UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended Sept. 30, 2022

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 001-03789

Southwestern Public Service Company
(Exact Name of Registrant as Specified in its Charter)

New Mexico	**75-0575400**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
790 South Buchanan Street Amarillo Texas	**79101**
(Address of Principal Executive Offices)	(Zip Code)

(303) 571-7511
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
N/A	N/A	N/A

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒Yes ☐No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☐
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 27, 2022
Common Stock, $1.00 par value	100 shares

Southwestern Public Service Company meets the conditions set forth in General Instructions H(1)(a) and (b) of Form 10-Q and is therefore filing this Form 10-Q with the reduced disclosure format specified in General Instruction H(2) to such Form 10-Q.

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This Form 10-Q is filed by SPS, a New Mexico corporation. SPS is a wholly owned subsidiary of Xcel Energy Inc. Additional information on Xcel Energy is available in various filings with the SEC. This report should be read in its entirety.

Definitions of Abbreviations

Xcel Energy Inc.'s Subsidiaries and Affiliates (current and former)	
NSP-Minnesota	Northern States Power Company, a Minnesota corporation
NSP-Wisconsin	Northern States Power Company, a Wisconsin corporation
PSCo	Public Service Company of Colorado
SPS	Southwestern Public Service Company
Utility subsidiaries	NSP-Minnesota, NSP-Wisconsin, PSCo and SPS
Xcel Energy	Xcel Energy Inc. and its subsidiaries

Federal and State Regulatory Agencies	
D.C. Circuit	United States Court of Appeals for the District of Columbia Circuit
EPA	United States Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
PUCT	Public Utility Commission of Texas
SEC	Securities and Exchange Commission

Other	
ACE	Affordable Clean Energy
AMT	Alternative minimum tax
CEO	Chief executive officer
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CFO	Chief financial officer
COVID-19	Novel coronavirus
ETR	Effective tax rate
FTR	Financial transmission right
GAAP	United States generally accepted accounting principles
IPP	Independent power producing entity
IRA	Inflation Reduction Act
ITC	Investment tax credit
LP&L	Lubbock Power and Light
NOx	Nitrogen Oxides
OATT	Open access transmission tariff
PFAS	Per- and PolyFluoroAlkyl Substances
PPA	Power purchase agreement
PTC	Production tax credit
ROE	Return on equity
RTO	Regional Transmission Organization
SPP	Southwest Power Pool, Inc.

Measurements	
MW	Megawatts

Forward-Looking Statements

Except for the historical statements contained in this report, the matters discussed herein are forward-looking statements that are subject to certain risks, uncertainties and assumptions. Such forward-looking statements, including those relating to future sales, future expenses, future tax rates, future operating performance, estimated base capital expenditures and financing plans, projected capital additions and forecasted annual revenue requirements with respect to rider filings, expected rate increases to customers, expectations and intentions regarding regulatory proceedings, and expected impact on our results of operations, financial condition and cash flows of resettlement calculations and credit losses relating to certain energy transactions, as well as assumptions and other statements are intended to be identified in this document by the words “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “objective,” “outlook,” “plan,” “project,” “possible,” “potential,” “should,” “will,” “would” and similar expressions. Actual results may vary materially. Forward-looking statements speak only as of the date they are made, and we expressly disclaim any obligation to update any forward-looking information. The following factors, in addition to those discussed in SPS’ Annual Report on Form 10-K for the fiscal year ended Dec. 31, 2021 and subsequent filings with the SEC, could cause actual results to differ materially from management expectations as suggested by such forward-looking information: uncertainty around the impacts and duration of the COVID-19 pandemic, including potential workforce impacts resulting from vaccination requirements, quarantine policies or government restrictions, and sales volatility; operational safety; successful long-term operational planning; commodity risks associated with energy markets and production; rising energy prices and fuel costs; qualified employee work force and third-party contractor factors; violations of our Codes of Conduct; ability to recover costs; changes in regulation; reductions in our credit ratings and the cost of maintaining certain contractual relationships; general economic conditions, including recessionary conditions, inflation rates, monetary fluctuations, supply chain constraints, and their impact on capital expenditures and/or the ability of SPS to obtain financing on favorable terms; availability or cost of capital; our customers’ and counterparties’ ability to pay their debts to us; assumptions and costs relating to funding our employee benefit plans and health care benefits; tax laws; effects of geopolitical events, including war and acts of terrorism; cyber security threats and data security breaches; seasonal weather patterns; changes in environmental laws and regulations; climate change and other weather; natural disaster and resource depletion, including compliance with any accompanying legislative and regulatory changes and costs of potential regulatory penalties; regulatory changes and/or limitations related to the use of natural gas as an energy source; and our ability to execute on our strategies or achieve expectations related to environmental, social and governance matters, including as a result of evolving legal, regulatory and other standards, processes, and assumptions, the pace of scientific and technological developments, increased costs, the availability of requisite financing, and changes in carbon markets.

