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APPLICATION OF SOUTHWESTERN § BEFORE THE STATE OFFICE
PUBLIC SERVICE COMPANY FOR § OF
AUTHORITY TO CHANGE RATES § ADMINISTRATIVE HEARINGS

**OCCIDENTAL PERMIAN LTD.'S
PROPOSED FINDINGS OF FACT, CONCLUSIONS OF LAW,
AND ORDERING PARAGRAPHS – REVENUE REQUIREMENT PHASE**

Dated: August 7, 2015

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Occidental Permian Ltd. (“OPL”) provides these proposed findings of fact, conclusions of law, and ordering paragraphs for the Revenue Requirement Phase in compliance with SOAH Order No. 16.

I. Proposed Findings of Fact

Procedural History

1. Southwestern Public Service Company (“SPS”) is an investor-owned electric utility with a retail service area located in Texas.
2. On December 8, 2014, SPS filed an application requesting approval of an increase in base rate charges for the Texas retail jurisdiction of \$64,746,197.
3. SPS also requested approval of temporary rates to make the rates ultimately set in this proceeding retroactive to January 12, 2015. SPS later elected not to pursue its request for temporary rates.
4. SPS’s current application, filed on December 8, 2014, was the second rate application SPS filed in 2014. SPS previously filed an application on January 7, 2014 in Docket No. 42004.

5. In SPS's prior rate application, Docket No. 42004, SPS received a rate increase of \$37 million for service rendered on or after June 1, 2014 as result of a non-unanimous settlement, which was approved by the Commission on December 19, 2014.
6. In the current proceeding, the 12-month test year employed in SPS's filing runs from July 1, 2013 through June 30, 2014.
7. The following parties timely sought and were granted Intervenor status in this docket: Texas Industrial Energy Consumers; Office of Public Utility Counsel; Alliance of Xcel Municipalities; Texas Cotton Ginners' Association; Occidental Permian, Ltd.; Pioneer Natural Resources USA, Inc.; State of Texas agencies and institutions of higher education; United States Department of Energy; Golden Spread Electric Cooperative, Inc. ("Golden Spread"); Laurance Kriegel, an individual residential customer; Wal-Mart Stores Texas, LLC; Sam's East, Inc.; Amarillo College; Canadian River Municipal Water Authority; and Amarillo Recycling, Inc.
8. On December 9, 2014, the Commission referred this case to the State Office of Administrative Hearings ("SOAH").
9. On March 2, 2015, SPS reduced its requested base rate increase to \$58,852,473.
10. On June 10, 2015, SPS filed a rebuttal cost of service in which it further reduced its requested base rate increase to \$42,074,996.
11. A prehearing conference was held on June 22, 2014.
12. A 7-day hearing on the merits commenced on June 24, 2015 and concluded on July 2, 2015.

13. Initial post-hearing briefs for the revenue requirement phase were filed on July 24, 2015. For the cost allocation / rate design phase, initial post-hearing briefs were filed on July 28, 2015.
14. Reply briefs for the revenue requirement phase were filed on August 5, 2015. Reply briefs for the cost allocation / rate design phase were filed on August 7, 2015.

Jurisdictional Allocation

Adjustment for Golden Spread

15. SPS provides regulated electric service in three separate jurisdictions: Texas retail; New Mexico retail; and wholesale (regulated by FERC).
16. SPS performs an allocation of costs between these jurisdictions based on sales during the test year, which in this case is July 1, 2013 through June 30, 2014.
17. SPS has requested an adjustment to its peak demand allocators from the test year to reflect a post-test year reduction in wholesale sales to Golden Spread.
18. With the proposed adjustment, SPS's Texas jurisdictional allocator for energy at the source (kWh) would be 54.8994%.
19. Without the proposed adjustment, SPS has indicated that the test-year allocator would be 53.7737%.
20. There are numerous changes that have occurred, or are likely to occur, subsequent to the test year that will affect sales across SPS's three separate jurisdictions.
21. SPS offered testimony at the hearing that SPS does not know what the relative level of load will be across its three separate jurisdictions during the time that rates from this case will be in effect.

