 19, line 18 through page 20, line 2 (15-year cumulative approach – Federal Income Tax Law)** Please explain whether Mr. Arend or SPS is asserting that use of the "15-year cumulative approach" is in violation of the "Federal Income Tax Law" or any other rules or regulations. If any violation of laws, rules or regulations is asserted, please provide the following additional information:

a. Pinpoint citation into each law, rule or regulation that is believed to be violated by the 15-year cumulative method.
b. Identify and describe each instance where a Texas utility has been found to be in violation of any law, rule or regulation because of use of the 15-year cumulative approach.
c. Copies of all reports, analyses, private letter rulings, tax court decisions and other documents associated with or supportive of your response to parts (a) or (b).

RESPONSE:

SPS does not assert that use of the 15-year cumulative approach in rate case proceedings is in violation of federal income tax law. However, a company that attempted to use a 15-year cumulative method in filing tax returns would violate Internal Revenue Code § 172(b)(1)(A). Therefore, while use of the 15-year cumulative approach in rate case proceedings does not violate federal income tax law, it is nonetheless inconsistent with the tax laws, and it imputes tax savings that are not available in fact, leading to an unrealistic result.

Preparer: Christopher A. Arend
Sponsor: Christopher A. Arend

QUESTION NO. AXM 8-22:

[Consolidated Tax] **Ref: Direct Testimony of Christopher A. Arend, page 27, lines 8-16 (NOL Carry-forward).** Please provide a summary of the actual NOL position of the consolidated Xcel Energy, Inc. taxpayer, the consolidated NCE taxpayer and the consolidated PSCo taxpayer at the beginning and end of each year of the 15 year fair share calculation period, 1997 through 2011, indicating how the mergers creating NCE and Xcel impacted such positions in each year.

RESPONSE:

Please refer to Exhibit SPS-AXM 8-22, which details the NOL carry-forward position at December 31 for each of 2003-2011. PSCo and NCE did not have NOL carry-forwards between 1997 and 1999. Xcel Energy did not have NOL carry-forwards between 2000 and 2002.

Preparer: Naomi Koch
Sponsor: Christopher A. Arend

QUESTION NO. AXM 8-23:

[Consolidated Tax] **Direct Testimony of Christopher A. Arend, page 28, lines 5-11 (Pre-existing Group Prioritization)** At lines 5 through 11, Mr. Arend describes a methodology that used income from the members of a pre-existing corporate group to "...realize all tax savings resulting from the losses. Accordingly, SPS's income was not needed to realize tax losses from these groups incurred in 1997-2000...". Please identify by pinpoint citation each known PUCT order that Mr. Arend or SPS believes has approved the application of such a pre-existing corporate group approach in calculating the fair share consolidated tax adjustment for a utility involved in past merger transactions (if any).

RESPONSE:

SPS is not aware of orders in which the Commission has either accepted or rejected the pre-existing group approach proposed by SPS in this case.

Preparer: Christopher A. Arend
Sponsor: Christopher A. Arend

QUESTION NO. AXM 8-24:

[Consolidated Tax] **Ref: Direct Testimony of Christopher A. Arend, page 29 (NRG Stock Loss).** At page 29 of his testimony, Mr. Arend describes the nature and size of the NRG loss. Please provide the following information:

a. A copy of the Xcel consolidated tax returns for 2003 and 2004, indicating where, by schedule and line reference, the impact of the loss was recognized on same.
b. A calculation of the income tax savings that was realized by Xcel Energy, Inc. in each year prior or subsequent to 2002 as a result of realization of the NRG loss for tax purposes.
c. Explanations and calculations supporting NOL carryback claims, tax benefits accrued in each year, audit adjustments applicable to each year and impacts upon unutilized federal tax credits in applicable years.
d. A detailed explanation, statement of assumptions and best available financial projection of the anticipated rate of future utilization of the remaining estimated tax benefits at December 31, 2011 associated with the NRG loss, (if any).

