

Southwestern Public Service Company (SPS or the Company) has listed below any material changes in Company (or Xcel Energy Inc.) accounting policies, practices or procedures. For additional information, please refer to the SPS 2008 FERC Form 1 or FERC Form 3 for Q1 2008, Notes to Financial Statements.

I. Accounting Policy/Practice Changes

- In June, 2008, it was determined that consulting and other labor charges for resource planning at company-owned generation facilities and for capacity should be functionalized into more appropriate FERC Accounts. As such, these charges were re-classified for electric operations from FERC Accounts 920 (Administrative and General Salaries) and 557 (Other Expenses) to FERC Account 549 (Miscellaneous Other Power Generation Expenses).
- During 2008, mainframe computer service costs were reallocated among the Xcel Energy operating companies and FERC Accounts to better apportion costs by company use and by cost function.
- During 2008, there was a change in the Shared Asset Cost Allocation Methodology to include company network equipment, which resulted in an increase in the Xcel Energy Services Inc. (XES or Service Company) facilities chargeback to expense accounts.
- In January 2008, there was a change in the methodology used to charge aviation costs from the Service Company to the Operating Companies. Aviation costs are now billed out to the Operating Companies using the corporate governance three-factor formula based on revenue, assets and number of employees. Prior to 2008, aviation costs were billed out based on a two-step process. First, a usage rate was calculated to determine a flight cost per passenger, then based on the employees using the aircraft and the work being performed would determine how the costs were charged out to the Operating Companies. Second, any undistributed costs were billed to the Operating Company's based on the top executive's labor distribution.

II. FERC-Related Items

There were no material changes.

III. GAAP-Related Items

- SPS adopted FAS No. 157 *Fair Value Measurements* in 2008 for all assets and liabilities measured at fair value except for non-financial assets and non-financial liabilities measured at fair value on a non-recurring basis, as permitted by FSP FAS 157-2, *Effective Date of FASB Statement No. 157*. The adoption did not have a material impact on operating results and financial position as reported in SPS's consolidated financial statements, but resulted in a new footnote to the financial statements regarding fair value measurements, including classification of fair value measurements for money market funds and interest rate derivatives within the FAS 157 fair value hierarchy (a hierarchy that classifies fair value measurements as level 1, level 2, or level 3 based on the observability and verifiability of inputs to fair value measurements).
- SPS adopted EITF No. 06-4 *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements* in 2008, which provides guidance on the recognition of a liability and related compensation costs for endorsement split-dollar life insurance policies that provide a benefit to an employee that extends to postretirement periods. Therefore, this EITF would not apply to a split-dollar life insurance arrangement that

provides a specified benefit to an employee that is limited to the employee's active service period with an employer. Upon adoption of EITF No. 06-4 on Jan. 1, 2008, SPS recorded a liability of \$0.3 million for certain endorsement split-dollar life insurance policies, net of tax, as a reduction of retained earnings. Thereafter, changes in the liability were reflected in operating results.

- *The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115 (SFAS No. 159)* — In February 2007, the FASB issued SFAS No. 159, which provides companies with an option to measure, at specified election dates, many financial instruments and certain other items at fair value that are not currently measured at fair value. A company that adopts SFAS No. 159 will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. This statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. This statement was effective for fiscal years beginning after Nov. 15, 2007. SPS adopted SFAS No. 159 on Jan. 1, 2008, and the adoption did not have a material impact on its financial statements.
- *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active (FSP FAS 157-3)* — In October 2008, the FASB issued FSP FAS 157-3, which clarifies the application of SFAS No. 157 in a market that is not active. FSP FAS 157-3 was effective immediately upon issuance, and applied to prior periods for which financial statements had not yet been issued. SPS adopted FSP FAS 157-3 as of Sept. 30, 2008, and the adoption did not have a material impact on its financial statements.
- *Amendment of FASB Interpretation No. 39 (FSP FIN 39-1)* — In April 2007, the FASB issued FSP FIN 39-1, which amends FIN 39, *Offsetting of Amounts Related to Certain Contracts*, to permit companies to offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments executed with the same counterparty under a master netting arrangement. FSP FIN 39-1 was effective for fiscal years beginning after Nov. 15, 2007. SPS adopted FSP FIN 39-1 on Jan. 1, 2008, and the adoption did not have a material impact on its financial statements.
- *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards (EITF No. 06-11)* — In June 2007, the EITF reached a consensus on EITF No. 06-11, which states that an entity should recognize a realized tax benefit associated with dividends on nonvested equity shares and nonvested equity share units charged to retained earnings as an increase in additional paid in capital. The amount recognized in additional paid in capital should be included in the pool of excess tax benefits available to absorb potential future tax deficiencies on share-based payment awards. EITF No. 06-11 was to be applied prospectively to income tax benefits of dividends on equity-classified share-based payment awards that were declared in fiscal years beginning after Dec. 15, 2007. SPS adopted EITF No. 06-11 on Jan. 1, 2008, and the adoption did not have a material impact on its financial statements.
- *The Hierarchy of GAAP (SFAS No. 162)* — In May 2008, the FASB issued SFAS No. 162, which establishes the GAAP hierarchy, identifying the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements. SFAS No. 162 was effective Nov. 15, 2008. SPS adopted SFAS No. 162 on Dec. 31, 2008, and the adoption did not have a material impact on its financial statements.
- *Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities (FSP FAS 140-4 and FIN 46(R)-8)* — In December 2008, the FASB issued FSP FAS 140-4 and FIN 46(R)-8, which amends SFAS No. 140, *Accounting for Transfers*

and Servicing of Financial Assets and Extinguishments of Liabilities, to require public entities to provide additional disclosures about transfers of financial assets. It also amends FIN 46 (revised December 2003), *Consolidation of Variable Interest Entities*, to require public enterprises, including sponsors that have a variable interest in a variable interest entity, to provide additional disclosures about their involvement with variable interest entities. FSP FAS 140-4 and FIN 46(R)-8 was effective for the interim and annual periods ending after Dec. 15, 2008. SPS adopted FSP FAS 140-4 and FIN 46(R)-8 on Dec. 31, 2008, and the adoption did not have a material impact on its financial statements.

IV. Significant Unusual or Non-Recurring Income or Expense

There were no material changes

V. Other

- Demand Side Management (DSM) program expenses were reclassified, for reporting purposes only, as a separate item from depreciation and amortization expenses on the consolidated statements of income as reported in the SPS SEC Form 10-K. No DSM program expenses are included in the FERC accounts used to establish SPS's formula transmission rates.