PART I — FINANCIAL INFORMATION
ITEM 1 — FINANCIAL STATEMENTS

SOUTHWESTERN PUBLIC SERVICE COMPANY
STATEMENTS OF INCOME (UNAUDITED)
(amounts in millions)

	Three Months Ended Sept. 30		Nine Months Ended Sept. 30	
	2022	2021	2022	2021
Operating revenues	$ 741	$ 575	$ 1,876	$ 2,007
Operating expenses				
Electric fuel and purchased power	362	250	881	1,195
Operating and maintenance expenses	79	66	238	208
Demand side management expenses	7	5	18	13
Depreciation and amortization	89	71	299	227
Taxes (other than income taxes)	26	20	84	59
Total operating expenses	563	412	1,520	1,702
Operating income	178	163	356	305
Other (expense) income, net	(3)	—	(2)	1
Allowance for funds used during construction — equity	1	1	2	3
Interest charges and financing costs				
Interest charges — includes other financing costs of $1, $1, $3 and $3, respectively	33	28	108	87
Allowance for funds used during construction — debt	—	—	(1)	(1)
Total interest charges and financing costs	33	28	107	86
Income before income taxes	143	136	249	223
Income tax expense (benefit)	5	2	(34)	(37)
Net income	$ 138	$ 134	$ 283	$ 260

See Notes to Financial Statements

SOUTHWESTERN PUBLIC SERVICE COMPANY
STATEMENTS OF CASH FLOWS (UNAUDITED)
(amounts in millions)

	Nine Months Ended Sept. 30	
	2022	2021
Operating activities		
Net income	$ 283	$ 260
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	302	229
Deferred income taxes	21	(31)
Allowance for equity funds used during construction	(2)	(3)
Provision for bad debts	6	6
Changes in operating assets and liabilities:		
Accounts receivable	(69)	(66)
Accrued unbilled revenues	(28)	(20)
Inventories	(14)	(14)
Prepayments and other	(5)	21
Accounts payable	49	6
Net regulatory assets and liabilities	(73)	(113)
Other current liabilities	30	19
Pension and other employee benefit obligations	1	(16)
Other, net	(2)	(2)
Net cash provided by operating activities	499	276
Investing activities		
Utility capital/construction expenditures	(405)	(446)
Investments in utility money pool arrangement	(133)	(83)
Repayments from utility money pool arrangement	113	83
Net cash used in investing activities	(425)	(446)
Financing activities		
Repayments of short-term borrowings, net	(137)	(232)
Proceeds from issuance of long-term debt, net	196	247
Borrowings under utility money pool arrangement	262	539
Repayments under utility money pool arrangement	(353)	(439)
Capital contributions from parent	210	304
Dividends paid to parent	(250)	(254)
Net cash (used in) provided by financing activities	(72)	165
Net change in cash, cash equivalents and restricted cash	2	(5)
Cash, cash equivalents and restricted cash at beginning of period	1	6
Cash, cash equivalents and restricted cash at end of period	$ 3	$ 1
Supplemental disclosure of cash flow information:		
Cash paid for interest (net of amounts capitalized)	$ (94)	$ (75)
Cash received for income taxes, net	45	19
Supplemental disclosure of non-cash investing and financing transactions:		
Accrued property, plant and equipment additions	$ 40	$ 39
Inventory transfers to property, plant and equipment	8	6
Allowance for equity funds used during construction	2	3

