FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

In Reply Refer To:
Office of Enforcement
Docket No. PA13-14-000
July 21, 2015

Public Service Company of Colorado
Attention: Jeffrey Savage
Vice President and Controller
414 Nicollet Mall
Minneapolis, MN 55401

Dear Mr. Savage:

1. The Division of Audits and Accounting within the Office of Enforcement (OE) of the Federal Energy Regulatory Commission (Commission) has completed an audit of Public Service Company of Colorado (PSCo). The audit covered the period from January 1, 2010 through December 31, 2013.

2. The audit evaluated PSCo's compliance with requirements in the Xcel Joint Open Access Transmission Tariff (OATT), including tariff sheets with PSCo's formula rate (Attachment O – PSCo). Specifically, the audit evaluated whether PSCo complied with: (1) protocols and instructions for the various accounts incorporated in its formula rate and the related accounting regulations in the Uniform System of Accounts under 18 C.F.R. Part 101; (2) FERC Form No. 1 reporting requirements for Major Electric Utilities under 18 C.F.R. § 141.1; and (3) certain transmission procedures and transactions under the OATT. The enclosed audit report contains 13 findings and 32 recommendations that require PSCo to take corrective action.

3. On June 30, 2015, you notified DAA that PSCo agrees to all of the findings and recommendations in the accompanying audit. A copy of your verbatim response is included as an appendix to this report. I hereby approve the audit report.

4. PSCo should submit its implementation plan to comply with the recommendations within 30 days of this letter order. PSCo should make quarterly submissions to DAA describing the progress made to comply with the recommendations, including the completion date for each corrective action. As directed by the audit report, these submissions should be made no later than 30 days after the end of each calendar quarter,

beginning with the first quarter after this audit report is issued, and continuing until all the corrective actions are completed.

5. The Commission delegated the authority to act on this matter to the Director of OE under 18 C.F.R. § 375.311 (2015). This letter order constitutes final agency action. PSCo may file a request for rehearing with the Commission within 30 days of the date of this order under 18 C.F.R. § 385.713 (2015).

6. This letter order is without prejudice to the Commission's right to require hereafter any adjustments it may consider proper from additional information that may come to its attention. In addition, any instance of non-compliance not addressed herein or that may occur in the future may also be subject to investigation and appropriate remedies.

7. I appreciate the courtesies extended to the auditors. If you have any questions, please contact Mr. Bryan K. Craig, Director and Chief Accountant, Division of Audits and Accounting at (202) 502-8741.

Sincerely,

Larry R. Parkinson
Director
Office of Enforcement

Enclosure

Federal Energy Regulatory Commission
Office of Enforcement
Division of Audits and Accounting

FINAL AUDIT REPORT

Audit of Public Service Company of Colorado's Compliance with the Xcel Joint Open Access Transmission Tariff, including its Formula Rate Mechanism and Financial Accounting and Reporting Requirements

Docket No. PA13-14-000
July 21, 2015

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I. Executive Summary

A. Overview

The Division of Audits and Accounting (DAA) in the Office of Enforcement of the Federal Energy Regulatory Commission (Commission) has completed an audit of Public Service Company of Colorado (PSCo). The audit evaluated PSCo's compliance with requirements in the Xcel Joint Open Access Transmission Tariff (OATT), including tariff sheets with PSCo's formula rate (Attachment O - PSCo). Specifically, the audit also evaluated whether PSCo complied with: (1) protocols and instructions for the various accounts incorporated in its formula rate and the related accounting regulations in the Uniform System of Accounts under 18 C.F.R. Part 101; (2) FERC Form No. 1 reporting requirements for Major Electric Utilities under 18 C.F.R. § 141.1; and (3) certain transmission procedures and transactions under the OATT. The audit covered January 1, 2010 to December 31, 2013.

B. Xcel Energy Inc.

PSCo is a subsidiary of Xcel Energy Inc. (Xcel), an investor-owned electric and natural gas company with regulated operations in eight Midwestern and Western states (Colorado, Michigan, Minnesota, New Mexico, North Dakota, South Dakota, Texas, and Wisconsin). Based in Minneapolis, MN, Xcel conducts its operations through four wholly owned utility subsidiaries, including Northern States Power Company-Minnesota (NSP-Minnesota), Northern States Power Company-Wisconsin (NSP-Wisconsin), Southwestern Public Service Company (SPS), and PSCo. Xcel provides services to about 3.4 million electricity customers and 1.9 million natural gas customers.

Xcel Energy Services Inc. (XES), the service company for Xcel, provides these utilities and other subsidiaries within Xcel a variety of administrative, management, engineering, construction, and corporate support services.

C. Public Service Company of Colorado

PSCo is a vertically integrated operating utility engaged in electric generation and the purchase, transmission, distribution, and sale of electricity and natural gas. PSCo provides electric service to about 1.4 million retail customers in a service area comprising parts of Colorado, including the Denver metro area, and to a number of wholesale full-requirements customers in the state. The company also provides natural gas service to about 1.3 million customers in Colorado.

PSCo is not a member of a Regional Transmission Organization, and operates, controls, and maintains its system as a transmission provider. PSCo contracts with Open

Access Technology International, Inc. (OATI) to host its Open Access Same-Time Information System (OASIS). PSCo uses OASIS to offer available transfer capability (ATC) to its customers, and to post information required under 18 C.F.R. § 37.6, OASIS and 18 C.F.R. § 358, Standards of Conduct. PSCo provides transmission service under the Xcel Joint OATT, and recovers its transmission costs through a formula rate prescribed in Attachment O-PSCo of the OATT.

Until November 17, 2012, PSCo used a formula rate mechanism (OATT Attachment O) that relied upon a template populated with historical FERC Form No. 1 data to determine its NITS and PTP transmission service rates in OATT Schedules 7, 8, and 13. The Commission approved this formula in Docket No. ER04-1174-000.[1] The first rates under this formula were effective June 1, 2005, based on calendar year 2004 data. On April 20, 2012, under Docket No. ER12-1589-000, PSCo filed a revised Attachment O to calculate transmission rates based on forecasted data, with a true-up to actual data.[2]

D. Summary of Compliance Findings

Audit staff's compliance findings are summarized below. Details of these findings are in section IV of this report. Audit staff found 13 areas of noncompliance (eight relate to PSCo's formula rates and accounting practices, and five with its OATT):

Formula Rate Mechanism and Accounting

- *Common Plant Depreciation and Amortization Expense* - PSCo overstated common plant depreciation and amortization expense due to computational errors between 2004 and 2011. As a result of these errors, PSCo overbilled wholesale transmission and production customers by $244,024.

- *Revenues for Transmission of Electricity of Others* - PSCo understated the revenue credits used to reduce the revenue requirement of its transmission formula rate due to misreported customer information in the FERC Form No.1, Account 456.1, Transmission of Electricity for Others. As a result, PSCo overstated its revenue requirement by $105,146 and $199,253 in 2010 and 2011, respectively. This led to excess billings to wholesale transmission customers.

- *Accounting for Compromise Settlements* - PSCo incorrectly recorded a payment relating to an alleged employment discrimination settlement in

[1] *Order Accepting In Part And Rejecting In Part Tariff Revisions*, 115 ¶ 61,011 (2006).

[2] *Public Service Company of Colorado*, 139 FERC ¶ 61,223 (2012).

various above-the-line expense accounts rather than below-the-line expense accounts. This accounting resulted in PSCo overbilling wholesale transmission customers by $11,747.

- *Generator Interconnection Facilities* - PSCo's inclusion of costs associated with generation interconnection facilities was inconsistent with the protocols of its transmission formula rate mechanism. These protocols specifically state that generation interconnection facilities should be removed from its transmission formula rate. As a result, PSCo overbilled wholesale transmission customers by $1,601.

- *Allocation of Service Company Costs* - XES used an improper allocation methodology to assign shared costs for technical support, maintenance, and training related to information technology services to its jurisdictional operating companies from 2007 to 2012. Use of this allocation methodology overstated general and administrative costs assigned to its operating companies. For PSCo, it resulted in overbilling transmission customers $133,451 for the rates in effect in 2008 to 2012 and production customers $63,814 for the rates in effect from September 2011 to December 2012.

- *Transmission Plant Acquisition Adjustment* - PSCo recorded amounts above original costs, which represented a plant acquisition adjustment, in Account 101 rather than Account 114 for nearly two years prior to obtaining Commission approval to book such amounts in Account 114. As a result, PSCo recovered amounts prematurely from wholesale customers related to the acquisition adjustment.

- *Accounting for Donations* - PSCo incorrectly recorded a payment for a donation in Account 506 rather than Account 426.1. Since PSCo recorded this in a production operating expense account, it did not affect the transmission formula rate mechanism. However, this accounting affected PSCo's production formula rate mechanism and resulted in an $100,000 overstatement in the revenue requirement. This led to excess billings to wholesale production customers.

- *Direct Assignment of Interconnection Costs* - PSCo improperly billed costs associated with owning, operating, maintaining, repairing, and replacing interconnection facilities to its transmission customers through its formula rate mechanism instead of directly charging specific interconnection customers during the audit period.

Open Access Transmission Tariff

- *Procedures for Acts of Discretion* - PSCo did not maintain its compliance with a recommendation in a prior Commission audit report. This recommendation directed PSCo to implement written procedures to identify acts of discretion with respect to administering the Xcel OATT and post such acts of discretion appropriately. In light of this, PSCo did not have adequate procedures in place to identify acts of discretion that may have required a posting to OASIS.

- *Release of Non-Firm Available Transmission Capability* - PSCo inadvertently did not release unused Transmission Reliability Margin (TRM) as nonfirm ATC as specified in its OATT. This occurred periodically during the period October 2005 to January 2010. This error resulted from OATI automated software processes involving incorrect default settings for the TRM coefficient in the formulas used in the software to calculate and post available nonfirm ATC. PSCo discovered this error during an internal assessment in 2010 prior to the commencement of this audit, and corrected the software settings, but never filed a self-report or posted a notification on its OASIS to inform customers about these errors.

- *Customer Creditworthiness Reviews* - PSCo did not have sufficient procedures to ensure it accurately assessed creditworthiness of its transmission customers, as required by the OATT. As a result, PSCo made certain errors in its customer credit score calculations. Because these scores were used to set unsecured credit limits, this created risks that non-creditworthy customers would obtain unsecured credit and that creditworthy customers would not. An error like this could result in PSCo extending too much unsecured credit, improperly placing other transmission customers at risk, or PSCo granting insufficient unsecured credit, potentially improperly denying a creditworthy customer access to transmission services or unduly burdening a customer with unwarranted credit costs.

- *OASIS Posting Metrics* - PSCo did not post complete system impact and facilities study metrics on its public OASIS web site.

- *Record Retention Procedures* - PSCo did not have procedures in place sufficient to ensure certain records were retained for the periods prescribed by Commission regulations. Specifically, PSCo was unable to locate several transmission service applications and generator interconnection requests. Also, PSCo did not notify the Commission when it discovered records were destroyed or lost, as required.

E. Summary of Recommendations

This section summarizes audit staff's recommendations to remedy this report's findings. Audit staff's 32 compliance recommendations are summarized below and detailed in section IV. To address the areas of noncompliance, audit staff recommends that PSCo:

Common Plant Depreciation and Amortization Expense

1. Strengthen and ensure its procedures and controls for preparing and reviewing its FERC Form No. 1 to achieve accurate and error-free reporting.

2. Submit to DAA for review supporting computations and documentation for amounts affecting cost recoveries since the inception of its transmission and production formula rate mechanisms.

3. Prepare and file a refund analysis with the Commission and make appropriate refunds consistent with the provisions of its transmission and production formula rate mechanisms after it provides DAA the computations and documentation for review. For each year affected, make refunds and compute interest on over-collected amounts in accordance with 18 C.F.R. § 35.19a.

Revenues for Transmission of Electricity of Others

4. Strengthen its procedures and controls over the preparation and review of pages 328-330 of its FERC Form No. 1 to ensure revenue credit amounts associated to Account 456.1 are calculated and reflected accurately in the FERC Form No. 1 and transmission formula rate.

5. Train employees to ensure they fully understand the reporting requirements for the columns on pages 328-330 of the FERC Form No. 1 and the importance of this information in determining the revenue credits provided to customers in the transmission formula rate.

6. Perform a comprehensive study of the information reported on pages 328-330 of the FERC Form No. 1 to confirm the accuracy of customer information on these pages and revenue credits included in the transmission formula rate from 2005 to 2009. Submit the study to DAA along with the supporting calculations prior to making refunds.

7. Prepare and file a refund analysis with the Commission and make appropriate refunds consistent with the provisions of its transmission formula rate mechanism after it provides DAA the results of its study. For each year

affected, make refunds and compute interest on over-collected amounts in accordance with 18 C.F.R. § 35.19a.

Accounting for Compromise Settlements

8. Implement policies, procedures, and controls to ensure it records payments for legal settlements related to alleged discriminatory employment practices in Account 426.5.

9. Prepare and file a refund analysis with the Commission and make appropriate refunds consistent with the provisions of its production and transmission formula rate mechanisms. For each year affected, make refunds and compute interest on over-collected amounts in accordance with 18 C.F.R. § 35.19a.

Generator Interconnection Facilities

10. Strengthen procedures and controls to ensure generation interconnection facilities are excluded from recovery consistent with the protocols of PSCo's transmission formula rate.

11. Prepare and file a refund analysis with the Commission and make appropriate refunds consistent with the provisions of its transmission formula rate mechanism. For each year affected, make refunds and compute interest on over-collected amounts in accordance with 18 C.F.R. § 35.19a.

Allocation of Service Company Costs

12. Strengthen policies and procedures to ensure shared services are properly assigned to PSCo and other jurisdictional regulated operating companies.

13. Prepare and file a refund analysis with the Commission and make appropriate refunds consistent with the provisions of its transmission and production formula rate mechanisms. For each year affected, make refunds and compute interest on over-collected amounts in accordance with 18 C.F.R. § 35.19a.

Transmission Plant Acquisition Adjustment

14. Implement controls and processes to ensure it does not record acquisition adjustments in Account 101 or recover any acquisition adjustment from ratepayers prior to receiving Commission approval.

15. Prepare and file a refund analysis with the Commission to return the time value of monies collected prematurely from the applicable wholesale customers. For each year affected, compute interest on over-collected amounts in accordance with 18 C.F.R. § 35.19a and make refunds.

Accounting for Donations

16. Strengthen procedures and controls to ensure it records donations as nonoperating expenses in Account 426.1.

17. Prepare and file a refund analysis with the Commission and make appropriate refunds consistent with the provisions of its production formula rate mechanism. For each year affected, make refunds and compute interest on over-collected amounts in accordance with 18 C.F.R. § 35.19a.

Direct Assignment of Interconnection Costs

18. Strengthen and implement processes, procedures, and controls to appropriately track costs relating to owning, operating, maintaining, repairing, and replacing interconnection facilities and begin charging these costs to the appropriate interconnection customers.

19. Review the cost associated with generator interconnection facilities for the audit period to determine costs associated with owning, operating, maintaining, repairing, and replacing interconnection facilities that should have been directly charged, but were not for that period.

20. Prepare and file a refund analysis with the Commission and make appropriate refunds for the audit period for operating and maintenance expenses assignable to generator interconnection customers that were improperly recovered through the transmission formula rate mechanism. For each year affected, make refunds and compute interest on over-collected amounts in accordance with 18 C.F.R. § 35.19a.

Procedures for Acts of Discretion

21. Implement processes, procedures, and controls to ensure it maintains sustainable compliance with all recommendations in this and past audit reports, as well as any other requirements imposed by the Commission, on an ongoing basis.

22. Strengthen processes, procedures, and controls to reduce operator error in the granting of transmission requests when posted available ATC is insufficient.

Release of Non-Firm Available Transmission Capability

23. Strengthen policies and procedures for notifying transmission customers and the Commission about issues of noncompliance with its OATT in a timely manner.

24. Develop procedures to monitor and assess the ability of its OATI system to identify risks that threaten the data integrity of its operational system.

Customer Creditworthiness Reviews

25. Strengthen its processes, procedures, and controls to ensure it accurately assesses the creditworthiness of its transmission customers, as required by its OATT.

26. Ensure it retains support for its creditworthiness reviews so that these can be used internally for auditing of the process, as well as externally if questions arise from the customers.

27. Strengthen its internal controls conducted by Xcel's Regulatory Strategic Analysis (RSA) group to ensure that its conclusions are supported by sufficient and appropriate evidence.

OASIS Posting Metrics

28. Develop written processes and procedures related to updating complete and accurate transmission study metrics on a quarterly basis.

29. Post accurate and complete transmission study metrics, and make necessary updates to existing studies currently posted on the OASIS.

Record Retention Procedures

30. Review and update its recordkeeping policies and procedures to ensure records are retained for the periods prescribed.

31. Establish policies and procedures to ensure a filing is made with the Commission when the company has discovered records have been prematurely destroyed or lost.

32. Submit a filing to the Commission to report that records were prematurely destroyed or lost, as identified above in accordance with 18 C.F.R. Part 125.2(f).

F. Compliance and Implementation of Recommendations

Audit staff also requires PSCo to submit for DAA review the following:

- Plans for implementing audit staff's recommendations within 30 days of the issuance of this report.

- Copies of any written policies and procedures developed in response to recommendations in this report. They should be submitted for audit staff review in the first nonpublic quarterly filing after PSCo completes these documents.

- Quarterly reports describing PSCo's progress in completing and implementing corrective actions to address each recommendation in this report. PSCo should make these nonpublic quarterly submissions to DAA no later than 30 days after the end of each calendar quarter, beginning with the first quarter after the Commission issues this report, and continuing until PSCo completes all recommended corrective actions.

III. Introduction

A. Objectives

The audit evaluated PSCo's compliance with requirements in the Xcel Joint Open Access Transmission Tariff (OATT), including tariff sheets with PSCo's formula rate (Attachment O - PSCo). Specifically, the audit evaluated whether PSCo complied with: (1) protocols and instructions for the various accounts incorporated in its formula rate and the related accounting regulations in the Uniform System of Accounts under 18 C.F.R. Part 101; (2) FERC Form No. 1 reporting requirements for Major Electric Utilities under 18 C.F.R. § 141.1; and (3) certain transmission procedures and transactions under the OATT. The audit covered January 1, 2010 to December 31, 2013.