22. SPS offered testimony at the hearing that growth of sales in New Mexico could offset any effect on the Texas jurisdictional allocator related to the Golden Spread reduction.
23. SPS offered testimony at the hearing that sales in New Mexico have been growing since the end of the test year.
24. Sworn testimony filed by SPS in New Mexico on June 5, 2015 (in Case No. 15-00139-UT) indicates that SPS expects the Texas allocator for energy at the source in calendar year 2016 to be 53.3372%.
25. SPS's projected Texas allocator for calendar year 2016 (53.3372%) is lower than either the test-year allocator in this case (53.7737%) or SPS's proposed upward adjustment in connection with Golden Spread (54.8994%).
26. The evidence indicates that in connection with the Texas jurisdictional allocator, the loss of Golden Spread sales will be more than offset by growth in New Mexico retail sales by at least 2016.
27. SPS has not quantified all attendant impacts from its proposed adjustment related to Golden Spread.
28. It is not reasonable to adjust the jurisdictional allocators to account for the reduction in the Golden Spread wholesale sales because the adjustment cannot satisfy the known and measurable standard and because the reduction will be offset by other SPS load growth.

Rate Base

Post Test Year Capital Additions

29. The Commission's rules allow for post-test year adjustments (or "PTYA") to a utility's plant in service if certain requirements are met.

30. In its initial filing, SPS sought PTYAs for capital additions to be placed in service between July 1, 2014 and December 31, 2014 (i.e., outside of its chosen test year) in the amount of \$441,651,953 (total company). On March 2, 2015, SPS reduced that PTYA request to \$392,549,024.39.
31. SPS admits that its PTYA requests do not satisfy the requirements in 16 TAC § 25.231(c)(2)(F) for granting PTYAs.
32. Specifically, SPS admits its requests do not meet the requirements in 16 TAC § 25.231(c)(2)(F) that: (i) each addition comprise at least 10% of the electric utility's requested rate base, exclusive of the post-test year adjustments and construction work in progress ("CWIP"); and (ii) the assets be included in rate base at the reasonable test-year end CWIP balance.
33. SPS requests good cause exceptions to the Commission's PTYA requirements.
34. SPS asserts that exceptions to the Commission's PTYA rule are necessary because SPS's "financial integrity" would be compromised absent approval of its requested PTYAs.
35. Prior to the filing of SPS's application in this case, SPS's parent company discussed a goal of reducing regulatory lag by having SPS seek PTYAs in Texas.
36. Prior to the filing of SPS's application in this case, SPS did not perform any analyses demonstrating that any or all of the PTYA projects need to be included in rate base to avoid impairing SPS's financial integrity.
37. Prior to the filing of SPS's application in this case, SPS did not perform any analyses of the impact that its requested PTYAs would have on key financial metrics, including

ROE, funds for operations (“FFO”), FFO/interest ratio, FFO to total debt ratio, and debt/EBITDA ratio.

38. In response to an Intervenor discovery request, SPS performed an analysis of the requested PTYAs’ impact on SPS’s financial metrics.
39. SPS had not performed the analysis prior to being asked to do so in response to the Intervenor discovery request.
40. SPS’s analysis indicated that, without the requested PTYA, the Company’s EBITDA is projected to be higher than in any other year between 2010-2014.
41. SPS’s analysis indicated that, without the requested PTYA, the Company’s FFO/debt ratio is projected to be better than in any year between 2010-2013.
42. SPS’s analysis indicated that, without the requested PTYA, the Company’s FFO/interest ratio is projected to be better than any year between 2010-2013.
43. SPS’s analysis indicated that, without the requested PTYA, the Company’s debt-to-EBITDA ratio is projected to be the same as its 2013 ratio.
44. SPS’s analysis indicated that, without the requested PTYA, the Company’s leverage is projected to be better than any other year between 2010-2014.
45. SPS offered testimony at the hearing further indicating that its key financial metrics and ratios would be at least as good, if not better, than they have been in recent years regardless of whether its PTYA request was granted.
46. SPS currently has strong credit ratings.
47. SPS failed to meet its burden of proof to demonstrate that its “financial integrity” would be compromised absent the Commission granting its good cause exceptions to allow the requested PTYAs.