RESPONSE:

a. A copy of the requested tax returns was submitted with the filing of the rate case. Please refer to the voluminous workpapers to Schedule G-7.13V(HS), which were provided on CD in the Rate Filing Package (*see* pages 6930-7572 and 7573-8317 of 12833, respectively). In 2003 the loss of $2,220,469,253 was reported as a worthless stock deduction by Xcel Energy Wholesale, which was included on Form 1120, line 26. The allocation to Xcel Energy Wholesale is included on Statement 3 (page 4 of set 8). In 2004 the loss of $752,000,000 was reported as an item related to reportable transactions on Form 1120, line 10. The allocation to Xcel Energy Wholesale is included on Statement 1 (page 1 of set 1)

b. Please refer to Exhibit SPS-AXM 8-24(b,c,d)(CONF).

c. Please refer to Exhibit SPS-AXM 8-24(c)(CONF), which represents unused tax credits that are carrying forward to future years, and Exhibit SPS-AXM 8-24(c)(HS).

d. Please refer to Exhibit SPS-AXM 8-24(b,c,d)(CONF).

Preparers: Tad Kastman, Naomi Koch
Sponsor: Christopher A. Arend

QUESTION NO. AXM 8-25:

[Consolidated Tax] **Ref: Direct Testimony of Christopher A. Arend, page 30, line 21 (NRG Tax Consolidation)** At page 30, line 21, Mr. Arend states, "That criterion does not support including the NRG stock loss because NRG (the operating company) did not receive any benefit from the stock loss as it was no longer affiliated with the Xcel Energy Consolidated Group (that affiliation ended in March 2001, two years before the stock loss was incurred)." Please provide the following additional information:

a. Explain all reasons for the changes in Xcel ownership and resulting cessation of tax consolidation with NRG "in March 2001" as referenced in footnote 20 on page 31.
b. Explain whether or not Xcel's stock loss was reflected on a tax return for a consolidated group that included SPS, and why such inclusion would not meet the referenced "criterion".
c. Was any operational, tax or other economic benefit achieved by Xcel through the reduction in ownership percentage?
d. Provide a complete copy of all studies, reports, analyses, projections, workpapers and other documents associated with your response to part (c).

RESPONSE:

a. As a result of an NRG common stock issuance to the public on March 12, 2001, Xcel Energy's ownership of NRG common stock was reduced to 74%. That is below the 80% ownership threshold that is required by Internal Revenue Code Section 1504(a)(2) for a company to be a member of a consolidated federal income tax group. Therefore, NRG ceased to be a member of the Xcel Energy consolidated federal income tax group.

b. With respect to the first part of the question, the stock loss was reflected in a tax return for a consolidated group that included SPS. However, that fact does not meet this criterion because this criterion focuses on potential advantages to the loss company, not on the presence or absence of a profitable utility (SPS) in the consolidated group. (That unrelated fact would be met in any instance in which a tax shield was provided by a utility's income.) In Docket No. 14965, the Commission described this criterion noting that "the unprofitable ... subsidiaries do benefit from their affiliation with profitable... subsidiaries, such as [the Texas utility.]"[1]

This criterion refers to the opportunity for an unprofitable company to benefit from obtaining cash to be used in its business operations. This criterion is not met with respect to the NRG stock loss because NRG was no longer affiliated with the Xcel

[1] Docket No. 14965 Second Order on Rehearing, at pp. 45-46, FoF 107-112C.

Energy Consolidated Group when the stock loss was recognized, and thus did not receive any benefit from the tax deduction for the stock loss.

c. No.

d. SPS is not aware that any such documents were prepared.

Preparer: Christopher A. Arend
Sponsor: Christopher A. Arend

QUESTION NO. AXM 8-26:

[Consolidated Tax] **<u>Ref: Direct Testimony of Christopher A. Arend, page 38 (Debt Interest Assumption</u>)** At page 38, Mr. Arend describes the Company's approach applying the "SPSs' weighted cost of debt" in each year. Please identify by pinpoint citation each known PUCT order that Mr. Arend or SPS believes employed the utility's "weighted cost of debt" for each separate year in this manner to calculate the consolidated tax adjustment.

RESPONSE:

SPS is not aware of Commission orders: (i) in which the weighted cost of debt for each separate year was used in the calculation of the consolidated tax adjustment; or (ii) in which the Commission has considered and rejected the use of the weighted cost of debt for each separate year.

Preparer: Christopher A. Arend
Sponsor: Christopher A. Arend

QUESTION NO. AXM 8-27:

[Consolidated Tax] **Ref: Direct Testimony of Christopher Arend, page 38 (Debt Interest Rate for Tax Shield)** Please provide complete copies of the source documents and calculations used by Mr. Arend to determine the interest rate percentage used in each year of his analysis, 1997 through 2011.

RESPONSE:

Please refer to Exhibit SPS-AXM 8-27.

Preparer: Tad Kastman
Sponsor: Christopher A. Arend