B. Scope and Methodology

To facilitate testing and evaluation of PSCo's compliance with the terms and conditions of the Xcel OATT, including tariff sheets with the transmission formula rate mechanism, audit staff performed these general actions:

- *Review of Public Information* - Reviewed publicly available materials to get a broad understanding of PSCo's corporate structure and its affiliates, regulatory actions and history, system infrastructure and operations, tariff procedures and services, wholesale energy transactions, formula rate protocols and calculation, and other pertinent business and regulatory aspects before commencing the audit on February 28, 2013.

- *Standards and Criteria* - Identified standards and criteria used to evaluate compliance in each audit scope area. This evaluation also included a review of PSCo's tariff and related filings to understand procedures, services, and rate mechanisms approved under its FERC tariff on file with the Commission. Also, reviewed Commission financial accounting and reporting requirements and other Commission orders relevant to the audit.

- *Data Collection and Data Requests* - Issued four formal data requests, supplemental site visit informational requests, and numerous emails with questions and requests for clarification to collect information necessary to support compliance tests and evaluation of compliance.

- *Site Visits* - Conducted three site visits to PSCo, outlined below, for testing in audit scope areas.

  - *Initial Site Visit* - Conducted the first site visit in May 2013 to observe and learn about PSCo's business practices, procedures, and internal controls related to audit objectives. The initial site visit also provided an opportunity for audit staff to identify PSCo's subject-matter experts for interviewing and data gathering, as well as determine pertinent documents and data to request for testing.

  - *Second Site Visit* - Conducted a second site visit in September 2013 to discuss audit risk areas and collect supporting evidence for audit staff's conclusions on compliance in specific audit areas.

  - *Third Site Visit* - Conducted a third site visit in February 2014 to discuss potential findings and conduct certain compliance tests.

- *Formula Rate Overview* - Facilitated a meeting at FERC between PSCo and audit staff in June 2013. PSCo provided a comprehensive overview of its transmission formula rate, clarified details about unique formula rate inputs, and facilitated audit staff's reconciliation of transmission formula rate inputs derived from the FERC Form No. 1 to its books and records.

- *Interviews and Teleconferences* - Conducted regular phone interviews and teleconferences to clarify and understand company policies, practices, and procedures relevant to the audit.

- *External Auditor Working Papers* - Reviewed PSCo's external auditor, Deloitte & Touche LLP (Deloitte), working papers for PSCo's financial reporting in the FERC Form No. 1 and relevant accounting to substantiate audit staff's testing in these areas.

- *Interoffice Outreach* - Conferred with Commission staff from other divisions within the Office of Enforcement, and with technical and legal staff from other Commission offices, including the Office of Energy Market Regulation.

Compliance with PSCo's Transmission Formula Rate

Audit staff performed these actions to evaluate PSCo's compliance within the requirements of its transmission formula rate:

- *Formula Rate Schedules* - Reviewed Commission-accepted formula rate schedules and/or tariffs in effect for PSCo as reported on page 106 of PSCo's FERC Form No. 1.

- *Commission Orders* - Reviewed initial and subsequent Commission orders accepting PSCo's transmission formula rate, including orders approving related settlements and PSCo filings to determine the level of functionalization, derivation of allocation factors, return on equity, rate base, accumulated depreciation, and other expenses. Reviewed Commission orders for background information about specific cost treatments, unique inputs (such as radial lines and meter charges), deferrals, cost caps, disallowances, and other matters disclosed as part of approving the derivation of PSCo's transmission formula rate.

- *Formula Rate Procedures* - Evaluated PSCo's processes, procedures, and controls used for preparing and reviewing cost statements supporting the annual transmission formula rate and true-up informational filings. Reviewed formula rate mechanics, such as historical, true-up, and informational ad hoc filings associated with PSCo's transmission formula rate. Reviewed PSCo's tariff and its Attachment O to determine what services were rendered under the tariff. Validated its review by obtaining a written description and overview from PSCo of the services rendered under the tariff.

- *Formula Rate Reconciliation* - Reconciled the transmission formula rate inputs derived from the FERC Form No. 1. Evaluated PSCo's compliance with USofA for the inputs under review, including all related guidance and accounting releases. Audit staff analyzed and assessed PSCo's accounting treatment of input items. Reviewed the support behind allocation factors used in the transmission formula rate to ensure the correct amounts were used in the calculations.

Compliance with Accounting Regulations under the USofA

- *Accounting Process and Procedures* - Evaluated PSCo's financial accounting processes, procedures, and internal controls used to comply with Commission financial accounting regulations under Part 101. Audit staff interviewed PSCo employees about accounting practices, reviewed system processes for account assignments, and observed controls for achieving compliance with the USofA.

- *Accounting Applications and Classifications* - Evaluated PSCo's chart of accounts used during the audit period to determine if it was consistent with the USofA. Reviewed descriptions of accounting practices and examples for specified accounts for sample months with supporting material, and evaluated quality controls to ensure its application complied with the USofA.

- *Accounting Systems* - Reviewed PSCo's financial accounting systems used to manage company financial records, such as systems for recording and tracking PSCo's costs, including the general ledger, work orders, expense and billing systems, and accounts payable. Reviewed practices and procedures around the accounting cycle for charges and their mapping of charges to FERC accounts.

- *Employee Time Tracking System* - Evaluated PSCo's employee time-tracking system and internal controls, such as management reviews and budget variance procedures for employee time, and reviewed select time reports illustrating time charges to business units and classification of work.

- *Project Tracking System* - Reviewed project tracking procedures for a project's life cycle, procurement, selection of cost allocators, tracking and billing of costs to affiliated companies, and system work order removal procedures.

- *Significant Accounting Matters* - Tested select accounts impacting the transmission formula rate to ensure the nature of costs recorded in those accounts complied with the USofA instructions. For example, audit staff performed select testing of these accounting matters:

    - *Transmission vs. Distribution* - Reviewed certain transmission operating and maintenance accounts to ensure costs related to transmission and no other functional expense accounts, such as distribution or production.

    - *Administrative and General Expenses* - Tested select 900 series accounts to determine whether PSCo recorded salaries, office supplies, outside services (e.g. consultant fees), and other administrative and general expenses consistent with account instructions.

    - *Nonoperating Expenses* - Examined summaries for above-the-line accounts to ensure PSCo did not record nonoperating expenses, such as political and charitable contributions in these accounts. Examined the accounting for expenses for employment practices that judicial or administrative decree found to be discriminatory to verify PSCo recorded these activities to the proper nonoperating expense account consistent with Commission policy.

    - *Cost Allocations* - Examined support and tested the corporate and associated company allocation methodologies for recording shared service costs between affiliates, and billing and accounting of non-power goods and services provided amongst associated companies. For example, audit staff reviewed cost centers' shared-service allocation ratios and tested select cost centers to ensure PSCo allocated and accounted for shared services correctly. Also reviewed affiliate billing procedures and select invoices to verify PSCo recorded the proper amounts.

- *Accumulated Deferred Income Taxes* - Reviewed a monthly summary of deferred taxes that flowed into the rate base component of the transmission formula rate. Analyzed supporting documentation to verify how PSCo calculated the deferred tax component and underlying accounting entries made to FERC deferred tax accounts (e.g. 190, 282, and 283). Evaluated PSCo's method for associating depreciation on property and allocating percentages, its liberalized depreciation of Accounts 282 and 283, and the accounting impact relating to depreciation and recognition of income for select divested assets.

- *Income Taxes and Tax Allocation Agreements* - Evaluated PSCo's consolidated income tax allocation share agreement and the tax payment structure between PSCo and Xcel, including the methodology used to allocate the tax benefits/burden. Reviewed supporting documentation to validate the calculation of tax accruals and deferred income taxes. Reviewed discrepancies found between deductions taken on PSCo's books and the Schedule M-1 of PSCo's Federal income tax return, which could affect the rate base adjustment worksheet of the transmission formula rate.

- *Hedging Activities and Unrealized Gains/Losses* - Reviewed PSCo's derivative instruments and hedging activities resulting in unrealized gains and losses and how these amounts factored into its rate of return for ratemaking and AFUDC purposes, and supporting journal entries to verify amounts were recorded consistent with Commission regulations.

- *Depreciation* - Evaluated PSCo's monthly depreciation and amortization expense and supporting calculations to verify it used the proper accounts and recorded the correct amounts. Reviewed PSCo's depreciation expense calculation to ensure it derived monthly depreciation expenses using approved depreciation rates on file with the Commission.

- *Pensions* - Reviewed descriptions of PSCo's four active pension plans, policies, procedures, and guidelines; internal controls to prevent cross subsidization; and the types of investments held in its pension plans. Examined journal entries for pension expenses, funding, and liabilities to ensure it charged the appropriate accounts. Also evaluated PSCo's rate-recovery mechanism to determine how PSCo funded its pension plans, and the methodology PSCo used to recover pension costs through rates.

- *Asset Retirement Obligations* - Reviewed PSCo's accounting treatment for costs recorded in select 300 series or plant-in-service accounts relating to AROs for compliance with Commission accounting regulations. Evaluated PSCo's valuation methodology used to record each ARO to ensure it recorded depreciation and accretion expense properly and did not recover those amounts in wholesale rates. Reconciled the FERC Form No. 1 totals for ARO accounts as compared to those in the FERC Form No. 1 footnotes.

- *Contingent Liabilities* - Reviewed the Notes to Financial Statements in the FERC Form No. 1s and identified information about accruals for potential future obligations. Analyzed information on commitments, environmental contingencies, and legal contingencies, and assessed whether these amounts affected wholesale rates.

- *Sale or Retirement of Business Assets* - Evaluated gains and losses resulting from the disposition of assets in Account 421.1, Gain on Disposition of Property, and reconciled the book depreciation and retirement amounts reported in the FERC Form No. 1 for assets in certain tax classes.

- *Subsidiary Accounting* - Reviewed the FERC Form No. 1, materials PSCo provided, and publicly available information to determine whether PSCo controlled any wholly owned subsidiaries and applied the equity method or consolidated method of accounting for subsidiary investments.

- *AFUDC* - Reviewed PSCo's AFUDC rate calculation for consistent application with Electric Plant Instruction No. 3. Validated PSCo's methodology for determining the annual AFUDC rate to ensure it was based upon its own debt and equity book balances and did not exceed 25 basis points. Reviewed work orders to confirm PSCo ceased accruing AFUDC upon in-service date, periods of suspension, and abandonment. Examined the construction base component of its AFUDC accrual calculation to ensure it included amounts relating to construction activities and properly allocated overheads.

Compliance with FERC Form No. 1 Reporting Requirements

- *Reporting Process and Procedures* - Audit staff evaluated PSCo's financial reporting processes, procedures, and quality controls used to prepare the FERC Form No. 1 and comply with Commission regulations in Part 141.

- *Financial Reporting Instructions* - Audit staff evaluated PSCo's financial reporting to determine whether it complied with the account and page instructions of the FERC Form No. 1.

- *Financial Statement Account Balances* - Audit staff tied the account balances reported in the FERC Form No. 1 to PSCo's books and records. To facilitate the review, audit staff reviewed selected transactions to confirm the balances.

- *Account Variance Analysis* - Audit staff performed variance analyses for accounts reported in the FERC Form No. 1 with large balances, unusual activity, and/or significant fluctuations.

- *Notes to Financial Statements* - Audit staff reviewed the Notes to Financial Statements beginning on page 122 of the FERC Form No. 1 for significant accounting matters, and followed up on these matters to understand financial statement and formula rate implications.

Open Access Transmission Tariff

Audit staff performed these actions to evaluate PSCo's compliance with the terms and conditions of the Xcel OATT and transmission formula rate mechanism:

- *Changes/ Updates to the OATT* - Reviewed instances where the Xcel OATT differed from the pro forma OATT and Commission approvals for these differences. Audit staff determined whether PSCo received waivers from any provisions of the Xcel OATT by conducting research on the Commission's e-Library database and conducting interviews with PSCo's staff.

- *Accessibility of Service* - Examined Network Integrated Transmission Service (NITS) and Point to Point (PTP) transmission service requests to verify PSCo approved or denied transmission service on a non-discriminatory basis in accordance with its OATT. Evaluated approved network transmission service requests to confirm they contained the required information for a completed application. Evaluated whether PSCo processed deficient applications in accordance with the Xcel OATT.

- *Use of Network Service* - Evaluated PSCo's use of network transmission service and secondary network service to ensure it consistently used the network transmission service to deliver energy to serve its native load customers in accordance with the OATT requirements.

- *Informational Reporting* - Examined the requests and use of designated network resources to ensure these resources met the qualifications and operating requirements under the OATT. Reviewed network resource termination and re-designation requests to ensure PSCo verified all required information before accepting and posting it on OASIS. Reviewed whether PSCo properly adjusted transmission capacity available to the market.

- *Application procedures* - Reviewed completed applications to determine whether PSCo had documented and approved all designated network resources (both generator and purchased power contracts) to support capacity set-aside to serve native load. Determined whether PSCo posted a list of its network resources on OASIS and whether that list contained all required information.

- *Transactional Reporting* - Reviewed the Electric Quarterly Report (EQR) to ensure PSCo consistently and accurately reported transmission capacity reassignment agreements and transactions. Audit staff also reviewed a sample of transmission service curtailments to verify PSCo reduced each affected transmission customer's service in response to a transmission transfer capability shortage on a non-discriminatory basis according to the OATT.

- *Creditworthiness Evaluation* - Evaluated the process PSCo used to evaluate potential transmission customers' creditworthiness to ensure it applied the procedures specified in OATT Attachment Q - Creditworthiness Procedures. As a part of this evaluation, audit staff selected a sample of customers deemed non-creditworthy based on standards previously set by the company to ensure PSCo denied applicants' credit in accordance with Attachment Q.

- *Generator Interconnections* - Selected and reviewed a sample of generator interconnection request postings on OASIS to verify PSCo complied with interconnection procedures in Attachments O and P of the OATT. This review encompassed an analysis of posted generation interconnection requests where audit staff walked through each of the protocols listed in the tariff, such as interconnection metering and capacity of small generators, to ensure the appropriate information was posted in a timely and accurate manner.

- *OATT Requirements* - Reviewed the policies and procedures PSCo uses to grant ATC to determine if it followed the protocols outlined in its OATT. This review evaluated the circumstances of select energy transactions where ATC was granted or not released.

- *Informational Postings* - Audit staff also reviewed transmission information and data posted on OASIS to verify it met the Commission's posting requirements under 18 C.F.R. Parts 37.6 and 358.

FERC Regulatory Compliance Program

Besides these actions, audit staff reviewed PSCo's FERC regulatory compliance program, focusing on audit scope areas for consistency with the criteria in the Commission's Order on Enforcement of Statutes, Orders, Rules, and Regulations.[3]

- *Compliance Programs* - Reviewed the structure and staffing of PSCo's compliance program, compliance managers' authority and responsibilities, and those managers' reporting relationship with senior executives. Evaluated the program's effectiveness and independence from operating units performing jurisdictional functions.

- *Internal Audits* - Evaluated the structure of the Internal Audit department, its place in the corporate structure, and its access to the Board of Directors to assess its effectiveness and independence. Reviewed internal audit reports to identify compliance issues relevant to Commission regulatory oversight authority, and the actions and corrective measures taken to resolve them.

- *Interviews on compliance* - Interviewed compliance program officials, including the Director of Regulatory Administration and Compliance, Director of Revenue Analysis, and Director of Financial Reporting and Technical Accounting about procedures for overseeing PSCo's operations and ensuring compliance with Commission policies and regulations.

- *Standards and Procedures* - Examined PSCo's standards, procedures, and controls it used to promote compliance with Commission orders and regulations, methods used to communicate compliance procedures to employees, actions taken to monitor and enforce PSCo's compliance program, and actions taken after violations are detected.

- *Review of procedures* - Evaluated compliance procedures and controls in audit scope areas to determine if they adequately ensured compliance with FERC policies and regulations. Evaluated whether areas of noncompliance could have been reduced by more effective compliance procedures, controls, and oversight.

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[3] *Enforcement of Statutes, Rules, and Regulations, Revised Policy Statement on Penalty Guidelines*, 132 FERC ¶ 61,216 (2010).

IV. Findings and Recommendations

A. Formula Rate Mechanism

1. Common Plant Depreciation and Amortization Expense

PSCo overstated common plant depreciation and amortization expense due to computational errors between 2004 and 2011. As a result of these errors, PSCo overbilled wholesale transmission and production customers by $244,024.

Pertinent Guidance

18 C.F.R. Section 141.1, FERC Form No. 1, Annual report of Major electric utilities, licensees and others, states, in part:

> (b) (1) Each Major and each Nonoperating…electric utility…having sales or transmission service equal to Major as defined above, must prepare and file electronically with the Commission the FERC Form 1 pursuant to the General Instructions as provided in that form.

The FERC Form No. 1 has specific reporting instructions for preparation of individual schedules and pages of the report. Specifically, pages 336 and 356 contain instructions for the reporting of common plant amortization and depreciation expense. These instructions state:

FERC Form No. 1, schedule on page 336, Depreciation and Amortization of Electric Plant (Account 403, 404, 405). The schedule instructions state in part:

> 1. Report in section A for the year the amounts for: (b) Depreciation Expense (Account 403; (c) Depreciation Expense for Asset Retirement Costs (Account 403.1; (d) Amortization of Limited-Term Electric Plant (Account 404); and (e) Amortization of Other Electric Plant (Account 405).

FERC Form No. 1 schedule on page 356, Common Utility Plant and Expenses. The schedule instructions state in part:

> 3. Give for the year the expenses of operation, maintenance, rents, depreciation, and amortization for common utility plant classified by accounts as provided by the Uniform System of Accounts. Show the allocation of such expenses to the departments using the common utility plant to which such expenses are related. Explain the basis of allocation used and give the factors of allocation.