See Notes to Financial Statements

SOUTHWESTERN PUBLIC SERVICE COMPANY
BALANCE SHEETS (UNAUDITED)
(amounts in millions, except share and per share data)

	Sept. 30, 2022	Dec. 31, 2021
Assets		
Current assets		
Cash and cash equivalents	$ 3	$ 1
Accounts receivable, net	171	115
Accounts receivable from affiliates	15	9
Investments in money pool arrangements	20	—
Accrued unbilled revenues	153	125
Inventories	58	51
Regulatory assets	274	193
Derivative instruments	237	30
Prepaid taxes	13	3
Prepayments and other	67	21
Total current assets	1,011	548
Property, plant and equipment, net	8,006	7,838
Other assets		
Regulatory assets	352	380
Derivative instruments	4	6
Operating lease right-of-use assets	441	463
Other	31	27
Total other assets	828	876
Total assets	$ 9,845	$ 9,262
Liabilities and Equity		
Current liabilities		
Short-term debt	$ —	$ 137
Borrowings under utility money pool arrangement	—	91
Accounts payable	216	172
Accounts payable to affiliates	24	16
Regulatory liabilities	262	54
Taxes accrued	61	47
Accrued interest	41	30
Dividends payable to parent	69	58
Derivative instruments	4	4
Operating lease liabilities	31	30
Other	81	24
Total current liabilities	789	663
Deferred credits and other liabilities		
Deferred income taxes	738	702
Regulatory liabilities	723	709
Asset retirement obligations	120	116
Derivative instruments	3	6
Pension and employee benefit obligations	7	8
Operating lease liabilities	411	434
Other	9	8
Total deferred credits and other liabilities	2,011	1,983
Commitments and contingencies		
Capitalization		
Long-term debt	3,210	3,013
Common stock — 200 shares authorized of $1.00 par value; 100 shares outstanding at September 30, 2022 and Dec. 31, 2021, respectively	—	—
Additional paid in capital	3,301	3,091
Retained earnings	535	513
Accumulated other comprehensive loss	(1)	(1)
Total common stockholder's equity	3,835	3,603
Total liabilities and equity	$ 9,845	$ 9,262

See Notes to Financial Statements

SOUTHWESTERN PUBLIC SERVICE COMPANY
STATEMENTS OF COMMON STOCKHOLDER'S EQUITY (UNAUDITED)
(amounts in millions, except share data)

	Common Stock Issued					
	Shares	Par Value	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Common Stockholder's Equity
Three Months Ended Sept. 30, 2022 and 2021						
Balance at June 30, 2021	100	$ —	$ 3,094	$ 504	$ (1)	$ 3,597
Net income				134		134
Dividends declared to parent				(122)		(122)
Contributions of capital by parent			(3)			(3)
Balance at Sept. 30, 2021	100	$ —	$ 3,091	$ 516	$ (1)	$ 3,606
Balance at June 30, 2022	100	$ —	$ 3,301	$ 547	$ (1)	$ 3,847
Net income				138		138
Dividends declared to parent				(150)		(150)
Balance at Sept. 30, 2022	100	$ —	$ 3,301	$ 535	$ (1)	$ 3,835

