Southwestern Public Service Company

Attachment O - Transmission Formula Rate 2020 True-Up

Golden Spread Electric Cooperative, Inc. ("GSEC")

Western Farmers Electric Cooperative ("WFEC")

Response to December 6, 2021 Preliminary Challenges

December 20, 2021

SPS 2020 Transmission Formula Rate True-Up

Preliminary Challenge 1: Corrections for NOL (See SPS's response to GSEC-WFEC 2-1):

> Based on the information contained in SPS's response to GSEC-WFEC 2-1 and upon review of the December 1, 2021 Informational Filing (which contains the 2022 Projection), it appears that SPS has not reflected the correction of ($425,547) related to the retail NOL for the 2020 true up in that filing. SPS should revise its Informational Filing to reflect the ($425,547) adjustment that was agreed to in data response GSEC-WFEC 2-1.

SPS Response:

The correction of ($425,547) related to the Federal NOL Non-Plant ADIT beginning and ending balances included in the 2020 True-Up template referenced in SPS's response to GSEC-WFEC 2-1 was made in the October 1st posting of the 2020 True-Up template. The 2022 Projection was not posted or calculated prior to the October 1st posting so the original 2020 true-up amounts from the June 15th posting were never incorporated in the 2022 Projection. The corrected 2020 true-up amounts were included in the 2022 Projection posted on October 1st and have not changed or updated since this posting, therefore, the December 1st posting would not require an updated true-up amount.

Preliminary Challenge 2: Recovery of Regulatory Commission Expenses Related to FERC Docket No. ER19-675 – Distribution Formula Rate Proceeding (See SPS's response to GSEC-WFEC 3-2):

> GSEC and WFEC disagree with SPS's assertion that, because wholesale distribution service is provided for under its FERC-approved open access transmission tariff, all transmission customers should incur the costs related to the regulatory filings associated with that service. Costs and revenues associated with distribution voltage service are not within the transmission revenue requirement, they are entirely separate. Moreover, not all wholesale transmission customers take delivery of energy at delivery points that operate at distribution voltage and, therefore, should not have to bear the burden of those

> Regulatory Commission Expenses. Furthermore, at least with respect to GSEC, the settlement in Docket ER19-675 resulted in black box rates that were expressly fixed and cannot be changed through 2025. It would be contrary to the settlement to allow recovery of costs from GSEC above the black box rates by including the proposed recovery of the Regulatory Commission Expenses associated with that proceeding. Therefore, the total Regulatory Commission Expenses related to Docket ER19-675 of $119,573 (identified in response to GSEC-WFEC 3-1), which is currently 100% assigned to the transmission function, should be excluded from the transmission revenue requirement.

SPS Response:

Worksheet H (Table 28) of the SPS Transmission Formula Rate requires a binary decision as to whether regulatory commission expenses are associated with the transmission function as opposed to a non-transmission function. If the regulatory proceeding is related to the transmission function, then Worksheet H requires, as a first step, 100% assignment of the cost to "transmission" and then, in the second step, a subsequent allocation of the cost between retail and wholesale customers. There should be no question that SPS was obligated by Worksheet H to assign the expenses in question to transmission in the first step. The proceedings in Docket No. ER19-675-000 involved a filing to amend the transmission formula rate template and effected changes in the rates, terms, and conditions of existing NITSAs between SPS and network transmission service customers like GSEC. It is SPS's status as a Transmission Owner in SPP that obligates SPS to extend wholesale distribution rates, terms, and conditions to point-to-point and network transmission customers "as necessary to provide Point-To-Point Transmission Service or Network Integration Transmission Service." *See* SPP OATT, Schedule 10. Thus, the proceeding in Docket No. ER19-675-000 related to SPS's transmission function.

GSEC is mistaken in its inference that recovery of the regulatory commission expenses at issue would be inconsistent with the settlement in Docket No. ER19-675-000. The expenses are related to the transmission function and a part of SPS's cost-of-service of being a transmission owner in SPP. Furthermore, as a transmission customer, it is just and reasonable for GSEC to be allocated a portion of the costs through transmission rates.

With respect to WFEC's concern, Worksheet H does not permit a customer-specific direct assignment. Moreover, there is no support in FERC precedent for directly assigning regulatory commission expenses to individual customers. If the regulatory proceeding relates to transmission (as it does for this issue), then it is recoverable from all transmission customers. For example, even if neither GSEC nor WFEC took generator interconnection service involving SPS transmission facilities, the expenses for disputes between SPS and a generator interconnection customer would be recoverable as regulatory commission expenses from all transmission customers, including GSEC and WFEC. *Ameren Illinois Co*., 169 FERC ¶ 61,042 at P 32 (2019).

Preliminary Challenge 3: Treatment of Minimum Demand Revenue Collected from Customers (See SPS's response to GSEC-WFEC 3-4):

> Based on SPS's response to GSEC-WFEC 3-4, SPS collected ($527,735) from one retail customer in 2020 associated with a failure to meet contractual minimums. These revenues are to cover the customer's load which did not materialize and, therefore, was not in the loads that were used to compute transmission rates. Since the load did not materialize, the revenues reimbursing SPS for not achieving the minimum load should be used to offset transmission rates as revenue credits (typically recorded to Account 456 – Other Electric Revenues). SPS recognizes that the money collected should be revenue credited, but proposes to do so as a CIAC. As such, the revenue credit would not be reflected in the formula rate until a future rate period under SPS's approach. WFEC and GSEC believe the money collected, future money collected and any money historically received for contract minimums from retail customers should be revenue credited in the year received. This would match the resulting lower demand and energy revenues in the year such revenues were projected, and upon which the company plans its system.

SPS Response:

In principle, SPS does not agree with GSEC's and WFEC's position regarding the crediting of the $527,735 amount, but, upon further review, the issue is moot. After SPS sent its response to GSEC-WFEC 3-4, SPS discovered that the customer incurred the obligation for that amount due to its load in 2020, but SPS did not collect any part of that amount in 2020. SPS received the $527,735 amount from the customer in 2021. Therefore, even if SPS agreed with GSEC's and WFEC's position (and SPS does not), there is no basis for an associated revenue credit for the 2020 True-Up.