Background

Audit staff tested the accuracy of depreciation and amortization expenses in the transmission and production formula rate mechanisms. Audit staff found that PSCo overstated common plant amortization and depreciation expense in both formula rate mechanisms, which resulted in excess billings to customers for the period 2005 to 2011. The overstatement of amortization expense affected the transmission and production formula rate, while the overstatement of depreciation expense impacted the transmission formula rate only. PSCo's transmission and production formula rate mechanisms became effective in 2005 and 2011, respectively.

Amortization Expense

In the FERC Form No. 1, page 356, PSCo improperly computed common plant amortization expense for Account 404 from 2004 to 2011. This computational error resulted in PSCo overstating common plant amortization expense in its FERC Form No. 1, which flows into the transmission formula rate. In its transmission formula rate, PSCo used a labor allocator to determine the amount of common plant amortization expense attributed to transmission. In total, PSCo overstated common plant amortization expense by $23,599,858 for the period 2004 to 2011. Applying the labor allocation factor against this amount this resulted in $223,679 in excess billings to wholesale transmission customers. PSCo explained the error occurred because it inadvertently included total electric plant in the common plant amortization expense balance on page 356. By doing this, PSCo improperly inflated the amount of common plant amortization expense included in the formula rate account input. Although, PSCo corrected this error before the audit began, it did not fix the rate impact.

This same error also improperly increased formula rate billings to wholesale production customers. As mentioned above, PSCo distributed common plant amortization expense to different utility functions using a labor allocator in its formula rate. The application of the labor allocator against common plant amortization expense overstated amortization expense by $739,469 in the production formula rate. This resulted in about $15,634 in excess billings to wholesale production customers. This error only affected the production formula rate from September 1, 2011 to December 31, 2011 as the formula rate did not become effective until September 1, 2011.

Depreciation Expenses

In the FERC Form No. 1, pages 336 and 337, Depreciation and Amortization of Electric Plant, PSCo reported a total of $17,059,740 in common depreciation expense and $17,830,863 in common amortization expense. The amounts listed on these pages were used to populate the depreciation and amortization schedule on page 356 of the FERC Form No. 1, which is used as the input to the transmission formula rate. During the process of transferring the amounts from pages 336 and 337 to page 356 of the FERC Form No. 1, PSCo incorrectly recorded the amortization expense as the depreciation expense, thus overstating depreciation expense by $771,124 ($17,830,863 - $17,059,740). This resulted in about $4,711 in excess billings to wholesale transmission customers.

Audit staff believes these errors indicate the need for PSCo to strengthen its procedures and controls for preparing the FERC Form No. 1. PSCo explained it has implemented new procedures and controls for page 356 of the FERC Form No. 1. PSCo stated these procedures and controls will ensure common depreciation and amortization expense agree to PSCo's general ledger (JDEdwards) and subledger (PowerPlant) systems. PSCo's new procedures also require the preparer and reviewer to sign off and date upon completing this page of the FERC Form No. 1.

Recommendations

We recommend PSCo:

1. Strengthen and ensure its procedures and controls for preparing and reviewing its FERC Form No. 1 to achieve accurate and error-free reporting.

2. Submit to DAA for review supporting computations and documentation for amounts affecting cost recoveries since the inception of its transmission and production formula rate mechanisms.

3. Prepare and file a refund analysis with the Commission and make refunds consistent with the provisions of its transmission and production formula rate mechanisms after it provides DAA the computations and documentation for review. For each year affected, make refunds and compute interest on over-collected amounts in accordance with 18 C.F.R. § 35.19a.

2. Revenues for Transmission of Electricity of Others

PSCo understated the revenue credits used to reduce the revenue requirement of its transmission formula rate due to misreported customer information in the FERC Form No. 1, Account 456.1, Transmission of Electricity for Others. As a result, PSCo overstated its revenue requirement by $105,146 and $199,253 in 2010 and 2011, respectively. This led to excess billings to wholesale transmission customers.

Pertinent Guidance

The FERC Form No. 1 has specific reporting instructions for preparation of individual schedules and pages of the report. Specifically, pages 328-330 for Account 456.1, Transmission of Electricity for Others, contains the specific instructions:

1. Report all transmission of electricity, i.e., wheeling, provided for other electric utilities, cooperatives, other public authorities, qualifying facilities, non-traditional utility suppliers and ultimate customers for the quarter.

2. Use a separate line of data for each distinct type of transmission service involving entities listed in column (a), (b), and (c).

3. Report in column (a) the company or public authority that paid for the transmission service. Report in column (b) the company or public authority that the energy was received from and in column (c) the company or public authority that the energy was delivered to.

4. In column (d) enter a statistical classification code based on the original contractual terms and conditions of the service (e.g. FNO-Firm Network Service for Others, LFP-Long Term Point to Point Transmission).

9. In column (k) through (n), report the revenue amounts as shown on bills or vouchers. In column (k) provide revenues from demand charges related to the billing demand reporting in column (h). In column (l) provide revenues from energy charges related to the amount of energy transferred. In column (m) provide the total revenues from all other charges on bills or vouchers rendered, including of period adjustments.

Xcel's OATT has specific instructions and schedules associated to transmission revenue credits. Specifically:

Principle G. of Appendix 1 to Attachment O of the Xcel OATT states, in part:

2. The formula shall assure that revenue credits are made for all transmission revenues associated with transmission loads that are not otherwise included in the Divisor. Such revenues shall be identified on a workpaper which shall also indicate how the revenue credit has been made in application of the formula.

PSCo's Attachment O of the Xcel OATT, Formula Rate Template, Lines 3, Account No. 456.1 (page 4, line 37) (Note T and U) states:

> Note T - The revenue credited on page 1 lines 2-5 shall include only the amounts received directly (in the case of grandfathered agreements) or from the ISO (for service under this tariff) reflecting the Transmission Owner's integrated facilities. They do not include revenues associated with FERC annual charges, gross receipts taxes, ancillary services, facilities not included in this template (e.g. direct assignment facilities and GSUs) which are not covered under this rate formula template. Directly assign amounts related to the transmission facilities included herein.
>
> Note U - Account 456.1 entry shall be the annual total of the quarterly values reported at the Form 1, 330.x.n.

Background

Audit staff reviewed PSCo’s Attachment O - Transmission Formula Rate Update, as filed under the Xcel OATT that it prepared using data from the 2010 and 2011 FERC Forms No. 1. Audit staff reconciled Account 456.1 on Lines 3 and 35 of its formula rate template to pages 328-330 of its FERC Form No. 1. In performing this reconciliation, audit staff identified several errors with individual transmission customers’ data reported in Account 456.1 on pages 328-330 of the FERC Form No. 1. The errors represented misclassification of amounts between customers, misclassification of service types (i.e. non-firm, firm, point-to-point) or charges (energy, demand, or other) for specific customers, and other information. As a result of these errors, PSCo understated revenue credits included in the transmission formula rate for Account 456.1, which in turn increased the total transmission revenue requirement resulting in excess billings of \$199,253 (2011) and \$105,146 (2010) to wholesale transmission customers.

Audit staff conducted interviews and requested data about PSCo’s revenue credit policies, procedures and activities. During the course of responding to audit staff’s request, PSCo began to review its revenue credit practices more closely. PSCo’s review determined it understated the revenue credits in its transmission formula rate for 2011 by \$199,253. This understatement resulted in an overstatement of total revenue requirement in its transmission formula rate by the same amount. Audit staff reviewed and agreed with PSCo’s recalculation.

Given this occurred prior to the audit, audit staff reviewed 2010 FERC Form No. 1 and transmission formula rate revenue credit inputs for similar errors. This review also determined that PSCo understated the revenue credit amount in its transmission formula rate by $105,146 in 2010. PSCo stated it would make refunds plus interest in the 2014 formula rate true-ups relating to the 2010 and 2011 formula rate years. While PSCo made refunds for the 2011 errors, it did not make similar refunds for the 2010 errors in its 2014 transmission formula rate update filing. PSCo stated it would make these refunds in its 2015 transmission formula rate update filing.

Based on its findings from 2010 and 2011, PSCo reviewed the factors primarily contributing to the revenue credit errors in the transmission formula rate template for 2008 and 2009. PSCo stated it reviewed these years for errors similar to those discovered in 2010 and 2011 formula rate calculations. PSCo stated its review did not identify material errors similar to those found in 2010 and 2011. In regards to periods subsequent to 2011, this error did not occur because PSCo implemented controls over its accounting and preparation of its FERC Form No. 1 as a result of the concern raised by its transmission customers, which prompted PSCo to review its revenue credits.

Recommendations

We recommend PSCo:

4. Strengthen its procedures and controls over the preparation and review of pages 328-330 of its FERC Form No. 1 to ensure revenue credit amounts associated to Account 456.1 are calculated and reflected accurately in the FERC Form No. 1 and transmission formula rate.

5. Train employees to ensure they fully understand the reporting requirements for the columns on pages 328-330 of the FERC Form No. 1 and the importance of this information in determining the revenue credits provided to customers in the transmission formula rate.

6. Perform a comprehensive study of the information reported on pages 328-330 of the FERC Form No. 1 to confirm the accuracy of customer information on these pages and revenue credits included in the transmission formula rate from 2005 to 2009. Submit the study to DAA, along with the supporting calculations prior to making refunds.

7. Prepare and file a refund analysis with the Commission and make refunds consistent with the provisions of its transmission formula rate mechanism after it provides DAA the results of its study. For each year affected, make refunds and compute interest on over-collected amounts in accordance with 18 C.F.R. § 35.19a.

3. Accounting for Compromise Settlements

PSCo incorrectly recorded a payment relating to an alleged employment discrimination settlement in various above-the-line expense accounts rather than below-the-line expense accounts. This accounting resulted in PSCo overbilling wholesale transmission customers by $11,747.

Pertinent Guidance

Accounting Release 12 (AR-12),[4] effective February 1, 1980, requires companies to classify in Account 426.5 expenses "resulting from employment practices that were found to be discriminatory by a judicial or administrative decree or that were the result of a compromise settlement or consent decree."[5] AR-12 states:

> The Commission's Uniform System of Accounts provides that all charges to utility operating expense accounts must be just and reasonable. Expenditures of the nature mentioned above that can be readily identified and quantified should not be considered as just and reasonable charges to utility operations and should be classified to the appropriate nonoperating expense accounts. Types of expenditures usually related to discriminatory employment practices may include, but are not limited to, the following:
>
> 1. Fines or penalties related to judicial or administrative decree imposed by governmental authorities,
>
> 2. Legal fees reimbursed to the plaintiffs,
>
> 3. In-house and outside legal costs in unsuccessful defense against charges of discriminatory practices,
>
> 4. Damage awards to plaintiffs,

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[4] Accounting releases are informal interpretations of the Uniform System of Accounts (USofA) to be followed in the absence of specific reference to prescribed accounting regulations and other Commission decisions. These interpretations express the views of the Chief Accountant as to the correct application of the provision of the USofA that the Commission has prescribed. As provided for in General Instruction No. 5 in the USofA, these interpretations do not preclude any company from submitting questions of doubtful interpretations to the Commission on matters dealt with in accounting releases.

[5] Accounting Release AR-12, Discriminatory Employment Practices (Feb. 1, 1980), available at www.ferc.gov/legal/acct-matts/docs/ar-12.asp.

5. Duplicate labor cost such as back pay, bonus, or other pay awards to plaintiffs where other employees have already been paid by the utility for prior services, and

6. Cost of reporting, training and recruiting undertaken as a result of a court order, administrative decree or settlement which are in addition to those which otherwise would be incurred to assure continuing equal employment opportunity.

7. Fines or penalties are to be recorded in Account 426.3, and all other costs are to be recorded in Account 426.5, Other deductions.

18 C.F.R. Part 101, Account 426.5, Other Deductions, states;

This account shall include other miscellaneous expenses which are nonoperating in nature, but which are properly deductible before determining total income before interest charges. The special instructions for the Account 426 series of accounts states, “the classification of expenses as nonoperating and their inclusion in these accounts is for accounting purposes. It does not preclude Commission consideration of proof to the contrary for ratemaking or other purposes.”

Background

Audit staff reviewed PSCO’s accounting for formal judgments, fines, and penalties associated with discriminatory employment practices for the audit period to evaluate compliance with the Commission’s AR-12 requirements. This accounting release requires companies to record payments made for discriminatory employment practices determined by judicial or administrative decree or the result of a compromise settlement or consent decree as a nonoperating expense in a below-the-line account.

PSCo settled cases relating to alleged employment discrimination, harassment, and retaliation with the Equal Employment Opportunity Commission from 2010-2012 totaling $200,005. Of this amount, PSCo recorded $167,625 in Account 925, Injuries and Damages; $19,765 in Account 920, Administrative and General Salaries; and $12,615 in Account 903, Customer Records and Collection Expenses. These accounts are above-the-line accounts and operating in nature. AR-12 requires the use of Account 426.5, a below-the-line account, to record expenses relating to alleged employment discrimination that were the result of a compromise settlement or consent decree. Accordingly, PSCo should have recorded these settlement costs in Account 426.5, rather than Accounts 903, 920, and 924.

PSCo included the amounts recorded in Account 920 and 925, totaling $187,390, in PSCo's transmission formula rate mechanism. PSCo recorded the remaining costs in Account 903, which did not factor into PSCo's transmission formula rate mechanism. The incorrect accounting overstated the total revenue requirement in PSCo's transmission formula rate in 2010 and 2011. As a result of this overstatement, PSCo overbilled wholesale transmission customers $11,747 since its transmission formula does not include amounts recorded in Account 426.5. This accounting could also affect production formula rate customers. PSCo should review the accounting and rate implications and make appropriate adjustments.

PSCo explained that it was unaware of the Commission's AR-12 guidance. To address this, PSCo implemented a process to identify matters related to employment discrimination to ensure it accounts for these costs consistently with AR-12. PSCo's process requires them to track all costs from the beginning of each case and meet quarterly to discuss and agree upon settlement costs and accounting treatment.

Recommendations

We recommend PSCo:

8. Implement policies, procedures, and controls to ensure it records payments for legal settlements related to alleged discriminatory employment practices in Account 426.5.

9. Prepare and file a refund analysis with the Commission and make refunds consistent with the provisions of its production and transmission formula rate mechanisms. For each year affected, make refunds and compute interest on over-collected amounts in accordance with 18 C.F.R. § 35.19a.

4. Generator Interconnection Facilities

PSCo's inclusion of costs associated with generation interconnection facilities was inconsistent with the protocols of its transmission formula rate mechanism. These protocols specifically state that generation interconnection facilities should be removed from its transmission formula rate. As a result, PSCo overbilled wholesale transmission customers by $1,601.

Pertinent Guidance

> 18 C.F.R. Part 101, Electric plant Instruction 12, Transfers of Property
>
> When property is transferred from one electric plant account to another, from one utility department to another, such as from electric to gas, from one operating division or area to another, to or from accounts 101, Electric Plant in Service, 104. Electric Plant Leased to Others, 105. Electric Plant Held for Future Use, and 121, Nonutility Property, the transfer shall be recorded by transferring the original cost thereof from the one account, department, or location to the other. Any related amounts carried in the accounts for accumulated provision for depreciation or amortization shall be transferred in accordance with the segregation of such accounts.

Additionally, in the proceedings governing PSCo's transmission formula rates, the cost of interconnection facilities (*i.e.* transmission serving generation) is excluded from transmission rate base:[6]

> The cost of generator interconnection facilities and the associated accumulated depreciation reserve associated with PSCo-owned generation facilities installed after March 15, 2000, that in accordance with FERC policy or precedent are to be directly assigned to PSCo shall be excluded from transmission rate base.

Background

Audit staff's review of activity reported in plant accounts of the FERC Form No. 1 identified several transfers from non-transmission to transmission-related accounts. In total, audit staff identified $5,364,860 of assets transferred into transmission plant accounts, which consisted of ten separate transactions during the audit period. Audit staff reviewed each of these transfers to understand the accounts involved with each asset transfer, the functional and operational use of these assets by the company, and the

[6] *See* ER04-1174-000, Xcel Energy Services Inc., February 7, 2006.

implications on cost recoveries through PSCo's transmission formula rate mechanism. This review identified that PSCo transferred certain facilities from production to transmission and included those facilities for recovery inconsistent with the protocols of its transmission formula rate.

In October 2012, PSCo transferred the Ames Hydro step-up transformer (a generator interconnection facility) from Account 334, Accessory Electrical Equipment, a production plant function account, to Account 353, Station Equipment, a transmission plant function account. Upon audit staff inquiry, PSCo discovered it mistakenly included this asset for rate recovery in its transmission formula rate, which is inconsistent with the protocols approved within its OATT. While PSCo properly transferred this asset, it did not have adequate procedures in place to identify and remove the associated cost from its transmission formula rate as required by its protocols.

According to PSCo's plant accounting records and discussions with company employees, this asset represented transmission plant serving generation. However, for ratemaking purposes, generator interconnection facilities are not considered transmission, but rather production facilities. Specifically, Docket No. ER04-1174 governing PSCo's transmission formula rates stated that "generator interconnection facilities … shall be excluded from transmission rate base." As a result of including these facilities in transmission formula rates, PSCo was able to achieve a higher revenue requirement than it would have received otherwise.

PSCo recognized this error when preparing its 2013 transmission formula rate update and removed these facilities from its rate calculation. However, PSCo included these facilities in its 2012 transmission formula rate and did not make necessary adjustments to refund customers. PSCo provided support showing these facilities were reflected in customer billings for the period November 17, 2012 to December 31, 2012. For this period, PSCo over-billed its transmission customers by $1,601.

Recommendations

We recommend PSCo:

10. Strengthen procedures and controls to ensure generation interconnection facilities are excluded from recovery consistent with the protocols of PSCo's transmission formula rate.

11. Prepare and file a refund analysis with the Commission and make refunds consistent with the provisions of its transmission formula rate mechanism. For each year affected, make refunds and compute interest on over-collected amounts in accordance with 18 C.F.R. § 35.19a.

5. Allocation of Service Company Costs

XES used an improper allocation methodology to assign shared costs for technical support, maintenance, and training related to information technology services to its jurisdictional operating companies from 2007 to 2012. Use of this allocation methodology overstated general and administrative costs assigned to its operating companies. For PSCo, it resulted in overbilling transmission customers $133,451 for the rates in effect in 2008 to 2012 and production customers $63,814 for the rates in effect from September 2011 to December 2012.