	Common Stock Issued					
	Shares	Par Value	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Common Stockholder's Equity
Nine Months Ended Sept. 30, 2022 and 2021						
Balance at Dec. 31, 2020	100	$ —	$ 2,790	$ 509	$ (1)	$ 3,298
Net income				260		260
Dividends declared to parent				(253)		(253)
Contributions of capital by parent			301			301
Balance at Sept. 30, 2021	100	$ —	$ 3,091	$ 516	$ (1)	$ 3,606
Balance at Dec. 31, 2021	100	$ —	$ 3,091	$ 513	$ (1)	$ 3,603
Net income				283		283
Dividends declared to parent				(261)		(261)
Contributions of capital by parent			210			210
Balance at Sept. 30, 2022	100	$ —	$ 3,301	$ 535	$ (1)	$ 3,835

See Notes to Financial Statements

SOUTHWESTERN PUBLIC SERVICE COMPANY
Notes to Financial Statements (UNAUDITED)

In the opinion of management, the accompanying unaudited financial statements contain all adjustments necessary to present fairly, in accordance with GAAP, the financial position of SPS as of Sept. 30, 2022 and Dec. 31, 2021; the results of SPS' operations, including the components of net income and changes in stockholder's equity for the three and nine months ended Sept. 30, 2022 and 2021; and SPS' cash flows for the nine months ended Sept. 30, 2022 and 2021.

All adjustments are of a normal, recurring nature, except as otherwise disclosed. Management has also evaluated the impact of events occurring after Sept. 30, 2022 up to the date of issuance of these financial statements. These statements contain all necessary adjustments and disclosures resulting from that evaluation. The Dec. 31, 2021 balance sheet information has been derived from the audited 2021 financial statements included in the SPS Annual Report on Form 10-K for the year ended Dec. 31, 2021.

Notes to the financial statements have been prepared pursuant to the rules and regulations of the SEC for Quarterly Reports on Form 10-Q. Certain information and note disclosures normally included in financial statements prepared in accordance with GAAP on an annual basis have been condensed or omitted pursuant to such rules and regulations. For further information, refer to the financial statements and notes thereto included in the SPS Annual Report on Form 10-K for the year ended Dec. 31, 2021, filed with the SEC on Feb. 23, 2022.

Due to the seasonality of SPS' electric sales, interim results are not necessarily an appropriate base from which to project annual results.

1. Summary of Significant Accounting Policies

The significant accounting policies set forth in Note 1 to the financial statements in the SPS Annual Report on Form 10-K for the year ended Dec. 31, 2021 appropriately represent, in all material respects, the current status of accounting policies and are incorporated herein by reference.

2. Accounting Pronouncements

As of Sept. 30, 2022, there was no material impact from the recent adoption of new accounting pronouncements, nor expected material impact from recently issued accounting pronouncements yet to be adopted, on SPS' financial statements.

3. Selected Balance Sheet Data

(Millions of Dollars)	Sept. 30, 2022	Dec. 31, 2021
Accounts receivable, net		
Accounts receivable	$ 184	$ 127
Less allowance for bad debts	(13)	(12)
Accounts receivable, net	$ 171	$ 115

(Millions of Dollars)	Sept. 30, 2022	Dec. 31, 2021
Inventories		
Materials and supplies	$ 38	$ 29
Fuel	20	22
Total inventories	$ 58	$ 51

(Millions of Dollars)	Sept. 30, 2022	Dec. 31, 2021
Property, plant and equipment, net		
Electric plant	$ 9,947	$ 9,639
Plant to be retired [(a)]	270	299
CWIP	230	171
Total property, plant and equipment	10,447	10,109
Less accumulated depreciation	(2,441)	(2,271)
Property, plant and equipment, net	$ 8,006	$ 7,838

(a) Amounts include Tolk and conversion of Harrington to natural gas and are reported net of accumulated depreciation.

4. Borrowings and Other Financing Instruments

Short-Term Borrowings

SPS meets its short-term liquidity requirements primarily through the issuance of commercial paper and borrowings under its credit facility and the money pool.

Money Pool — Xcel Energy Inc. and its utility subsidiaries have established a money pool arrangement that allows for short-term investments in and borrowings between the utility subsidiaries. Xcel Energy Inc. may make investments in the utility subsidiaries at market-based interest rates; however, the money pool arrangement does not allow the utility subsidiaries to make investments in Xcel Energy Inc.