48. SPS also did not account for all attendant impacts associated with its proposed PTYA.

Operations & Maintenance Expenses

SPP and Other Transmission Charges and Revenue

49. SPS is both a transmission owner and a transmission customer in Southwest Power Pool (“SPP”), so it receives Schedule 11 revenues and pays Schedule 11 expenses.
50. In the Test Year, SPS paid \$54.6 million (total company) of Schedule 11 expenses, and it received \$60.8 million (total company) of Schedule 11 revenues.
51. SPS proposes to make an adjustment to its Schedule 11 expenses and revenues from the test year by replacing them with the annualized expenses and revenues reflected in SPP’s October 2014 Revenue Requirement and Rates (“RRR”) file.
52. A RRR file establishes Schedule 11 revenues and expenses a SPS will see for a period of time until SPP issues a new RRR file.
53. The October 2014 RRR file that SPS proposes to use was never in effect during the test year.
54. The October 2014 RRR file that SPS proposes to use will not be in effect when the rates from this case are in effect.
55. The October 2014 RRR file was replaced by a January 2015 RRR file, and the January 2015 RRR file was still in effect at the time of the hearing.
56. The January 2015 RRR file indicates a net Schedule 11 credit to SPS, while the October 2014 RRR file reflects a net Schedule 11 expense.
57. The amounts in the October 2014 RRR file do not reflect the economic conditions that are apt to prevail in the future.

58. The amounts in the January 2015 RRR file are more likely to reflect the economic conditions that are apt to prevail in the future than the amounts in the October 2014 RRR file.
59. SPS's proposal to replace the test-year Schedule 11 revenues and expenses with the Schedule 11 expenses reflected in the October 2014 RRR file is not a known and measurable adjustment.
60. It is not reasonable to use the October RRR file to calculate Schedule 11 expenses because that file neither reflects the amount of Schedule 11 expense that SPS paid in the test year, nor does it reflect the amount of Schedule 11 expense SPS will pay in the rate year.
61. SPS also proposes to adjust its Schedule 11 revenues and expenses upward to account for the FERC's ROE.
62. SPS's proposal would result in an increased costs to Texas consumers.
63. ROE is only one of the many jurisdictional differences between the calculation of revenue credits at FERC and Texas. SPS does not propose to make any adjustments for the other differences.
64. SPS's ROE adjustment is unfair to Texas consumers.
65. SPS has not met its burden of proof to show that its proposed Schedule 11 adjustments are reasonable and should be included in the cost of service.
66. The unadjusted test-year Schedule 11 revenues and expenses should be utilized.

II. Conclusions of Law

1. SPS has the burden of proving that the base rate change it is requesting is just and reasonable pursuant to PURA § 36.006.

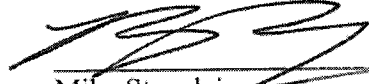
2. SPS has not met its burden of proving that any increase in rates is just and reasonable.
3. The evidence demonstrates that a revenue decrease, rather than an increase, is more appropriate.
4. Regarding the Golden Spread wholesale reduction, SPS has not met its burden of proving that the proposed adjustment to its test-year jurisdictional allocators is known and measurable.
5. SPS's request for PTYAs does not satisfy the requirements of 16 TAC § 25.231(c)(2)(F).
6. SPS has not demonstrated good cause for a waiver from 16 TAC § 25.231(c)(2)(F)(i)(II)'s requirement that "each addition" comprises at least 10% of the electric utility's request rate base, exclusive of post-test year adjustments and construction work in progress ("CWIP").
7. SPS has not demonstrated good cause for a waiver from the 16 TAC § 25.231(c)(2)(F)(ii)(I) requirement that the post-test year additions be included in rate base at the reasonable test- year end CWIP balance.
8. SPS has not met its burden of proving that its proposed adjustments to its Schedule 11 revenues and expenses are known and measurable.
9. SPS has not met its burden of proving that its proposed adjustments to its Schedule 11 revenues and expenses are just and reasonable.

III. Ordering Paragraphs

In accordance with these findings of fact and conclusions of law, the Commission issues the following orders:

1. The proposal for decision prepared by the SOAH ALJs is adopted to the extent consistent with this Order.
2. Within one week of the date this Order is signed, SPS shall file, in accordance with the Commission's filing requirements, a recalculation and revision of its tariff to comply with this Order.
3. Copies of all tariff-related filings shall be served on all parties of record.
4. All other motions, requests for entry of specific findings of fact and conclusions of law, and any other requests for general or specific relief, if not expressly granted, are denied.

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CERTIFICATE OF SERVICE

I, Adam Gray, Attorney for OPL, hereby certify that a copy of this document was served on all parties of record in this proceeding on this 7th day of August, 2015 by hand-delivery, facsimile, electronic mail and/or First Class, U.S. Mail, Postage Prepaid.