Pertinent Guidance

In Order No. 667, the Commission provided guidance as to how service company costs should be allocated. The order states:

> In reviewing the centralized service company cost allocations, the Commission focus would be on the cost allocated to the associated franchised public utilities, whether the associated franchised public utilities are bearing their fair share of the costs vis-à-vis the non-regulated affiliates (i.e., whether the non-regulated affiliates are receiving an undue preference) and whether the costs are fairly allocated among public utilities.[7]

PSCo's Annual Formulaic Rate Re-determination (AFRR) procedures are included as Appendix 2 to Attachment O of the Xcel OATT. Section 1, Annual Updates, requires PSCo to use the most accurate data available and to be amended as necessary to reflect corrections to the PSCo FERC Form No. 1, if they affect the rate calculation. Section 1 states, in part:

> c. The AFRR for the Rate Year shall
>
> (i) be based upon PSCo's Form No. 1 data, to the extent the required detail pursuant to the rate formula is contained therein, and otherwise on the books and records of PSCo consistent with FERC accounting and ratemaking policies and practices;
>
> (ii) reflect the most accurate data at the time of posting;

[7] *Repeal of the Public Utility Holding Company Act of 1935 and Enactment of the Public Utility Holding Company Act of 2005*, Order No. 667, FERC Stats. & Regs. ¶ 31,197 (2005), *order on reh'g*, Order No. 667-A, FERC Stats. & Regs. ¶ 31,213, *order on reh'g*, Order No. 667-B, FERC Stats. & Regs. ¶ 31,224 (2006), *order on reh'g*, Order No. 667-C, 118 FERC ¶ 61,133 (2007), P. 167.

> (iii) be amended as necessary to reflect corrections to the PSCo FERC Form No. 1, to the extent such corrections affect the rate formula calculations;

Attachment B of PSCo's Assured Power and Energy Requirements Service Tariff contains its Formula Rate Implementation Procedures. Section 8, Changes to Annual True-Up, provides that in the event PSCo makes changes to formula rate data inputs, PSCo is to update its rate accordingly:

> a. Changes to PSCo's FERC Form 1 data or changes that affect Supplemental Data made subsequent to completion of the Annual True-Up shall trigger a revision of the appropriate charges in the Annual True-up if the total impact of the changes results in a rate increase or decrease to the Customers in an amount in excess of $500,000 of the Actual Demand and Actual Non-Fuel Energy Charges, in the affected Rate Year that was trued-up.
>
> b. PSCo shall make any required refunds, with interest determined in accordance with 18 C.F.R. § 35.19a, within thirty (30) days after a determination is made pursuant to 8.a. above. If a payment is due to PSCo, the affected customer may elect to extend the payment, with interest, likewise calculated in accordance with 18 C.F.R. § 35.19a, over a twelve (12) month period.

Background

In conjunction with each of its AFRR updates, PSCo provided its transmission customers a document summarizing significant accounting changes for the year. Audit staff's review of these documents identified there was a correction made in 2012 to an allocation methodology Xcel Energy Services (XES) used to assign certain costs to PSCo, and other jurisdictional-operating companies. Prior to this accounting change, it was determined that XES assigned excess costs to PSCo. PSCo recovered these excess costs through its transmission formula rate and did not refund the excess amounts to transmission customers for the affected period 2008 to 2012. Similarly, PSCo recovered excess costs through its production formula rate and did not make refunds to customers for the affected period September 2011 to December 2012.

In 2007, Xcel's Nuclear Management Company (NMC) integrated its operations, employees, and office equipment, such as phones and computers, with its affiliate of Northern States Power-Minnesota (NSPM). In that same year, XES changed its allocation methodology to assign certain costs based on the number of computers and phones in use at each of the operating companies, including NMC. However, NMC's phones and computers physically remained at Xcel's Minnesota nuclear facilities and continued to support NSPM's nuclear operations. Upon further review, the allocation methodology should not have included NMC's phones and computers since they were dedicated for use by NMC. In doing so, XES overstated physical phones and computers in its allocation methodology. Consequently, when XES assigned costs based on the number of phones and computers, XES allocated NSPM too few costs, and the other Xcel operating companies, including PSCo, too many costs.

XES used this allocation methodology to assign PSCo and the other operating companies costs for technical support, maintenance, and training related to information technology services. Use of this allocation methodology overstated various administrative and general expense accounts (Accounts 920 through 931), which factored into PSCo's transmission and production formula rate mechanisms. As a result, PSCo overstated administrative and general expenses in the revenue requirement of its transmission and production formula rate mechanisms. This resulted in PSCo overbilling transmission customers $133,451 for the rates in effect from 2008 to 2012 and production customers $63,814 for the rates in effect from September 2011 to December 2012.

In April 2012, XES corrected the allocation methodology by removing NMC's phones and computers; however, it did not make appropriate refunds to transmission and production customers. PSCo also informed audit staff that this error affected other jurisdictional operating companies, which received charges for shared services from XES during that same period.[8] In light of these discoveries, PSCo should make appropriate refunds to customers, and XES should review its other jurisdictional operating companies to determine the effect on rates and make necessary refunds to wholesale customers.

Recommendations

We recommend PSCo:

12. Strengthen policies and procedures to ensure shared services are properly assigned to PSCo and other jurisdictional regulated operating companies.

13. Prepare and file a refund analysis with the Commission and make refunds consistent with the provisions of its transmission and production formula rate mechanisms. For each year affected, make refunds and compute interest on over-collected amounts in accordance with 18 C.F.R. § 35.19a.

[8] The FERC-regulated entities owned by Xcel Energy Company are Xcel Northern States Power Company-Minnesota, Northern States Power Company-Wisconsin, Public Service Company of Colorado, and Southwestern Public Service Company.

6. Transmission Plant Acquisition Adjustment

PSCo recorded amounts above original costs, which represented a plant acquisition adjustment, in Account 101 rather than Account 114 for nearly two years prior to obtaining Commission approval to book such amounts in Account 114. As a result, PSCo recovered amounts prematurely from wholesale customers related to the acquisition adjustment.

Pertinent Guidance

On July 12, 2010, under Docket No. EC10-71-000, the Commission issued an order approving PSCo's purchase of two generating facilities from Calpine Corporation. The order directed PSCo to make a filing to reflect the accounting for the purchase in accordance with Commission accounting regulations:

> …[PSCo] must file accounting entries, within six months of consummation of the transaction, reflecting the acquisition of electric plant assets on its books in accordance with Electric Plant Instruction (EPI) No. 2, Electric Plant to be Recorded at Cost, EPI No. 5, Electric Plant Purchased or Sold, and the text of Account 102, Electric Plant Purchased or Sold.[9]

Under 18 CFR Part 101, Electric Plant Instruction (EPI) No. 2, Electric Plant to be Recorded at Cost, plant acquisitions are to be recorded at their original cost. The instruction states, in part:

> A. All amounts included in the accounts for electric plant acquired as an operating unit or system, except as otherwise provided in the texts of the intangible plant accounts, shall be stated at the cost incurred by the person who first devoted the property to utility service. . . .

18 CFR Part 101, EPI No. 5, Electric Plant Purchased or Sold, further elaborates on the accounting for plant acquisitions, and specifies that any acquisition adjustment associated with the purchase must be included in Account 114, Electric Plant Acquisition Adjustments.

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[9] *Public Service Company of Colorado*, 132 FERC ¶ 62,032, at P 5 (2010).

18 CFR Part 101, Account 114, Electric Plant Acquisition Adjustments states, in part:

> A. This account shall include the difference between (1) the cost to the accounting utility of electric plant acquired as an operating unit or system by purchase, merger, consolidation, liquidation, or otherwise, and (2) the original cost, estimated, if not known, of such property, less the amount or amounts credited by the accounting utility at the time of acquisition to accumulated provisions for depreciation and amortization and contributions in aid of construction with respect to such property.

Background

In July 12, 2010, the Commission approved the transaction for PSCo to purchase two generation facilities from Calpine Corporation. These facilities primarily consisted of production and some transmission assets. In the July 12, 2010 Order, the Commission directed PSCo to account for the transaction consistent with EPI Nos. 2 and 5. On December 6, 2010, PSCo consummated the transaction and recorded the entire cost of the facilities at fair market value in Account 101, which included an acquisition adjustment. Since this accounting was inconsistent with EPI Nos. 2 and 5, PSCo requested a waiver of the Commission's original cost rule to allow it to record the acquired assets at fair value in Account 101 without recognizing accumulated depreciation related to the acquired assets in Account 108, Accumulated Provision for Depreciation of Electric Utility Plant. At the time PSCo made its accounting filing, it also sought rate recovery of the acquisition adjustment in its production formula rates. Consequently PSCo requested a deferred response to its request for waiver to allow the matter to be resolved in the production formula rate case.

Shortly after a settlement in the production formula rate case was reached, on August 8, 2012 PSCo refiled its accounting entries for the acquisition of the Calpine facilities using Account 101 to record the original cost, Account 108 to record the accumulated depreciation, and Account 114 to record the acquisition adjustment. PSCo also refiled its 2010 and 2011 FERC Forms No. 1 to reflect this change in accounting. Although PSCo adjusted its FERC Form No. 1 to properly account for the acquisition adjustment in 2012, the company inappropriately included such amounts in Account 101 prior to receiving a waiver of Commission accounting requirements. Consequently, PSCo included the acquisition adjustment in its wholesale transmission formula rate calculation in 2011 and 2012 prior to receiving Commission authorization.

On November 17, 2012, in Docket No. ER12-1589, the Commission approved the recovery of Account 114 in PSCo's wholesale transmission formula rate template. This new template allowed the company to recover the acquisition adjustment in rates; however PSCo had already began to do so in prior years. Audit staff is troubled by PSCo's decision to employ an accounting practice that is not consistent with the Commission's prescribed accounting requirements for acquisition adjustments absent receiving approval first from the Commission. In such cases, PSCo must receive Commission approval before implementing an accounting practice not consistent with the Commission's existing accounting requirements. From December 6, 2010 to November 17, 2012, PSCo included the acquisition adjustments in its formula rate calculation.

Audit staff points out that the Commission's regulations in EPI Nos. 2 and 5 specifically require utilities to record acquisition adjustments in Account 114. Had PSCo followed the Commission accounting requirements, it would have recorded the acquisition adjustment in Account 114 rather than Account 101. In doing so, PSCo would not have recovered these amounts in rates until authorization by the Commission. Following Commission accounting requirements would have ensured that the recovery of the acquisition adjustment would not have occurred prematurely. In the future, PSCo should refrain from implementing accounting that is inconsistent with the Commission's regulations without Commission approval; otherwise it may be subject to greater enforcement action for implementing inappropriate accounting and rate actions prior to receiving Commission approval.

Recommendations

We recommend PSCo:

14. Implement controls and processes to ensure it does not record acquisition adjustments in Account 101 or recover any acquisition adjustment from ratepayers prior to receiving Commission approval.

15. Prepare and file a refund analysis with the Commission to return the time value of monies collected prematurely from the applicable wholesale customers. For each year affected, compute interest on over-collected amounts in accordance with 18 C.F.R. § 35.19a and make refunds.

7. Accounting for Donations

PSCo incorrectly recorded a payment for a donation in Account 506 rather than Account 426.1. Since PSCo recorded this in a production operating expense account, it did not affect the transmission formula rate mechanism. However, this accounting affected PSCo's production formula rate mechanism and resulted in a $100,000 overstatement of its revenue requirement. This led to excess billings to wholesale production customers.

Pertinent Guidance

The Commission regulations in 18 C.F.R. Part 101, Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act, includes specific account instructions relevant to this matter.

Account 426.1, Donations, states:

> This account shall include all payments or donations for charitable, social or community welfare purposes.

Account 506, Miscellaneous Steam Power Expense, states:

> This account shall include the cost of labor, materials used and expenses incurred, which are not specifically provided for or are not readily assignable to other steam generator operation expense accounts.

Background

Audit staff requested a list of formal judgments, fines, or penalties for the audit period. PSCo's lists contained a $100,000 payment to settle an environmental claim related to a fish kill event resulting from a chemical discharge from its Comanche generating plant. Audit staff's review determined PSCo did not use the appropriate account to record this payment.

To settle the environmental claim related to a fish kill, PSCo agreed to make a donation to the "Fishing is Fun" program operated by the Colorado Department of Natural Resources (CDNR) in March 2011. PSCo recorded the payment of $100,000 in Account 506. PSCo believed this was the appropriate account because the fish kill resulted from a chemical discharge from its Comanche generating plant through the course of operations. Audit staff first understood this payment as a settlement to avoid litigation, but PSCo clarified that it agreed with the CDNR to make a donation to the "Fishing is Fun" program to resolve this matter.

Based on the Commission's accounting instructions the $100,000 settlement transaction represents a donation. The Commission's accounting instructions consider donations to be nonoperating rather than operating in nature. PSCo should have recorded the $100,000 payment in Account 426.1 rather than Account 506, as the nature of this transaction involved a donation to a state-run program. This was an unusual and non-reoccurring event associated with operations of its Comanche plant. Since PSCo recorded this in a production operating expense account, it did not affect the transmission formula rate mechanism. However, this accounting affected the production formula rate mechanism and resulted in a $100,000 overstatement of its revenue requirement, which resulted in excess billings to customers.

Recommendations

We recommend PSCo:

16. Strengthen procedures and controls to ensure it records donations as nonoperating expenses in Account 426.1.

17. Prepare and file a refund analysis with the Commission and make appropriate refunds consistent with the provisions of its production formula rate mechanism. For each year affected, make refunds and compute interest on over-collected amounts in accordance with 18 C.F.R. § 35.19a.

8. Direct Assignment of Generator Interconnection Costs

PSCo improperly billed costs associated with owning, operating, maintaining, repairing, and replacing interconnection facilities to its transmission customers through its formula rate mechanism instead of directly charging specific interconnection customers during the audit period.

Pertinent Guidance

In Order No. 2003, the Commission adopted a standard Large Generator Interconnection Agreement (LGIA). Article 10 of the standard LGIA makes expenses of owning, operating and maintaining interconnection facilities for both interconnection customers and transmission providers the responsibility of the interconnection customer.[10] As the LGIA included in the Xcel OATT states:

> Subject to the provisions herein addressing the use of facilities by others, and except for operations and maintenance expenses associated with modifications made for providing interconnection or transmission service to a third party and such third party pays for such expenses, Interconnection Customer shall be responsible for all reasonable expenses including overheads, associated with: (1) owning, operating, maintaining, repairing, and replacing Interconnection Customer Interconnection Facilities; and (2) operation, maintenance, repair and replacement of Transmission Provider's Interconnection Facilities.

This provision is incorporated into the standard interconnection agreements for large and small generators as included in the Xcel OATT. The Large Generator Interconnection Procedures (LGIP) are contained in Attachment N. Appendix 6 to the LGIP is the standard Large Generator Interconnection Agreement (LGIA), applicable to generating facilities that exceed 20 MW. Appendix 6 states, in part:

> *10.5 Operating and Maintenance Expenses.* Subject to the provisions herein addressing the use of facilities by others, and except for operations and maintenance expenses associated with modifications made for providing interconnection or transmission service to a third party and such third party pays for such expenses, Interconnection Customer shall be responsible for all reasonable

[10] *Standardization of Generator Interconnection Agreements and Procedures*, Order No. 2003, FERC Stats. & Regs. ¶ 31,146 (2003), p. 582, *order on reh'g*, Order No. 2003-A, FERC Stats. & Regs. ¶ 31,160, *order on reh'g*, Order No. 2003-B, FERC Stats. & Regs. ¶ 31,171 (2004), *order on reh'g*, Order No. 2003-C, FERC Stats. & Regs. ¶ 31,190 (2005), *aff'd sub nom. Nat'l Ass'n of Regulatory Util. Comm'rs v. FERC*, 475 F.3d 1277 (D.C. Cir. 2007), *cert. denied*, 552 U.S. 1230 (2008).

expenses including overheads, associated with: (1) owning, operating, maintaining, repairing, and replacing Interconnection Customer's Interconnection Facilities; and (2) operation, maintenance, repair and replacement of Transmission Provider's Interconnection Facilities.

The Small Generator Interconnection Procedures (SGIP) are contained in Attachment P of the Xcel Joint OATT. Appendix 1 to the SGIP is the standard Small Generator Interconnection Agreement (SGIA), applicable to generating facilities no larger than 20 MW. Appendix 1 states, in part:

> 4.1.2. The Interconnection Customer shall be responsible for its share of all reasonable expenses, including overheads, associated with (1) owning, operating, maintaining, repairing, and replacing its own Interconnection Facilities, and (2) operating, maintaining, repairing, and replacing the Transmission Provider's Interconnection Facilities.[11]

Background

In Order No. 2003, issued July 24, 2003, the Commission required jurisdictional transmission companies to file revised open access transmission tariffs containing standard generator interconnection procedures and agreements. In Xcel’s OATT, the LGIP is included in Attachment N, and the SGIP is included in Attachment P. During this audit, audit staff performed several tests to evaluate compliance with these sections. This included an evaluation of whether PSCo properly charged its interconnection customers for “all reasonable expenses” associated with “owning, operating, maintaining, repairing, and replacing interconnection facilities,” as required by language contained within the standard interconnection agreement, as appended to the LGIP and SGIP. As a result of our review, audit staff determined PSCo was not directly charging these costs to interconnection customers with agreements signed after Order 2003, as required.

The agreements for both large and small generator interconnection facilities require each customer to be charged “all reasonable expenses” associated with “owning, operating, maintaining, repairing, and replacing interconnection facilities.” Because of this, audit staff concluded that charging customers these costs was not optional. However, PSCo was not charging interconnection customers any of these costs directly.

[11] FERC Electric Tariff, Second Revised Volume No. 1, Page No. 501, Attachment P- Appendix 1, Small Generator Interconnection Agreement: Article 4. Cost Responsibility for Interconnection Facilities and Distribution Upgrades.