Money pool borrowings for SPS:

(Amounts in Millions, Except Interest Rates)	Three Months Ended Sept. 30, 2022	Year Ended Dec. 31, 2021
Borrowing limit	$ 100	$ 100
Amount outstanding at period end	—	91
Average amount outstanding	—	51
Maximum amount outstanding	4	100
Weighted average interest rate, computed on a daily basis	2.27 %	0.05 %
Weighted average interest rate at period end	N/A	0.05

Commercial Paper — Commercial paper outstanding for SPS:

(Amounts in Millions, Except Interest Rates)	Three Months Ended Sept. 30, 2022	Year Ended Dec. 31, 2021
Borrowing limit	$ 500	$ 500
Amount outstanding at period end	—	137
Average amount outstanding	—	63
Maximum amount outstanding	—	342
Weighted average interest rate, computed on a daily basis	N/A	0.21 %
Weighted average interest rate at period end	N/A	0.26

Letters of Credit — SPS uses letters of credit, generally with terms of one year, to provide financial guarantees for certain obligations. At both Sept. 30, 2022 and Dec. 31, 2021, there were $2 million of letters of credit outstanding under the credit facility. Amounts approximate their fair value and are subject to fees.

Revolving Credit Facility — In order to issue its commercial paper, SPS must have a revolving credit facility in place at least equal to the amount of its commercial paper borrowing limit and cannot issue commercial paper exceeding available capacity under this credit facility. The credit facility provides short-term financing in the form of notes payable to banks, letters of credit and back-up support for commercial paper borrowings.

In September 2022, SPS entered into an amended five-year credit agreement with a syndicate of banks, with substantially the same terms and conditions as the prior credit agreements. The maturity was extended from June 2024 to September 2027.

SPS has the right to request an extension of the revolving credit facility termination date for two additional one-year periods. All extension requests are subject to majority bank group approval.

As of Sept. 30, 2022, SPS had the following committed revolving credit facility available (in millions of dollars):

Credit Facility [(a)]		Drawn [(b)]		Available	
$	500	$	2	$	498

(a) Expires in September 2027.
(b) Includes outstanding letters of credit.

All credit facility bank borrowings, outstanding letters of credit and outstanding commercial paper reduce the available capacity under the credit facility. SPS had no direct advances on the credit facility outstanding as of Sept. 30, 2022 and Dec. 31, 2021.

Long-Term Borrowings

During the nine months ended Sept. 30, 2022, SPS issued $200 million of 5.15% first mortgage bonds due June 1, 2052.

5. Revenues

Revenue is classified by the type of goods/services rendered and market/customer type. SPS' operating revenues consisted of the following:

	Three Months Ended Sept. 30	
(Millions of Dollars)	**2022**	**2021**
Major revenue types		
Revenue from contracts with customers:		
Residential	$ 159	$ 126
Commercial and Industrial	325	241
Other	17	11
Total retail	501	378
Wholesale	149	109
Transmission	80	75
Other	—	2
Total revenue from contracts with customers	730	564
Alternative revenue and other	11	11
Total revenues	$ 741	$ 575

	Nine Months Ended Sept. 30	
(Millions of Dollars)	**2022**	**2021**
Major revenue types		
Revenue from contracts with customers:		
Residential	$ 356	$ 302
Commercial and Industrial	811	631
Other	38	30
Total retail	1,205	963
Wholesale	327	785
Transmission	226	218
Other	6	6
Total revenue from contracts with customers	1,764	1,972
Alternative revenue and other	112	35
Total revenues	$ 1,876	$ 2,007

6. Income Taxes

Reconciliation between the statutory rate and ETR:

	Nine Months Ended Sept. 30	
	2022	**2021**
Federal statutory rate	21.0 %	21.0 %
State tax (net of federal tax effect)	2.3	2.5
Decreases:		
Wind PTCs [(a)]	(31.8)	(32.9)
Plant regulatory differences [(b)]	(3.7)	(4.9)
Amortization of excess nonplant deferred taxes	(0.9)	(1.1)
Other (net)	(0.6)	(1.2)
Effective income tax rate	(13.7)%	(16.6)%

(a) Wind PTCs are credited to customers (reduction to revenue) and do not materially impact net income.
(b) Regulatory differences for income tax primarily relate to the credit of excess deferred taxes to customers through the average rate assumption method. Income tax benefits associated with the credit of excess deferred taxes are offset by corresponding revenue reductions.

7. Fair Value of Financial Assets and Liabilities

Fair Value Measurements

Accounting guidance for fair value measurements and disclosures provides a single definition of fair value and requires disclosures about assets and liabilities measured at fair value. A hierarchical framework for disclosing the observability of the inputs utilized in measuring assets and liabilities at fair value is established by this guidance.

- Level 1 — Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. The types of assets and liabilities included in Level 1 are highly liquid and actively traded instruments with quoted prices.
- Level 2 — Pricing inputs are other than quoted prices in active markets, but are either directly or indirectly observable as of the reporting date. The types of assets and liabilities included in Level 2 are typically either comparable to actively traded securities or contracts or priced with models using highly observable inputs.
- Level 3 — Significant inputs to pricing have little or no observability as of the reporting date. The types of assets and liabilities included in Level 3 are those valued with models requiring significant management judgment or estimation.

Specific valuation methods include:

Cash equivalents — The fair values of cash equivalents are generally based on cost plus accrued interest; money market funds are measured using quoted net asset value.

Interest rate derivatives — The fair values of interest rate derivatives are based on broker quotes that utilize current market interest rate forecasts.

Commodity derivatives — Methods used to measure the fair value of commodity derivative forwards and options utilize forward prices and volatilities, as well as pricing adjustments for specific delivery locations and are generally assigned a Level 2 classification. When contractual settlements relate to inactive delivery locations or extend to periods beyond those readily observable on active exchanges or quoted by brokers, the significance of the use of less observable inputs on a valuation is evaluated and may result in Level 3 classification.

Electric commodity derivatives held by SPS include transmission congestion instruments, generally referred to as FTRs. FTRs purchased from a RTO are financial instruments that entitle or obligate the holder to monthly revenues or charges based on transmission congestion across a given transmission path.

The values of these instruments are derived from, and designed to offset, the costs of transmission congestion. In addition to overall transmission load, congestion is also influenced by the operating schedules of power plants and the consumption of electricity pertinent to a given transmission path. Unplanned plant outages, scheduled plant maintenance, changes in the relative costs of fuels used in generation, weather and overall changes in demand for electricity can each impact the operating schedules of the power plants on the transmission grid and the value of these instruments. FTRs are recognized at fair value and adjusted each period prior to settlement. Given the limited observability of certain variables underlying the reported auction values of FTRs, these fair value measurements have been assigned a Level 3.

If costs of electric transmission congestion increase or decrease for a given path, the value of that particular instrument will likewise increase or decrease. Net congestion costs, including the impact of FTR settlements, are shared through fuel and purchased energy cost recovery mechanisms. As such, the fair value of the unsettled instruments (i.e., derivative asset or liability) is offset/deferred as a regulatory asset or liability.

Derivative Instruments Fair Value Measurements

SPS enters into derivative instruments, including forward contracts, for trading purposes and to manage risk in connection with changes in interest rates and electric utility commodity prices.

Interest Rate Derivatives — SPS may enter into various instruments that effectively fix the interest payments on certain floating rate debt obligations or effectively fix the yield or price on a specified benchmark interest rate for an anticipated debt issuance for a specific period. These derivative instruments are generally designated as cash flow hedges for accounting purposes.