Audit staff inquired about the costs PSCo incurred and charged on work related to owning, operating, maintaining, repairing, and replacing customer-owned and transmission provider-owned generator interconnection facilities. PSCo stated that in addition to not charging these costs, it had no way to track them and that these costs were insignificant. The types of assets that were constructed to interconnect transmission customers (Transmission Owner Interconnection Facilities (TOIFs)) were generally nonmechanical assets or assets that were not generally maintainable, such as conductors, structures, insulators, bus supports, and sealed instrument transformers. These assets typically had a useful life of twenty or more years. TOIFs were inspected monthly for integrity but were typically not subject to maintenance until replaced. Under the Xcel Energy protection system maintenance program,[12] TOIF relays would be inspected and maintained at least once every six years, which may require a few hours of labor. Hence the costs related to "owning, operating, maintaining, repairing, and replacing interconnection facilities" for PSCo were costs associated with monthly inspections for each interconnection.

PSCo estimated the allocable cost associated with monthly inspections for each interconnection to be about $42.50 per month, or $510 per year. This figure was based on an estimate of 30 minutes to inspect TOIF facilities at a substation each month, multiplied by an estimated hourly labor loaded rate of $85. PSCo stated that the cost of periodic PRC-005 protection system facilities maintenance or replacement would vary depending on the nature of the asset or assets, and would be infrequent.

Based on PSCo's estimates, audit staff calculated the impact of PSCo's failure to directly charge customers for expenses related to interconnection facilities to be $510 per year for each interconnection. Since PSCo has 14 LGIAs, the total impact is $7,140 per year for all interconnection customers. PSCo stated that the effort required for PSCo to track costs per interconnection and develop a billing system to charge all interconnection customers directly would cost PSCo, about $720 per year for each interconnection. Hence, this would lead to higher costs for PSCo, which would potentially be charged to the interconnection customers in addition to the costs of the monthly inspections.

Audit staff points out that PSCo did not comply with the requirements set forth in Order 2003 and, as a result, its OATT. If PSCo did not consider the fees associated with operations and maintenance of interconnection facilities to be reasonable expenses, then it should have filed a waiver with the Commission to request an exception to its OATT.

As a result of PSCo's methodology, rather than directly charging all reasonable expenses to the interconnection customers, some costs were improperly billed to transmission customers through the formula rate mechanism. PSCo charged costs to

[12] NERC reliability standard PRC-005.

specific FERC accounts, based on the type of work it performed. For example, for maintenance work performed on a PSCo-owned transmission substation, PSCo charged Account 570, Maintenance of Station Equipment. Account 570 is recovered through the transmission formula rate template. As a result, transmission customers paid for some expenses that should have been directly billed to specific interconnection customers, and consequently subsidized the costs for some interconnection customers. Even if such costs were insignificant, PSCo did not have the proper authority to make this determination and should have requested guidance from the Commission.

Audit staff believes it is reasonable to assign costs to the generators who connect based upon the requirements in PSCo's OATT. It is clear from PSCo's OATT that the generator is responsible to pay for costs associated with owning, operating, maintaining, repairing, and replacing interconnection facilities. PSCo should refrain from billing wholesale transmission customers for costs that should be directly assigned to generator interconnection facilities.

Recommendations

We recommend PSCo:

18. Strengthen and implement processes, procedures, and controls to appropriately track costs relating to owning, operating, maintaining, repairing, and replacing interconnection facilities and begin charging these costs to the appropriate interconnection customers.

19. Review the cost associated with generator interconnection facilities for the audit period to determine costs associated with owning, operating, maintaining, repairing, and replacing interconnection facilities that should have been directly charged, but were not for that period.

20. Prepare and file a refund analysis with the Commission and make appropriate refunds for the audit period for operating and maintenance expenses assignable to generator interconnection customers that were improperly recovered through the transmission formula rate mechanism. For each year affected, make refunds and compute interest on over-collected amounts in accordance with 18 C.F.R. § 35.19a.

B. Open Access Transmission Tariff

9. Procedures for Acts of Discretion

PSCo did not maintain its compliance with a recommendation in a prior Commission audit report. This recommendation directed PSCo to implement written procedures to identify acts of discretion with respect to administering the Xcel OATT and post such acts of discretion appropriately. In light of this, PSCo did not have adequate procedures in place to identify acts of discretion that may have required a posting to OASIS.

Pertinent Guidance

On November 28, 2005, the Commission issued a report for an audit of PSCo's compliance with requirements in the Xcel Joint OATT and the Commission's Standards of Conduct regulations. The report recommended that PSCo "develop written procedures to identify acts of discretion PSCo engages in with respect to tariff administration, and begin posting such acts of discretion on its OASIS site."[13]

In its response to the audit report, PSCo said its transmission function "will identify acts of discretion it may engage in and will also develop a written procedure regarding posting such acts of discretion on OASIS." PSCo also stated its "Transmission Function will train employees on the identified acts of discretion and posting procedures and requirements … if an act of discretion occurs, PSCo Transmission Function will post the discretionary action in the log available on OASIS."[14] [emphasis added]

In Order No. 717, the Commission limited the requirement to record and post acts of discretion under the Standards of Conduct regulations in 18 CFR Part 358:

. . . transmission providers need not post exercises of discretion that are within the scope of a tariff provision, unless in any given instance such posting is required under any other of our regulations. Such acts are already permitted by the tariff, and therefore fall within the scope of matters which the Commission has approved. Furthermore, a transmission provider, in particular a pipeline, makes many of these judgment calls every

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[13] *Public Service Company of Colorado,* Docket No. PA05-1-000, audit report at 4 (Nov. 28, 2005).

[14] *Id* at 21.

day on an ongoing basis; recording all these matters would place a substantial administrative burden on it." (P 216).[15]

Background

To prepare for the audit, audit staff reviewed Docket No. PA05-1-000, a prior Commission audit report that evaluated PSCo's compliance with requirements in the Xcel OATT and the Commission's Standards of Conduct regulations. During the current audit, we tested PSCo's agreed-upon implementation of each of the recommendations in the prior audit report. The purpose of our review was to ensure all recommendations were implemented, and that the underlying problems identified had been resolved by such implementation.

Audit staff's testing found that PSCo did not consistently comply with one recommendation in the prior report. The prior audit had found PSCo transmission employees routinely had used judgment in real-time transmission operations and tariff administration. However, there were no postings with respect to acts of discretion. To address this, the report recommended that PSCo "develop written procedures to identify acts of discretion … and begin posting such acts of discretion on its OASIS site." In its response to the report, PSCo agreed to develop and implement written procedures and begin posting acts of discretion.

In this audit, audit staff asked PSCo about its requirements and criteria for identifying and posting discretion incidents. PSCo explained that it "maintains a written log detailing the circumstances and manner in which it exercised its discretion under any terms of the tariff. The information contained in this log is posted on the OASIS within 24 hours of when a Transmission Provider exercises its discretion under any terms of the tariff." When audit staff inquired further about procedures for identifying and posting discretion incidents and specifically pointed the company to the prior audit report recommendation, PSCo located and provided the procedures it created in its response dated May 15, 2006. Also, the company provided documents for a related training event dated May 31, 2006. However, PSCo explained, "unfortunately, it appears that the process for logging and posting discretionary activities dissipated sometime after the audit recommendations were implemented likely in the 2007 time-frame when significant personnel changes occurred within PSCo transmission operations."

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[15] *Standards of Conduct for Transmission Providers*, Order No. 717, FERC Stats. & Regs. ¶ 31,280 (2008), *order on reh'g*, Order No. 717-A, 129 FERC ¶ 61,043, *order on reh'g*, Order No. 717-B, 129 FERC ¶ 61,123 (2009), *order on reh'g*, Order No. 717-C, 131 FERC ¶ 61,045 (2010), *order on reh'g*, Order No. 717-D, 135 FERC ¶ 61,017 (2011).

When audit staff asked who was responsible for implementing the procedures that were created, PSCo listed various departments, but said the procedures did not clearly assign responsibility for compliance to specific positions, and that administrative assignment of the procedures had not been maintained. Audit staff believes that assigning responsibility and training to specific staff is inherent to the implementation process. In its response to the prior report, PSCo represented that it would implement the procedures. Therefore, audit staff considers PSCo's failure to ensure the procedure remained in place to be noncompliant with the audit report recommendation.

Since assignments and training had not been in place for a prolonged period, audit staff had concerns as to whether acts of discretion that might adversely impact the transparency and equal access to transmission might have occurred and not been reported. In light of this, audit staff examined transmission requests that were approved when posted ATC was inadequate. Audit staff believes that the judgment exercised in granting such requests would normally fall under the rubric of the "judgment calls [made] every day on an ongoing basis" that need not be posted if they are governed by a process that prevents favoring an affiliate.[16] However, if there were processes or patterns that indicated more favorable discretion was exercised towards affiliates, then such actions should have been posted.

Audit staff was unable to identify where PSCo had effective controls in place to report acts of discretion; therefore we conducted an analysis of transmission requests granted over the audit period. The analysis, conducted during the audit field work and with the full cooperation of PSCo, disclosed 12 instances in which transmission service was granted when ATC was insufficient. Audit staff determined that the process followed did not appear to require posting, since it appeared to be a routine daily process used uniformly for all entities requesting transmission. However, audit staff felt that a further test to determine whether in practice the use of the process had resulted in patterns that appeared to favor PSCo affiliates, was appropriate. These 12 incidents fell into two categories:

- Four instances involved circumstances where posted ATC was insufficient, and there was no determination made by the PSCo staff that real time circumstances would raise the ATC to levels that would permit the granting of the requests. PSCo said that their ex-post reviews of these transactions determined that these

[16] *Standards of Conduct for Transmission Providers*, Order No. 717, FERC Stats. & Regs. ¶ 31,280 (2008), *order on reh'g*, Order No. 717-A, 129 FERC ¶ 61,043, *order on reh'g*, Order No. 717-B, 129 FERC ¶ 61,123 (2009), *order on reh'g,* Order No. 717-C, 131 FERC ¶ 61,045 (2010), *order on reh'g,* Order No. 717-D, 135 FERC ¶ 61,017 (2011) at p 215.

requests should have been denied, since sufficient ATC was not unavailable. PSCo attributed the granting of the requests to operator errors in following the procedures. Of these four instances, two instances involved the PSCo merchant and the other two involved non-affiliated entities.

- Eight instances occurred when customers submitted requests too early, failed ATC validation due to the then-existing posted ATC, but were manually approved by the operator, since the operator’s routine procedures allowed the operator to recognize that sufficient ATC would be available after PSCo released its unscheduled nonfirm ATC. Of these eight, four instances involved the PSCo merchant and the other four involved nonaffiliated entities.

In each category, audit staff determined that the pattern of the exercise of discretion did not favor affiliate transactions. In each category, the frequency and volume of transactions was equally split between affiliate and nonaffiliate transactions. Audit staff believes that PSCo needs to reinstate staff training in this area as well as improve the process to avoid granting transmission access when its procedures indicate that ATC is insufficient for the period of the request. Operator error was cited as the cause of one-third of the instances identified; this is a significant cause of concern from an economic and reliable operations perspective and needs to be addressed accordingly.

Recommendations

We recommend PSCo:

21. Implement processes, procedures, and controls to ensure it maintains sustainable compliance with all recommendations in this and past audit reports, as well as any other requirements imposed by the Commission, on an ongoing basis.

22. Strengthen processes, procedures, and controls to reduce operator error in the granting of transmission requests when posted available ATC is insufficient.

10. Release of Non-Firm Available Transmission Capacity

PSCo inadvertently did not release unused Transmission Reliability Margin (TRM) as nonfirm ATC as specified in its OATT. This occurred periodically during the period October 2005 to January 2010. This error resulted from OATI automated software processes involving incorrect default settings for the TRM coefficient in the formulas used in the software to calculate and post available nonfirm ATC. PSCo discovered this error during an internal assessment in 2010 prior to the commencement of this audit, and corrected the software settings, but never filed a self-report or posted a notification on its OASIS to inform customers about these errors.

Pertinent Guidance

PSCo's OATT states:

"CBM and TRM_U are currently zero for the PSCo Balancing Authority Area."

ATCF = TTC – ETCF – CBM – TRM + PostbacksF + counterflowsF
$ATC_{NF} = TTC – ETC_F – ETC_{NF} – CBM_S – TRM_U + Postbacks_{NF} + counterflows_{NF}$

Background

TRM_U is defined as the Transmission Reliability Margin for the ATC Path not released for sale as nonfirm capacity by the Transmission Service Provider during that period. That is the portion of ATC that is not scheduled for firm transactions yet not permitted to be scheduled for nonfirm use to permit the transmission operator the flexibility to utilize this capacity to maintain system reliability. PSCo's OATT specified that TRM_U is zero for the PSCo Balancing Authority Area. Therefore, PSCo should have had no TRM_U in its ATC_{NF} calculation since 2005. According to the formulas included in PSCo's OATT for calculating nonfirm ATC (ATC_{NF}), TRM_U is subtracted from $ATC_{NF.}$ And when TRM_U is zero, which should have been the case for PSCo, all TRM is released and included as part of the ATC_{NF} calculation.

When implementing their OATT processes and procedures, PSCo Transmission Control Center began using the OATI webTrans system to automate PSCo's ATC calculation components. It was PSCo's responsibility to determine the appropriate parameters by which TRM, along with other ATC calculation components, were set. OATI's configuration for TRM was done through a binary system using TRM coefficients. If the TRM coefficient for a path was set to "0," TRM for that path was released as nonfirm ATC in the operating horizon. If the TRM coefficient for a path was set to "1," TRM for that path was not released as nonfirm ATC in the operating horizon. PSCo's OATT specified that no TRM was to be maintained and thus PSCo should have set the TRM coefficient to "0" and TRM for that path should have been released as nonfirm ATC.

PSCo conducted an internal assessment of its OATT in January 2010, prior to the commencement of this audit, to ensure compliance with FERC Order 890. During this assessment, PSCo discovered an error relating to the release of unused TRM as nonfirm ATC. The internal assessment investigated the error and determined that the error involved improperly setting of the TRM coefficient to "1" for certain PSCo transmission paths. The internal investigation revealed that the initial settings had been incorrect, that the settings had been corrected, and that at some indeterminate point some settings had been reset incorrectly. Due to limitations in the data retention of OATI, it was not possible to obtain a complete history of the settings but it was clear that for various periods of time and on various paths that PSCo had incorrectly posted and offered lower nonfirm ATC than available. The team that completed the internal assessment discussed the error with the Transmission Control Center on January 15, 2010. The error with the TRM coefficient for all paths was then corrected by January 18, 2010, which was prior to the commencement of this audit.

During the audit, audit staff conducted testing to confirm this issue did not resurrect itself and attempted to determine the impact this error might have had on the ability of transmission users to obtain nonfirm transmission service for the period the error existed. Audit staff confirmed this issue did not occur again during the audit period. Audit staff also determined that access issues would arise only if PSCo had set aside TRM on a path (i.e. the TRM value was positive) but had not scheduled transactions over this path. Therefore, audit staff requested PSCo examine its available records to identify periods in which these conditions existed and then determine whether any requests for nonfirm transmission had been denied due to lack of nonfirm ATC for this period.

As requested, PSCo conducted this examination and reported to audit staff that it did not find any such instances. This does not mean that there had been no adverse impact but that there were no examples that could be readily quantified. However, persistent posting of low or zero nonfirm ATC on particular paths might have discouraged entities from even requesting the service and explain why no requests for service were recorded. Hence, audit staff cannot readily determine whether any customers would have requested more nonfirm ATC had the calculation for PSCo's nonfirm ATC been correct. Since PSCo had identified and corrected the error prior to the audit and there had not been any complaints by customers regarding inadequate access, audit staff determined to conclude its analysis of the potential impact.

Audit staff found that PSCo did not have adequate controls in place to ensure that the appropriate parties were made aware of its error. PSCo did not post a notice on its OASIS web site to notify its customers, nor did it informally notify or file a self-report with the Commission. This presents a transparency issue between PSCo and interested parties. The failure to post these errors could have changed the strategies customers implement in their operations. Furthermore, the fact that this error was in place for five years prior to PSCo making final corrections indicates that PSCo should take further measures to strengthen its policies and procedures, and perform more frequent reviews of its ATC calculations to ensure accuracy.

Recommendations

We recommend PSCo:

23. Strengthen policies and procedures for notifying transmission customers and the Commission about issues of noncompliance with its OATT in a timely manner.

24. Develop procedures to monitor and assess the ability of its OATI system to identify risks that threaten the data integrity of its operational system.

11. Transmission Customer Creditworthiness Reviews

PSCo did not have sufficient procedures to ensure it accurately assessed creditworthiness of its transmission customers, as required by the OATT. As a result, PSCo made certain errors in its customer credit score calculations. Because these scores were used to set unsecured credit limits, this created risks that non-creditworthy customers would obtain unsecured credit and that creditworthy customers would not. An error like this could result in PSCo extending too much unsecured credit, improperly placing other transmission customers at risk, or PSCo granting insufficient unsecured credit, potentially improperly denying a creditworthy customer access to transmission services or unduly burdening a customer with unwarranted credit costs.

Pertinent Guidance

Attachment Q of the Xcel OATT, Creditworthiness Procedures, requires that "[A Transmission Customer] taking any service under the Transmission Provider's Tariff… must demonstrate its ability to meet the Transmission Provider's credit requirements. Credit review shall be made in accordance with commercially reasonable practices."

According to Attachment Q, "The Transmission Provider will perform a credit evaluation for each Applicant and/or Transmission Customer approximately every twelve (12) months, or more frequently if the Transmission Provider has commercially reasonable grounds to believe there has been a Material Adverse Change in the Transmission Customer's creditworthiness."

Further, Attachment Q spells out the factors that PSCo is to consider in its review and analysis to generate a Credit Score, which is used to set unsecured credit limits for Transmission Customers. The analysis is to include both a financial and qualitative analysis for both Public Power Entities and Non-Public Power Entities. As spelled out in Attachment Q, the financial measures to be calculated for each category and included within the credit score are as follow:

Public Power Entity	**Non-Public Power Entity**
Current Ratio	EBIT Interest Coverage
Working Capital	Total Debt / Total Capitalization
Tangible Net Worth	CFFO / Total Debt
EBIT Interest Coverage	Tangible Net Worth
EBITDA Interest Coverage	
Pre-tax Return on Equity	
Long-term Debt / Equity	
Total Debt / Total Capitalization	

Also, as required by the OATT, PSCo maintains its Transmission Credit Policy business practices on its OASIS site. This policy, dated May 19, 2008, outlines how PSCo weights the financial and quantitative measures for both Public Power Entities and Non-Public Power Entities to arrive at a credit score. The policy also spells out the weighting of the various financial measures within the financial component of the credit score that are included in the table, above.

The Commission's Policy Statement on Credit Worthiness, states in part:

> . . . we clarify that we interpret the term "reasonable credit review procedures" in the pro forma OATT to include the posting by OATT Transmission Providers, ISOs, and RTOs on their OASIS sites, to the extent that they have not already done so or incorporated such requirements in their tariffs, the information used by them to evaluate a potential customer's creditworthiness (including both quantitative and qualitative methodologies, as discussed further below, for determining the credit that a transmission provider will offer an applicant for transmission service). Thus, the Commission expects OATT Transmission Providers, ISOs, and RTOs to: (1) make their credit-related practices more transparent and comprehensive; (2) post on their websites the procedures that they use to do their credit analyses; and (3) provide a customer with a written analysis setting forth how that entity applied its credit standards to that customer, if that customer is required to provide security. These creditworthiness standards, security requirements, and the process for developing them should be transparent enough to enable customers to understand the information required to demonstrate creditworthiness and to determine for themselves the general amount and type of security they may need to provide in order to receive transmission service from OATT Transmission Providers and/or participate in the markets of ISOs/RTOs. In short, the methodology by which the credit analysis is conducted should be transparent and fairly and uniformly applied, and a written explanation should be required for any required security.[17]

Background

As required by its OATT and consistent with Commission guidance, PSCo maintains a Transmission Credit Policy on its OASIS site and, in accordance with Attachment Q of its OATT, performs credit evaluations according to this policy for current and potential transmission customers about every twelve months. Audit staff reviewed Attachment Q and the Transmission Credit Policy and tested PSCo's

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[17] 109 FERC ¶ 61,186, *Policy Statement on Electric Creditworthiness*, Docket No. PL05-3, (Issued November 19, 2004) at P12.

creditworthiness reviews to determine whether the reviews performed matched the stated credit policy and were in accordance with Commission guidance.

Audit staff believes that Commission policy for transparency in credit analysis should permit any entity that receives a credit analysis to replicate the analysis on the basis of the same data and the methodology stated in the policy. Therefore, audit staff designed its testing in accordance with this Commission guidance. During this testing, we found PSCo had insufficient procedures to accurately assess the creditworthiness of its transmission customers in accordance with its stated policies. There were instances in which PSCo could not replicate its prior analysis, indicating the analyses previously performed were not consistent with the stated policies. Also, audit staff found that the internal assessment PSCo conducted of its transmission creditworthiness reviews in order to ensure consistency was inadequate and did not identify the shortcomings with the procedures that were identified by audit staff. Insufficient procedures create risks that PSCo will not properly extend credit to its transmission customers. This could result in PSCo extending too much unsecured credit, improperly placing other transmission customers at unwarranted risk, or PSCo granting insufficient unsecured credit, potentially improperly denying a creditworthy customer access to transmission services or unduly burdening a customer with unwarranted credit costs.

During the audit period, PSCo had an established methodology to determine creditworthiness. To conduct credit reviews, an Xcel analyst would obtain copies of a customer's financial statements and input specified values from these statements into a PSCo spreadsheet programmed to weight these measures in accordance with the Transmission Credit Policy. Based on the weighted financial measure results, the spreadsheet generated the unsecured credit limit amount for a customer. PSCo also had implemented a procedure to verify the appropriateness of its credit review procedures. In 2012, Xcel's Regulatory Strategic Analysis (RSA) group assessed PSCo's compliance with the Transmission Credit Policy. Specifically, the RSA reviewed the customer credit evaluations for two transmission customers for compliance with the policy. PSCo provided audit staff with a copy of the RSA report, as well as the spreadsheets used to calculate the credit scores for the two customers RSA sampled. One of these was Public Power Entity and the other was a Non-Public Power Entity. In the report, RSA noted that it "did not find any errors in the Transmission Credit Review process based on the supporting documentation reviewed. In addition, the cells in the spreadsheet appear to be calculating properly, yielding a proper financial score and quantitative score."

Audit staff reviewed the results of the RSA report, as well as the supporting documentation including the spreadsheet used to calculate the credit review for one of the two customers that RSA sampled. This permitted us to independently recalculate the verification of the financial measure results that had been performed by the RSA. Further, audit staff requested the most recent credit evaluations and the audited financial statement support for two additional customers. The purpose of this request was to independently conduct our own review and recalculation of the financial measures for two additional customers. Together, our testing of these three customers was intended to verify the accuracy and transparency of PSCo's creditworthiness review and validation process.

In preparing its response to audit staff's request, PSCo itself tried to recreate its previously calculated financial measure results for each of these three customers. It was able to do so for only one of the two customers in audit staff's expanded test. For the two customers in our sample for which PSCo was unable to replicate its previous analysis, audit staff noted:

- For the customer that RSA had previously sampled for which audit staff requested the audited financial statements, PSCo was unable to recreate two items from the creditworthiness review: the Earnings Before Interest and Taxes (EBIT)[18] Interest Coverage Ratio and Total Debt to Total Capital Ratio. The EBIT Interest Coverage Ratio result used in the transmission customer's credit evaluation was 0.31, where it should have used .3320. The Total Debt to Total Capital Ratio result used in the credit evaluation was .7638, where it should have been .6498. Audit staff notes that although the difference in the EBIT Interest Coverage ratio result did not affect the unsecured credit limit for that transmission customer, the difference in the Total Debt to Total Capital Ratio result increased the credit limit from $4,407,600 to $4,958,550, an increase of $550,950 or twelve and a half percent.

- For one of the two customers in audit staff's expanded sample, PSCo was unable to recreate one item from the creditworthiness review. The Cash Flow for Operations to Total Debt Ratio result used in the transmission customer's credit evaluation was .536, where it should have used .1719. Audit staff notes that the difference in this ratio result reduced that transmission customer's allowable unsecured credit limit from $87,113,845 to $74,669,010, a reduction of $12,440,835 or approximately fourteen percent.

In its data response, PSCo outlined several process shortcomings that they stated made it difficult to explain the discrepancies between the initial estimates and the estimates provided to audit staff during the audit. First, financial statements used in the creditworthiness reviews were not attached to the reviews. Also, the data inputs used in the calculations were not maintained. Rather, the analyst simply recorded the ratio results, making it difficult to subsequently trace the calculations back to the supporting

[18] EBIT can be defined as a measure of a company's ability to produce income on its operations in a given year. It is calculated as the company's revenue less its expenses (such as overhead) but not subtracting its tax liability or interest paid on debt.

financial statements. Further, PSCo did not require the analysts preparing the creditworthiness reviews to record their identity on the reviews, nor did PSCo require any quality control over the credit process.

Audit staff agrees with PSCo's assessment that its original credit review process lacked technical rigor and sufficient quality control. Audit staff also is concerned that the internal review process itself also was not adequate. The limited sample conducted and the fact that a significant error went undetected by PSCo's RSA group raises serious concerns with this internal control. PSCo told audit staff that due to the audit process, it had already begun addressing these process shortcomings. Audit staff is encouraged by this proactive approach, in advance of the audit report release of its findings, and believes PSCo should continue making enhancements to its creditworthiness review processes and controls to address the risks that improper credit reviews impose upon its transmission customers.

Recommendations

Therefore, we recommend PSCo:

25. Strengthen its processes, procedures, and controls to ensure it accurately assesses the creditworthiness of its transmission customers, as required by its OATT.

26. Ensure it retains support for its creditworthiness reviews so that these can be used internally for auditing of the process as well as externally if questions arise from the customers.

27. Strengthen its internal controls conducted by Xcel's Regulatory Strategic Analysis (RSA) group to ensure that its conclusions are supported by sufficient and appropriate evidence.

12. OASIS Posting Metrics

PSCo did not post complete system impact and facilities study metrics on its public OASIS web site.

Pertinent Guidance

18 C.F.R. § 37.6(h)(1) requires transmission service providers to post certain metrics regarding their processing of transmission service request system impact and facilities studies. Specifically, 18 C.F.R. 37.6(h)(1) states, in part:

> For each calendar quarter, the Responsible Party must post the set of measures detailed in paragraph (h)(1)(i) through paragraph (h)(1)(vi) of this section related to the Responsible Party's processing of transmission service request system impact studies and facilities studies.

18 C.F.R. § 37.6(h)(1)(i) describes summary information to be posted relating to the processing time from an initial service request to an offer of system impact study agreement. Among several other metrics, 18 C.F.R. § 37.6(h)(1)(i) requires posting of:

> (C) Mean time (in days), for all requests acted on by the Responsible Party during the reporting quarter, from the date when the Responsible Party received the request for transmission service to when the Responsible Party changed the transmission request status to indicate that the Responsible Party could offer Transmission Service or needed to perform a system impact study.

Background

On April 10, 2013, Xcel submitted the second of two required semi-annual compliance reports to the Commission pursuant to a Stipulation and Consent Agreement issued on December 22, 2011 in the Commission's investigation of Xcel, conducted under Docket No. IN08-7-000. In this report, Xcel noted that it had identified a potential issue regarding OASIS metric postings. Xcel said it had not completed an internal review of the potential issue, but stated that after it completed its review it would raise the issue during the course of the current audit. After reviewing the compliance report, audit staff discussed the potential issue with PSCo. During these discussions, it became apparent that PSCo did not post all required information pertaining to the required metrics for certain quarters during and prior to the audit period.

18 C.F.R. § 37.6(h)(1) requires transmission service providers to post certain metrics regarding requests for system impact and facilities studies. Specifically, PSCo is to post the "mean time (in days), for all requests acted on [by PSCo] during the reporting

quarter, from the date when [PSCo] received the request for transmission service to when [PSCo] changed the transmission request status to indicate that [PSCo] could offer Transmission Service or needed to perform a system impact study." However, PSCo said it had only posted some of the required metrics. PSCo said the error occurred because it interpreted 18 C.F.R. § 37.6 as a requirement to post items only when a study was required, and a study agreement was completed. Instead, PSCo is required to post all metrics, even for those requests where a study is ultimately not required. PSCo's Federal Regulatory Affairs recognized this problem during an internal review in April 2013, after the commencement of this audit, which is when they also notified the Commission in the aforementioned compliance report. Both PSCo's Federal Regulatory Affairs and Transmission Business Relations then discussed the issue further and changed their procedures.

Beginning on May 14, 2013, Transmission Business Relations began posting metrics every quarter, even if no customers submitted requests or if studies were not required because Available Transmission Capability (ATC) was sufficient to grant transmission service without a study. PSCo also updated all of its posted metrics from January 1, 2008 to May 14, 2013 to reflect all received service requests in its metrics. Also, PSCo began to develop written procedures related to updating the transmission study metrics, which are still in the process of completion. Transmission Business Relations updated the transmission study metrics template that PSCo has used to post metrics to include C.F.R. references to ensure proper recording of updates.

Recommendations

We recommend PSCo:

28. Develop written processes and procedures related to updating complete and accurate transmission study metrics on a quarterly basis.

29. Post accurate and complete transmission study metrics, and make necessary updates to existing studies currently posted on the OASIS.

13. Records Retention Procedures

PSCo did not have procedures in place sufficient to ensure certain records were retained for the periods prescribed by Commission regulations. Specifically, PSCo was unable to locate several transmission service applications and generator interconnection requests. Also, PSCo did not notify the Commission when it discovered records were destroyed or lost, as required.

Pertinent Guidance

The Commission's preservation of records requirements for public utilities are found under 18 C.F.R. § 125. These requirements include a Schedule of Records and Periods of Retention under 18 C.F.R. § 125.3. In relevant part, this schedule contains the following retention requirements:

Item No. and Description	Retention Period
Revenue Accounting and Collecting	
29 Customers' service applications and contracts: contracts, including amendments for extension of service, for which contributions are made by customers and others	4 years after expiration.

Also, the Commission's records requirements provide for companies to make a filing with the Commission when it is discovered that records have been prematurely destroyed or lost. Specifically, 18 C.F.R. Part 125.2 (f), Premature Destruction or Loss of Records, states:

> When records are destroyed or lost before the expiration of the prescribed period of retention, a certified statement listing, as far as may be determined, the records destroyed and describing the circumstances of accidental or other premature destruction or loss must be filed with the Commission within ninety (90) days from the date of discovery of the destruction.

Background

Audit staff requested numerous documents throughout our testing of PSCo's compliance with various OATT requirements. Audit staff found that PSCo could not locate certain requests for transmission service and generator interconnection requests.

Also, PSCo did not file the required notifications that certain records had been destroyed or lost, as required.

To test PSCo's long-term firm transmission service offerings, audit staff requested certain documents relating to transmission service requests and contracts for long-term firm transmission customers. Of the ten Network Integration Transmission Service customers that PSCo had contracts with during the audit period, PSCo was unable to provide any of these customers' requests for transmission service. Of the three long-term, firm Point-to-Point Transmission Service customers that PSCo had contracts with during the audit period, PSCo was unable to provide any of these customers' requests for transmission service. In all cases, PSCo was able to provide the relevant transmission service agreements. In regards to both types of transmission service requests, PSCo told audit staff that before and during the audit period, it did not have any formal procedures for receiving initial requests for transmission service, or for maintaining those requests. Audit staff believes the lack of procedures contributed to the company's inability to produce these documents.

Also, audit staff tested PSCo's interconnection procedures by requesting certain documents related to interconnection applications and contracts for a sample of ten interconnection contracts. In response to audit staff's request, PSCo was unable to provide seven customer requests for interconnection. In all cases, PSCo was able to provide the relevant interconnection agreements. PSCo explained that when they receive an informal request for interconnection that they direct the customer to complete a formal request. PSCo was unable to provide a reason for the loss of these requests for generator interconnection. While PSCo has a process diagram identifying all documents, including interconnection requests to be retained in their ProjectWise document system, audit staff believes insufficient procedures contributed to the company's inability to produce these documents.

Audit staff determined PSCo did not notify the Commission that these records were prematurely destroyed or lost, as required. PSCo explained that it did not make the required filings as these records were not found to be missing until this audit. However, PSCo explained that it did not have policies and procedures for notifying the Commission when records are prematurely destroyed or lost. Audit staff believes such procedures are important to ensure a filing is made when PSCo identifies records that have been prematurely destroyed or lost.

Recommendations

We recommend PSCo:

30 Review and update its recordkeeping policies and procedures to ensure records are retained for the periods prescribed.

31 Establish policies and procedures to ensure a filing is made with the Commission when the company has discovered records have been prematurely destroyed or lost.

32 Submit a filing to the Commission to report that records were prematurely destroyed or lost, as identified above in accordance with 18 C.F.R. Part 125.2(f).

Appendix A – PSCo's Comments to the Draft Audit Report

Xcel Energy

June 30, 2015

By Electronic Delivery
Follow-up by Overnight Courier

Mr. Bryan K. Craig
Director and Chief Accountant
Division of Audits and Accounting
Office of Enforcement
Federal Energy Regulatory Commission
888 First Street, NE, Room 5K-13
Washington, DC 20426

RE: **Docket No. PA13-14-000**
Audit of Public Service Company of Colorado

Dear Mr. Craig:

By letter dated June 3, 2015, and revised on June 25, 2015, the Division of Audits and Accounting within the Office of Enforcement ("DAA") of the Federal Energy Regulatory Commission ("FERC" or "Commission") provided a draft audit report ("Draft Report") setting forth the findings and recommendations of the DAA regarding the audit of the Xcel Energy Operating Companies[1] FERC Electric Tariff, Second Revised Volume No. 1, including tariff sheets with Public Service Company of Colorado's ("PSCo") transmission formula rate (Attachment O – PSCo).

Your letter requested a written response to each of the recommendations in the Draft Report within fifteen (15) business days. Due to revisions made to the Draft Report, PSCo was granted an extension of an additional five (5) calendar days from the date you sent the revised Draft Report.

Your letter indicated that PSCo should state:

- Whether we agree or disagree with each of the findings and recommendations;
- If we disagree, we should explain why and provide an alternative action; and
- The corrective action(s) planned or taken and the targeted completion dates.

[1] The Xcel Energy Operating Companies include the Public Service Company of Colorado, Northern States Power Company, a Minnesota corporation, Northern States Power Company, a Wisconsin corporation, and Southwestern Public Service Company. The Draft Audit report involves only the PSCo operating company.

This letter and Attachment 1 to this letter provide the requested written response by Xcel Energy Services Inc. ("XES") on behalf of PSCo.[2]

As set forth below and in Attachment 1, PSCo agrees with the thirteen (13) Compliance Findings and will implement the thirty-two (32) Recommendations summarized on pp. 2-9 of the Draft Report. For certain recommendations, Attachment 1 provides additional information regarding the circumstances of the Compliance Findings and PSCo's plans to implement the Recommendations. Attachment 1 also sets forth the corrective action(s) taken or planned and the targeted completion date(s) for the Recommendations. As noted in the Draft Report, PSCo has already corrected several of the issues affecting the collection of costs through the PSCo transmission formula rate in transmission formula rate true-ups, thereby providing refunds (with interest) to affected customers, and PSCo has reported the corrections to the Commission in PSCO's annual transmission formula rate informational filings. (As discussed in Attachment 1, PSCo has also corrected issues affecting collection of certain costs through the PSCo production formula rate in production formula rate true-ups.) PSCo anticipates that all corrective actions will be completed within eighteen (18) months of issuance of the final Audit Report.

Compliance and Implementation of Recommendations

As described in Attachment 1, XES will file an Implementation Plan with the Commission on behalf of PSCo within thirty (30) days of the date of the Commission order issuing the Final Report. The Implementation Plan will include discussion of and provide copies of procedures and controls adopted by PSCo. XES will also file quarterly status reports detailing progress on the Implementation Plan until the corrective actions are completed.