As of Sept. 30, 2022, accumulated other comprehensive loss related to interest rate derivatives included immaterial net losses expected to be reclassified into earnings during the next 12 months as the related hedged interest rate transactions impact earnings. As of Sept. 30, 2022, SPS had no unsettled interest rate derivatives.

Wholesale and Commodity Trading Risk — SPS conducts various wholesale and commodity trading activities, including the purchase and sale of electric capacity, energy and energy-related instruments, including derivatives. SPS is allowed to conduct these activities within guidelines and limitations as approved by its risk management committee, comprised of management personnel not directly involved in the activities governed by this policy. Sharing of any margins is determined through state regulatory proceedings as well as the operation of the FERC approved joint operating agreement.

Commodity Derivatives — SPS enters into derivative instruments to manage variability of future cash flows from changes in commodity prices in its electric utility operations. This could include the purchase or sale of energy or energy-related products and FTRs.

Amounts in Millions [(a)]	Sept. 30, 2022	Dec. 31, 2021
Megawatt hours of electricity	12	8

(a) Amounts are not reflective of net positions in the underlying commodities.

Consideration of Credit Risk and Concentrations — SPS continuously monitors the creditworthiness of counterparties to its interest rate derivatives and commodity derivative contracts, prior to settlement, and assesses each counterparty's ability to perform on the transactions set forth in the contracts. Impact of credit risk was immaterial to the fair value of unsettled commodity derivatives presented in the balance sheets.

SPS' most significant concentrations of credit risk with particular entities or industries are contracts with counterparties to its wholesale, trading and non-trading commodity activities.

At Sept. 30, 2022, two of the eight most significant counterparties for these activities, comprising $9 million, or 27%, of this credit exposure, had investment grade credit ratings from S&P Global Ratings, Moody's Investor Services or Fitch Ratings. Five of the eight most significant counterparties, comprising $25 million, or 72%, of this credit exposure, were not rated by external ratings agencies, but based on SPS' internal analysis, had credit quality consistent with investment grade. One of these significant counterparties, comprising an immaterial amount of this credit exposure, had credit quality less than investment grade, based on internal analysis. All eight of these significant counterparties are municipal or cooperative electric entities, RTOs or other utilities.

Impact of Derivative Activities on Income — Changes in the fair value of FTRs resulting in pre-tax net losses of $13 million and gains of $80 million for the three and nine months ended Sept. 30, 2022, respectively, were recognized as regulatory assets or liabilities. Changes in the fair value of FTRs resulting in pre-tax net gains of $5 million and $15 million for the three and nine months ended Sept. 30, 2021, respectively, were recognized as regulatory assets or liabilities. The classification as a regulatory asset or liability is based on expected recovery of FTR settlements through fuel and purchased energy cost recovery mechanisms.

FTR settlement losses of $8 million and gains of $26 million for the three and nine months ended Sept. 30, 2022, respectively, were recorded to electric fuel and purchased power. FTR settlement losses of $4 million and gains of $13 million for the three and nine months ended Sept. 30, 2021, respectively, were recorded to electric fuel and purchased power. These derivative settlement gains and losses are shared with electric customers through fuel and purchased energy cost-recovery mechanisms and reclassified out of income as regulatory assets or liabilities, as appropriate.

All FTR settlements are shared with customers and do not have a material impact on net income. Presented amounts reflect changes in fair value between auction and settlement dates, but exclude the original auction fair value.

SPS had immaterial derivative instruments designated as fair value hedges during the three and nine months ended Sept. 30, 2022 and 2021.