As noted, PSCo anticipates completing all corrective actions within eighteen (18) months of issuance of the final Audit Report. If PSCo identifies any additional corrections to its transmission formula rate through review of additional accounting years (required by Recommendations 6 and 19), the dollars would be refunded (plus interest) through a prior period correction reflected in the PSCo transmission formula rate true-up effective January 1, 2017.

Conclusion

XES and PSCo would like to express their appreciation for the professional manner in which the DAA audit team conducted the audit. Xcel Energy, XES, and PSCo are committed to full compliance with the Commission's regulations, and believe the audit and Draft Report process have provided a constructive means to help us improve our accounting, formula rate and other processes to better achieve the objective of full compliance.

[2] XES is the service company for the Xcel Energy Operating Companies, including PSCo, and represents PSCo in matters before the Commission.

Thank you for your prompt consideration of this response. DAA staff should not hesitate to contact either Mr. Matt Conger (303-294-2806) or Mr. Mike Rodriguez (303-571-2814) with questions regarding this response to the Draft Report.

Sincerely,

Jeff Savage
Senior Vice President & Controller
Xcel Energy Services Inc., on behalf of
Public Service Company of Colorado

Attachments

cc: Alice K. Jackson, Regional Vice President, Rates & Regulatory, PSCo
Christopher Haworth, Associate Vice President, Revenue Requirements
Frank Prager, Vice President, Policy & Strategy/FERC Compliance Officer
Terri K. Eaton, Director, Regulatory Administration & Compliance
Mike Rodriguez, Senior Director, Utility Accounting
Deborah Blair, Director, Revenue Analysis
James P. Johnson, Assistant General Counsel

Attachment 1

PSCo Response to Draft Audit Report Compliance Findings/Recommendations:

Finding 1. Common Plant Depreciation and Amortization Expense

PSCo overstated common plant depreciation and amortization expense due to computational errors between 2004 and 2011. As a result of these errors, PSCo overbilled wholesale transmission and production customers by $244,024.

Agree or disagree: Agree

Response/Corrective Action:

PSCo corrected the error for years 2005 – 2011 when it calculated the Attachment O – PSCo Transmission Formula Rate Projected Annual Rate for 2014. PSCo corrected the 2004 error (which affected rates for July to December 2005) when it calculated the Attachment O – PSCo Transmission Formula Rate Projected Annual Rate for 2015. The corrections resulted in refunds with interest (via the True-up) in compliance with the Transmission Formula Rate Implementation Procedures in Attachment O-PSCo to the OATT.

The error in the PSCo production formula rate occurred only in 2011. The production formula rate was effective September 1, 2011. Prior to the effective date of the Production Formula Rate Template, PSCo's production rates were stated rates, based on black box settlements. Therefore, the impact of any reporting error in the FERC Form No. 1 prior to 2011 would not have affected the FERC-accepted stated rates. The 2011 error was corrected and refunded to the wholesale production customers, plus interest, in the 2012 Production True-Up (Refund)/Surcharge.

Recommendations:

1. Strengthen and ensure its procedures and controls for preparing and reviewing its FERC Form No. 1 to achieve accurate and error-free reporting.

   Response: Xcel Energy Capital Asset Accounting (CAA) continuously monitors and revises (as necessary) its procedures and processes to enhance compliance. CAA enhanced the PSCo depreciation and amortization reporting process to include standardized and/or tailored programs designed to facilitate effective and efficient preparation/review. Enhancements focus on the completeness and accuracy of information and are intended to result in consistent supporting documentation. These programs (i.e., checklists) continue to evolve and we plan to increase the use of these tools on a go-forward basis.

   Target completion date: Complete

2. Submit to DAA for review supporting computations and documentation for amounts affecting cost recoveries since the inception of its transmission and production formula rate mechanisms.

   Response: The corrections to the transmission formula rates were reported to the Commission on January 15, 2014 and January 20, 2015, respectively, when PSCo filed the 2014 and 2015 Transmission Formula Rate Annual Update informational filings with the Commission under Docket No. ER12-1589. The error in the production formula rate occurred only in 2011, because the production formula rate was not placed in effect until 2011, and the error was corrected in the 2012 Production True-Up provided to customers in June 2012. The computations and documentation affecting cost recoveries since the inception of its transmission and production formula rate mechanisms were provided to DAA in a data response. PSCo will provide another copy of the supporting computations and documentation with its 30 day implementation plan.

   Target completion date: Complete

3. Prepare and file a refund analysis with the Commission and make refunds consistent with the provisions of its transmission and production formula rate mechanisms after it provides DAA the computations and documentation for review. For each year affected, make refunds and compute interest on over-collected amounts in accordance with 18 C.F.R. § 35.19a.

   Response: PSCo corrected the error for years 2005 – 2011, with interest, when it calculated the Attachment O – PSCo Transmission Formula Rate Projected Annual Rate for 2014, filed on an informational basis on January 15, 2014 in Docket No. ER12-1589. PSCo corrected the 2004 error (which affected rates for July to December 2005) when it calculated the Attachment O – PSCo Transmission Formula Rate Projected Annual Rate for 2015, filed on an informational basis on January 20, 2015 in Docket No. ER12-1589.

   The error in the production formula rate occurred only in 2011 and was corrected and refunded (with interest) to PSCo's wholesale production customers in the 2012 True-Up (Refund)/Surcharge. PSCo will submit the 2012 True-Up (Refund/Surcharge) analysis to the Commission as an informational filing approximately concurrent with its 30 day implementation plan.

   Target completion date: 30 days after issuance of the final Audit Report

Finding 2. Revenues for Transmission of Electricity of Others

PSCo understated the revenue credits used to reduce the revenue requirement of its transmission formula rate due to misreported customer information in the FERC Form No. 1, Account 456.1, Transmission of Electricity for Others. As a result, PSCo overstated its revenue requirement by $105,146 and $199,253 in 2010 and 2011, respectively. This led to excess billings to wholesale transmission customers.

Agree or disagree: Agree

Response/Corrective Action:

PSCo corrected the 2011 and 2010 revenue credit understatement and provided refunds, with interest, when it calculated the Attachment O – PSCo Transmission Formula Rate Projected Annual Rate for 2014 and 2015, respectively.

PSCo has also reviewed its preparation of pages 328-330 of the FERC Form No. 1 for 2008 and 2009. This review confirmed that, while the unbilled revenue accrual was presented as a single line in the FERC Form No. 1, the appropriate process was followed to separate that amount by counterparty in preparation of the "456 Map" revenue credit worksheet in the annual formula rate update, resulting in the proper calculation of related revenue credits. PSCo also confirmed that statistical classification codes found to be misclassified in 2010 and 2011 were not similarly misclassified in 2008 and 2009. PSCo implemented revised procedures and controls in 2012 to prevent errors like those in 2010 and 2011.

Recommendations:

4. Strengthen its procedures and controls over the preparation and review of pages 328-330 of its FERC Form No. 1 to ensure revenue credit amounts associated to Account 456.1 are calculated and reflected accurately in the FERC Form No. 1 and transmission formula rate.

   Response: Beginning with calendar year 2012, PSCo implemented a revised process whereby transmission revenue details are recorded by counterparty within its general ledger, enabling pages 328-330 of FERC Form No. 1 to be prepared directly from data downloaded from the accounting system. PSCo's preparation of pages 328-330 of the 2012 FERC Form No. 1 also included a thorough review of statistical classification codes against contractual terms and conditions, which remains in place.

   Target completion date: Complete

5. Train employees to ensure they fully understand the reporting requirements for the columns on pages 328-330 of the FERC Form No. 1 and the importance of this information in determining the revenue credits provided to customers in the transmission formula rate.

   Response: Employees involved in preparation and review of pages 328-330 of the FERC Form No. 1 and the PSCo transmission formula rate will be required to read the instructions for pages 328-330 of the FERC Form No. 1 and sign-off that they have reviewed and understand the information as it relates to the PSCo transmission formula rate. PSCo will evaluate whether additional training is needed.

   Target completion date: September 30, 2015

6. Perform a comprehensive study of the information reported on pages 328-330 of the FERC Form No. 1 to confirm the accuracy of customer information on these pages and

revenue credits included in the transmission formula rate from 2005 to 2009. Submit the study to DAA, along with the supporting calculations prior to making refunds.

Response: As described above, PSCo previously reviewed pages 328-330 of the FERC Form No. 1 for 2008 and 2009 to confirm the errors identified in 2010 and 2011 were not present in those years. PSCo will complete a similar study of the years 2005-2007. PSCo will provide a combined study for years 2005-2009 to FERC audit staff when complete. PSCo implemented revised procedures and controls in 2012, which would prevent errors like those in 2010 and 2011 for the years 2012 and forward.

Target completion date: June 30, 2016

7. Prepare and file a refund analysis with the Commission and make refunds consistent with the provisions of its transmission formula rate mechanism after it provides DAA the results of its study. For each year affected, make refunds and compute interest on over-collected amounts in accordance with 18 C.F.R. § 35.19a.

   Response: PSCo corrected the 2011 revenue credit understatement when it calculated the Attachment O – PSCo Transmission Formula Rate Projected Annual Rate for 2014. PSCo corrected the 2010 revenue credit understatement when it calculated the Attachment O – PSCo Transmission Formula Rate Projected Annual Rate for 2015. PSCo provided the Commission refund analyses when PSCo submitted its annual informational filings in January 2014 and January 2015, respectively, in Docket No. ER12-1589. Corrections that result from the review of 2005-2009, if any, would be reflected, with interest, as a Prior Period Correction in the Projected Annual Transmission Rate for 2017 and reported to the Commission with the 2017 transmission formula rate informational filing in January 2017.

   Target completion date: Refund analysis complete by June 30, 2016, with any corrections reflected (with interest) in the PSCo Projected Annual Rate effective January 1, 2017.

Finding 3. Accounting for Compromise Settlements

PSCo incorrectly recorded a payment relating to an alleged employment discrimination settlement in various above-the-line expense accounts rather than below-the-line expense accounts. This accounting resulted in PSCo overbilling wholesale transmission customers by $11,747.

Agree or disagree: Agree.

Response/Corrective Action:

PSCo agrees that it recorded above the line rather than below the line certain payments related to settlements recorded in 2010, 2011 and 2012 regarding litigation related to, *inter alia*, alleged employment discrimination claims. PSCo made Prior Period Correction to exclude the settlement payments from the transmission formula rate when it calculated the Attachment O – PSCo Transmission Formula Rate Projected Annual Rate for 2015.

Revised procedures placed in effect by PSCo excluded the costs of employment discrimination settlements subject to 18 CFR 35.13(b)(7) from transmission formula rates starting in 2013. PSCo will perform an analysis of employment discrimination settlement payments for other periods (e.g. July 1, 2005 to 2009 for transmission formula rate) to determine if any additional settlement payments should have been excluded from formula rates pursuant to 18 CFR 35.13(b)(7). PSCo will prepare and file a refund analysis with the Commission. For each year affected, if any, PSCo will make refunds (with interest) through future transmission and production formula rate true-ups.

PSCo's Production Formula Rate Template was effective September 1, 2011. Prior to the effective date of the Production Formula Rate Template, PSCo's production rates were stated rates, based on black box settlements. Therefore, settlement payments recorded prior to September 1, 2011 were not included in production rates.

Recommendations:

8. Implement policies, procedures, and controls to ensure it records payments for legal settlements related to alleged discriminatory employment practices in Account 426.5.

   Response: PSCo has adopted revised procedures to track employment discrimination matters from the outset of the matter so settlement payments that should be excluded from rates under 18 CFR 35.13(b)(7) can be identified. PSCo will implement further policies, procedures and controls to ensure that PSCo records in Account 426.5 any settlement payment required to be excluded from PSCo's transmission and production formula rates pursuant to 18 CFR 35.13(b)(7).

   Target completion date: December 31, 2015

9. Prepare and file a refund analysis with the Commission and make refunds consistent with the provisions of its production and transmission formula rate mechanisms. For each year affected, make refunds and compute interest on over-collected amounts in accordance with 18 C.F.R. § 35.19a.

   Response: PSCo corrected for inclusion of the identified settlement payments when it calculated the Attachment O – PSCo Transmission Formula Rate Projected Annual Rate for 2015. The corrections resulted in refunds, with interest, in compliance with the Transmission Formula Rate Implementation Procedures in the OATT. PSCo provided the Commission a refund analysis when PSCo submitted its annual informational filing in January 2015 in Docket No. ER12-1589.

   As noted, the PSCo production formula rate was placed in effect in September 2011. PSCo will calculate the impact, if any, of the identified settlement payments on PSCo's production formula rates, and PSCo will provide any necessary customer refunds, with interest, as part of the 2015 Production True-up, to be calculated by June 1, 2016. PSCo will submit an analysis with the 2015 Production True-up informational filing to the Commission.

PSCo will perform an analysis of employment discrimination settlement payments for other periods (July 1, 2005 to 2009 for transmission formula rate) to determine if any settlement payments must be excluded from PSCo's formula rates pursuant to 18 CFR 35.13(b)(7). For each year affected, if any, PSCo will make refunds, with interest, through future transmission and production formula rate true-ups. PSCo will prepare and file a refund analysis with the Commission in future transmission and production formula rate informational filings.

Target completion dates: Refund analysis complete by April 30, 2016, with any true-up corrections reflected, with interest, in the transmission Projected Annual Rate effective January 1, 2017, and, if necessary, the 2015 Production True-up, to be calculated by June 1, 2016.

Finding 4. Generator Interconnection Facilities

PSCo's inclusion of costs associated with generation interconnection facilities was inconsistent with the protocols of its transmission formula rate mechanism. These protocols specifically state that generation interconnection facilities should be removed from its transmission formula rate. As a result, PSCo overbilled wholesale transmission customers by $1,601.

Agree or disagree: Agree

Response/Corrective Action:

PSCo corrected this accounting error in 2013, and the Transmission Formula Rate 2013 True-Up reflected this accounting correction. The PSCo Production Formula Rate 2013 True-Up also reflected this accounting correction.

Recommendations:

10. Strengthen procedures and controls to ensure generation interconnection facilities are excluded from recovery consistent with the protocols of PSCo's transmission formula rate.

    Response: Generation interconnection facilities are recorded to a separate Generator Step-Up account which is excluded from reporting for transmission formula rates. PSCo will implement an annual process to review all Generator Step-Up locations as part of the process of calculating the projected transmission formula rates.

    Target completion date: December 31, 2015

11. Prepare and file a refund analysis with the Commission and make refunds consistent with the provisions of its transmission formula rate mechanism. For each year affected, make refunds and compute interest on over-collected amounts in accordance with 18 C.F.R. § 35.19a.

Response: The accounting correction in 2013 was included in the transmission and production formula rate true-ups, and refunds provided with interest. No additional refunds are required. PSCo provided the Commission a refund analysis when PSCo submitted its annual formula rate informational filings in January 2015 in Docket Nos. ER12-1589 and ER11-2853, respectively.

Target completion date: Complete

Finding 5. Allocation of Service Company Costs

XES used an improper allocation methodology to assign shared costs for technical support, maintenance, and training related to information technology services to its jurisdictional operating companies from 2007 to 2012. Use of this allocation methodology overstated general and administrative costs assigned to its operating companies. For PSCo, it resulted in overbilling transmission customers $133,451 for the rates in effect in 2008 to 2012 and production customers $63,814 for the rates in effect from September 2011 to December 2012.

Agree or disagree: Agree.

Response/Corrective Action:

After this misallocation was discovered in April 2012, it was promptly corrected during the annual Service Company allocation update process. The misallocation was caused by using the improper allocation statistics to calculate the operating company allocation percentages; the allocation methodology used was correct.[1]

Recommendations:

12. Strengthen policies and procedures to ensure shared services are properly assigned to PSCo and other jurisdictional regulated operating companies.

    Response: In order to improve the cost allocation process for all Xcel Energy affiliates, the Xcel Energy Services Inc. ("XES" or "Service Company") accounting department implemented the following control processes:

    1) The XES accounting department increased the amount of time allotted to the allocation statistics collection process in general, and computer counts in particular. The year-to-year variances are also compared against the three-four year trend to gain additional insights into statistics variability.

    2) XES also created the Allocation Review Committee consisting of senior management personnel. This Committee reviews the allocation percentages during the annual process and approves the resulting percentage changes. This process provides a forum

[1] XES did not overstate general and administrative costs or recover more than 100 percent of the identified costs from its operating company affiliates.

for the Service Company accounting staff and senior management team to conduct additional due diligence and improve the overall cost causality of the allocation methods.

Target completion date: Complete

13. Prepare and file a refund analysis with the Commission and make refunds consistent with the provisions of its transmission and production formula rate mechanisms. For each year affected, make refunds and compute interest on over-collected amounts in accordance with 18 C.F.R. § 35.19a.

    Response: PSCo will correct for the misallocation of the specified Service Company costs for 2007 through 2012 when it calculates the Attachment O – PSCo Transmission Formula Rate Projected Annual Rate for 2016. The corrections will result in refunds with interest in compliance with the Transmission Formula Rate Implementation Procedures in the OATT. PSCo will report the correction and true-up refund in the 2016 annual transmission formula rate informational filing to be submitted in January 2016.

    The PSCo production formula rate was placed in effect September 1, 2011. Any corrections applicable to the production formula after September 1, 2011 will be refunded to customers as part of the true-up of 2015 production rates, plus interest. PSCo will prepare and file a refund analysis with the Commission in the production formula rate informational filing to be submitted in January 2016.

    Target completion date: January 31, 2016

Finding 6. Transmission Plant Acquisition Adjustment

PSCo recorded amounts above original costs, which represented a plant acquisition adjustment, in Account 101 rather than Account 114 for nearly two years prior to obtaining Commission approval to book such amounts in Account 114. As a result, PSCo recovered amounts prematurely from wholesale customers related to the acquisition adjustment.

Agree or disagree: Agree

Response/Corrective Action:

PSCo included the plant acquisition adjustment in production and transmission formula rates consistent with settlements approved by the Commission in Docket Nos. ER11-2853 and ER12-1589, respectively. PSCo will, however, return the time value of monies associated with collecting the acquisition adjustment from wholesale transmission customers prior to express approval from the Commission to record such acquisition adjustment in FERC Account 114, when it calculates the Attachment O – PSCo Transmission Formula Rate Projected Annual Rate for 2016.

Recommendations:

14. Implement controls and processes to ensure it does not record acquisition adjustments in Account 101 or recover any acquisition adjustment from ratepayers prior to receiving Commission approval.

    Response: Xcel Energy's Capital Asset Accounting department will develop guidance documentation and provide training to all individuals involved in the recording of asset acquisitions to ensure that Commission guidelines for accounting for acquisitions are understood and followed.

    Target completion date: August 31, 2015

15. Prepare and file a refund analysis with the Commission to return the time value of monies collected prematurely from the applicable wholesale customers. For each year affected, compute interest on over-collected amounts in accordance with 18 C.F.R. § 35.19a and make refunds.

    Response: PSCo will return the time value of monies associated with collecting the acquisition adjustment from wholesale transmission customers prior to approval from the Commission when it calculates the Attachment O – PSCo Transmission Formula Rate Projected Annual Rate for 2016. PSCo will report the correction and true-up refund in the 2016 annual transmission formula rate informational filing to be submitted in January 2016.

    Target completion date: January 31, 2016

Finding 7. Accounting for Donations

PSCo incorrectly recorded a payment for a donation in Account 506 rather than Account 426.1. Since PSCo recorded this in a production operating expense account, it did not affect the transmission formula rate mechanism. However, this accounting affected PSCo's production formula rate mechanism and resulted in $100,000 overstatement of its revenue requirement. This led to excess billings to wholesale production customers.

Agree or disagree: Agree

Response/Corrective Action:

The expense was recorded in 2011. PSCo's Production Formula Rate Template was effective September 1, 2011. Prior to the effective date of the Production Formula Rate Template, PSCo's production rates were stated rates, based on black box settlements. The impact on the production revenue requirement for the 2011 wholesale production rates was an increase of $4,308 for the period September 1, 2011 through December 31, 2011.

Recommendations:

16. Strengthen procedures and controls to ensure it records donations as nonoperating expenses in Account 426.1.

Response: PSCo records donations made in the normal course of business for charitable, social or community welfare purposes in Account 426.1. PSCo believes this item, which related to settlement of litigation, to be unique in nature and not part of normal and recurring donation activity. PSCo will incorporate these audit recommendations when determining the appropriate accounting treatment for future settlement payments. For items that are deemed to be donations, PSCo will record the items to FERC account 426.1.

Target completion date: Complete

17. Prepare and file a refund analysis with the Commission and make appropriate refunds consistent with the provisions of its production formula rate mechanism. For each year affected, make refunds and compute interest on over-collected amounts in accordance with 18 C.F.R. § 35.19a.

Response: PSCo will calculate the impact of the 2011 payment on 2011 wholesale production rates and provide any necessary refunds, plus interest as part of the true-up of 2015 production rates. PSCo will submit a refund analysis with the Commission as part of the production formula rate informational filing to be submitted in January 2016.

Target completion date: January 31, 2016

Finding 8. Direct Assignment of Generator Interconnection Costs

PSCo improperly billed costs associated with owning, operating, maintaining, repairing, and replacing interconnection facilities to its transmission customers through its formula rate mechanism instead of directly charging specific interconnection customers during the audit period.

Agree or disagree: Agree

Response/Corrective Action:

PSCo did not directly charge Large and Small Generation Interconnection Customers for owning, operating, maintaining, repairing, and replacing interconnection facilities (O&M) for PSCo Transmission Owner Interconnection Facilities (TOIF) because PSCo considered the administrative costs to conduct those billing activities to be burdensome compared to the O&M charges to be collected on relatively new facilities. Consequently, rather than directly charging O&M expenses to the interconnection customers, some costs were billed to transmission customers through the formula rate mechanism. PSCo retail native load bore the largest share of these costs.

Based on PSCo's estimates, the impact of charging generation interconnection customers for O&M on interconnection facilities would be $510 per year for each interconnection. For the audit period through 2015, PSCo's had fourteen Generation Interconnection Agreements. The total O&M charges would be approximately $7,140 per year for all interconnection customers.

PSCo believes the administrative costs to invoice and collect these O&M fees would exceed $7,140 per year.

PSCo will review and reassess the OATT language as it relates to the TOIF O&M charges and may pursue a waiver or tariff change, such as an annual O&M fee. In the meantime, PSCo will credit the transmission formula rate template revenue requirement at the rate of $510 per year for each generation interconnection pending a change to the PSCo OATT.

Recommendations:

18. Strengthen and implement processes, procedures, and controls to appropriately track costs relating to owning, operating, maintaining, repairing, and replacing interconnection facilities and begin charging these costs to the appropriate interconnection customers. .

    Response: If it is deemed that modifications or revisions to the OATT will clarify the implementation of the TOIF O&M charges, PSCo will prepare and file a tariff revision with the Commission. Alternatively, PSCo will seek to waive the OATT provision regarding billing O&M charges to generation interconnection customers. PSCo will continue to credit the transmission formula rate template revenue requirement at a rate of $510 per generation interconnection customer until such filing is made or accepted, so wholesale transmission customers are not affected by the non-collection of O&M fees.

    Target completion date: March 31, 2016

19. Review the cost associated with generator interconnection facilities for the audit period to determine costs associated with owning, operating, maintaining, repairing, and replacing interconnection facilities that should have been directly charged, but were not for that period.

    Response: PSCo's expenses related to owning, operating, maintaining, repairing, and replacing interconnection facilities are estimated at this time to be $510 per year for each generation interconnection. For the audit time period through 2015, PSCo's had fourteen Generation Interconnection Agreements, which brings the total costs to approximately $7,140 per year for all generation interconnection customers.

    Target completion date: Complete

20. Prepare and file a refund analysis with the Commission and make appropriate refunds for the audit period for operating and maintenance expenses assignable to generator interconnection customers that were improperly recovered through the transmission formula rate mechanism. For each year affected, make refunds and compute interest on over-collected amounts in accordance with 18 C.F.R. § 35.19a.

    Response: PSCo will remove the estimated transmission O&M expense of $7,140 per year for calendar years 2010 through 2015 when it calculates the PSCo Transmission Formula Rate Projected Annual Rate for 2016. The corrections will result in refunds with interest in compliance with the Transmission Formula Rate Implementation

Procedures in the OATT. PSCo will report the correction and refund in the 2016 annual transmission formula rate informational filing to be submitted in January 2016.

Target completion date: January 31, 2016

Finding 9. Procedures for Acts of Discretion

PSCo did not maintain its compliance with a recommendation in a prior Commission audit report. This recommendation directed PSCo to implement written procedures to identify acts of discretion with respect to administering the Xcel Energy OATT and post such acts of discretion appropriately. In light of this, PSCo did not have adequate procedures in place to identify acts of discretion that may have required a posting to OASIS.

Agree or disagree: Agree

Response/Corrective Action:

Although PSCo's last discretion log posting was in 2008, PSCo did develop procedures and did post acts of discretion in response to the recommendation of the Commission's audit report (Docket No. PA05-1-000, audit report at 4). PSCo followed its procedure through 2008 as required by the Commission. Postings ceased in 2008 because, effective November 2008, PSCo understood that Order No. 717 removed the Order No. 2004 requirement to post acts of discretion under the Standards of Conduct rules. PSCo understands audit staff agrees that Order 717 removed the general obligation to post acts of discretion. PSCo did not maintain documentation explaining why it discontinued maintenance of discretion logs after 2008, however.

The audit report does not specifically require PSCo to re-initiate general discretion logs or posting discretionary acts, citing instead the language in Paragraph 216 of Order 717. But PSCo understands that FERC audit staff takes the position that a subset of specific discretionary acts may require postings if such acts favor an affiliate. These two specific acts, identified in Orders 890 and 890-A, are:

1) Invalidation of a pre-confirmed transmission service request when requested by the customer
2) Granting of transmission when posted ATC is insufficient

It is PSCo's understanding that these specific acts are the only acts that may require posting if there are processes or patterns that indicate more favorable discretion is exercised towards an affiliate. PSCo developed procedures in 2014 to log and post the above two acts of discretion, if they occur.

Recommendations:

21. Implement processes, procedures, and controls to ensure it maintains sustainable compliance with all recommendations in this and past audit reports, as well as any other requirements imposed by the Commission, on an ongoing basis.

Response: Over the past three years, Xcel Energy has developed documents called "FERC Roadmaps" that capture information applicable to Commission requirements for better tracking and monitoring of compliance.

Roadmaps capture information such as the citation to the Commission's requirement, applicability of the requirements to areas within Xcel Energy, owner(s) of requirements, and locations of relevant compliance procedures. The roadmaps are reviewed and updated on an annual basis and are intended to provide an ongoing snapshot of requirements imposed by the Commission and thereby facilitate compliance.

Xcel Energy will add information to the FERC Roadmaps to capture corrective actions associated with the recommendations of this audit as well as prior audits of Xcel Energy Operating Companies.

Target completion date: December 31, 2015

22. Strengthen processes, procedures, and controls to reduce operator error in the granting of transmission requests when posted available ATC is insufficient.

Response: PSCo in 2014 completed implementation of an internal procedure outlining Transmission Service Request (TSR) and Tag validation settings, results, and expected operator actions. This procedure strengthens PSCo's process through a formal procedure describing the TSR and Tag validation settings, possible validation results, and expected Balancing Authority Operator actions, and consequently reduces operator error in the granting of TSRs. PSCo further strengthened TSR validation controls to include an automatic assignment of TSR status to REFUSED if ATC is insufficient to accommodate the TSR. This automatic processing functionality is employed through the TSR validation settings within the OATI webTrans application, and establishes a consistent and proper TSR ATC validation process.

Target completion date: Complete

Finding 10. Release of Non-Firm Available Transmission Capacity

PSCo inadvertently did not release unused Transmission Reliability Margin (TRM) as nonfirm ATC as specified in its OATT. This occurred periodically during the period October 2005 to January 2010. This error resulted from OATI automated software processes involving incorrect default settings for the TRM coefficient in the formulas used in the software to calculate and post available nonfirm ATC. PSCo discovered this error during an internal assessment in 2010 prior to the commencement of this audit, and corrected the software settings, but never filed a self-report or posted a notification on its OASIS to inform customers about these errors.

Agree or disagree: Agree

Response/Corrective Action: PSCo corrected the default settings as soon as it was aware of the error. PSCo will strengthen its procedures for when it is appropriate to notify the Commission and customers regarding OATT compliance.

Recommendations:

23. Strengthen policies and procedures for notifying transmission customers and the Commission about issues of noncompliance with its OATT in a timely manner.

    Response: PSCo will strengthen its procedures for evaluating when it is appropriate to notify the Commission and customers regarding OATT compliance issues.

    Target completion date: December 31, 2015

24. Develop procedures to monitor and assess the ability of its OATI system to identify risks that threaten the data integrity of its operational system.

    Response: PSCo has developed a Methodology document to ensure all values associated with PSCo's Available Transfer Capability Implementation Document (ATCID), Transmission Reliability Margin Implementation Document (TRMID), and Capacity Benefit Margin Implementation Document (CBMID) are entered into OATI software correctly. This will strengthen PSCo's OATI data entry process to monitor and assess the accuracy of any data entry changes associated with ATCID, TRMID or CBMID through a review and validation check internal to PSCo Transmission Operations. This Methodology will significantly reduce the risk of inadvertent error and safeguard the data integrity impacting PSCo's ATC calculation.

    Target completion date: July 1, 2015

Finding 11. Transmission Customer Creditworthiness Reviews

PSCo did not have sufficient procedures to ensure it accurately assessed creditworthiness of its transmission customers, as required by the OATT. As a result, PSCo made certain errors in its customer credit score calculations. Because these scores were used to set unsecured credit limits, this created risks that non-creditworthy customers would obtain unsecured credit and that creditworthy customers would not. An error like this could result in PSCo extending too much unsecured credit, improperly placing other transmission customers at risk, or PSCo granting insufficient unsecured credit, potentially improperly denying a creditworthy customer access to transmission services or unduly burdening a customer with unwarranted credit costs.

Agree or disagree: Agree

Response/Corrective Action:

Although PSCo was unable to replicate a selection of past credit score calculations during the audit, these minor errors resulted in no harm to transmission customers and had no impact on rates charged. As soon as the issue was identified, PSCo took corrective action.

PSCo made changes to its processes and procedures in the fall of 2013 and continued to make modifications to the processes and procedures in 2014. PSCo then began to implement these changes in 2014 and 2015. The aforementioned processes and procedures will have gone through a complete cycle of credit reviews by December 31, 2015. These modifications include: retaining support for creditworthiness reviews in a secured shared file or locked file cabinet; adding a second reviewer to ensure that data is entered properly and that ratios are calculated correctly; showing calculations on the credit review sheet; and adding the names of the analyst that prepared the review and the second reviewer. This new more robust process is currently in place. These retained creditworthiness reviews contain the underlying data and show the calculation in detail, so they can be replicated and used to respond to customer inquiries.

Recommendations:

25. Strengthen its processes, procedures, and controls to ensure it accurately assesses the creditworthiness of its transmission customers, as required by its OATT.

    Response: A process was implemented starting in 2013 that details the procedures and controls required to ensure that PSCo accurately assesses the creditworthiness of transmission customers.

    Target completion date: Complete

26. Ensure it retains support for its creditworthiness reviews so that these can be used internally for auditing of the process as well as externally if questions arise from the customers.

    Response: The Company will retain the credit review in order to ensure that the support is available for review by both internal and external parties.

    Target completion date: Complete

27. Strengthen its internal controls conducted by Xcel Energy's Regulatory Strategic Analysis (RSA) group to ensure that its conclusions are supported by sufficient and appropriate evidence.

    Response: The XES credit group added procedures that 1) require retention of data used to evaluate creditworthiness; 2) include the analyst's name in the credit review documentation; 3) require a second review of each credit analysis to minimize the risk of human error; and 4) provided a worksheet to capture data and calculations for PSCo's records. These new procedures and processes strengthen the internal controls used to ensure that the credit group supports its conclusions with sufficient and appropriate evidence.

    Under its current internal assessment calendar, the XES Federal Regulatory Affairs (FRA) function, formerly Regulatory Strategic Analysis, performs an assessment of performance of creditworthiness evaluations on a three-year cycle. The next assessment will be completed by the end of calendar year 2015. As part of this year's assessment, FRA will also update its assessment procedure to ensure retention of documentation to support the conclusions of the creditworthiness performance assessment.

Target completion date: December 31, 2015

Finding 12. OASIS Posting Metrics

PSCo did not post complete system impact and facilities study metrics on its public OASIS web site

Agree or disagree: Agree

Response/Corrective Action:

PSCo has updated all prior Transmission Study Metrics to include all Designated Network Resource and Designated Network Load requests. This was updated and completed during the course of the audit and has been maintained since.

Recommendations:

28. Develop written processes and procedures related to updating complete and accurate transmission study metrics on a quarterly basis.

    Response: PSCo has implemented a process for posting accurate transmission study metrics.

    Target completion date: Complete

29. Post accurate and complete transmission study metrics, and make necessary updates to existing studies currently posted on the OASIS.

    Response: The transmission study metrics have been updated to reflect all study requests as well as all Designated Network Resource and Designated Network Load requests. The metrics are posted on the PSCo OASIS.

    Target completion date: Complete

Finding 13. Records Retention Procedures

PSCo did not have procedures in place sufficient to ensure certain records were retained for the periods prescribed by Commission regulations. Specifically, PSCo was unable to locate several transmission service applications and generator interconnection requests. Also, PSCo did not notify the Commission when it discovered records were destroyed or lost, as required.

Agree or disagree: Agree

Response/Corrective Action:

Xcel Energy's Records Retention Schedule establishes the retention period for company records. The retention schedule requires retention of applications associated with customer service agreements, consistent with the Commission's requirements. Xcel Energy's record retention policy also describes the requirements for notifying the Commission of loss or premature destruction of records subject to retention and requires that the Federal Regulatory Administration group and Legal department be notified so the appropriate notification can be timely filed with the Commission. The Transmission Service Request and Interconnection Request documents at issue date back to as early as 1979. Specific departmental processes to ensure retention of these Transmission Service Requests and Interconnection Requests may not have been in place at that time.

In 2010, Xcel Energy Transmission deployed an electronic database to be the repository for all Transmission contracts and contract related documentation. This database was populated with all known PSCo contracts in 2010. With the introduction of the database, Xcel Energy also developed business practices that required the database be used for document storage. In addition, personnel in PSCo's transmission contracting group have been trained on these procedures.

Recommendations:

30. Review and update its recordkeeping policies and procedures to ensure records are retained for the periods prescribed.
Response: As noted above, Xcel Energy's Records Retention Schedule requires retention of applications associated with customer service agreements, consistent with the Commission's requirements. The specific missing records identified in the audit were covered by Xcel Energy's record retention policy but were not retained per company policy. That deficiency has been remedied as described above.

    Target completion date: Complete

31. Establish policies and procedures to ensure a filing is made with the Commission when the company has discovered records have been prematurely destroyed or lost.

    Response: Xcel Energy has a policy governing document management and requiring compliance with FERC 18 C.F.R. Part 125.2(f). This policy currently addresses reporting the loss or premature destruction of records subject to retention. Included in this policy is an obligation for personnel to identify the destruction or loss of applicable records and a requirement to report that destruction or loss to the Commission where required.

    Xcel Energy currently delivers record retention training to new employees and to existing employees on a three-year cycle. Record retention training is scheduled to be provided again in 2016. The training module will be revised to include a discussion of the need to report lost or prematurely destroyed records to ensure a filing is made to the Commission when records are discovered to have been prematurely destroyed or lost. The scheduled training completion date is June 30, 2016.

Target completion date: Polices and Procedures: complete. Updated compliance training: June 30, 2016.

32. Submit a filing to the Commission to report that records were prematurely destroyed or lost, as identified above in accordance with 18 C.F.R. Part 125.2(f).

    Response: PSCo is in the process of preparing the required filing for the transmission service applications and generator interconnection requests at issue.

    Target completion date: 30 days after issuance of the final Audit Report