Recurring Fair Value Measurements — SPS' derivative assets and liabilities measured at fair value on a recurring basis were as follows:

	Sept. 30, 2022						Dec. 31, 2021					
	Fair Value						Fair Value					
(Millions of Dollars)	Level 1	Level 2	Level 3	Fair Value Total	Netting (a)	Total	Level 1	Level 2	Level 3	Fair Value Total	Netting (a)	Total
Current derivative assets												
Other derivative instruments:												
Electric commodity (b)	$ —	$ —	$ 234	$ 234	$ —	$ 234	$ —	$ —	$ 27	$ 27	$ —	$ 27
Total current derivative assets	$ —	$ —	$ 234	$ 234	$ —	234	$ —	$ —	$ 27	$ 27	$ —	27
PPAs (c)						3						3
Current derivative instruments						$ 237						$ 30
Noncurrent derivative assets												
PPAs (c)						$ 4						$ 6
Noncurrent derivative instruments						$ 4						$ 6
Current derivative liabilities												
PPAs (c)						$ 4						$ 4
Current derivative instruments						$ 4						$ 4
Noncurrent derivative liabilities												
PPAs (c)						$ 3						$ 6
Noncurrent derivative instruments						$ 3						$ 6

(a) SPS nets derivative instruments and related collateral on its balance sheets when supported by a legally enforceable master netting agreement. At Sept. 30, 2022 and Dec. 31, 2021, derivative assets and liabilities include no obligations to return cash collateral or rights to reclaim cash collateral. Counterparty netting excludes settlement receivables and payables and non-derivative amounts that may be subject to the same master netting agreements.

(b) Amounts relate to FTR instruments administered by SPP (annual auctions occurring in the second quarter). These instruments are utilized/intended to offset the impacts of transmission system congestion. Higher congestion costs have led to an increase in the fair value of FTRs. Due to regulatory recovery, fair values for FTRs are offset/deferred as a regulatory asset or liability and do not have a material impact on net income.

(c) During 2006, SPS qualified these contracts under the normal purchase exception. Based on this qualification, the contracts are no longer adjusted to fair value and the previous carrying value of these contracts will be amortized over the remaining contract lives along with the offsetting regulatory assets and liabilities.

Changes in Level 3 commodity derivatives for the three and nine months ended Sept. 30, 2022 and 2021:

	Three Months Ended Sept. 30	
(Millions of Dollars)	2022	2021
Balance at July 1	$ 284	$ 41
Purchases/Issuances (a)	4	2
Settlements (a)	(22)	(18)
Net transactions recorded during the period:		
Net (losses) gains recognized as regulatory assets and liabilities (a)	(32)	12
Balance at Sept. 30	$ 234	$ 37

	Nine Months Ended Sept. 30	
(Millions of Dollars)	2022	2021
Balance at Jan. 1	$ 27	$ 7
Purchases/Issuances (a)	241	11
Settlements (a)	(116)	(39)
Net transactions recorded during the period:		
Net gains recognized as regulatory assets and liabilities (a)	82	58
Balance at Sept. 30	$ 234	$ 37

(a) Relates primarily to FTR instruments administered by SPP (annual auctions occurring in the second quarter). These instruments are utilized/intended to offset the impacts of transmission system congestion. Higher congestion costs have led to an increase in the fair value of FTRs. Due to regulatory recovery, changes in fair value are deferred as a regulatory asset or liability and do not have a material impact on net income.

SPS recognizes transfers between levels as of the beginning of each period. There were no transfers of amounts between levels for derivative instruments for the three and nine months ended Sept. 30, 2022 and 2021.

Fair Value of Long-Term Debt

Other financial instruments for which the carrying amount did not equal fair value:

	Sept. 30, 2022		Dec. 31, 2021	
(Millions of Dollars)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$ 3,210	$ 2,656	$ 3,013	$ 3,454

Fair value of SPS' long-term debt is estimated based on recent trades and observable spreads from benchmark interest rates for similar securities. Fair value estimates are based on information available to management as of Sept. 30, 2022 and Dec. 31, 2021 and given the observability of the inputs, fair values presented for long-term debt were assigned as Level 2.

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8. Benefit Plans and Other Postretirement Benefits

Components of Net Periodic Benefit Cost (Credit)

(Millions of Dollars)	Three Months Ended Sept. 30 Pension Benefits 2022	Pension Benefits 2021	Postretirement Health Care Benefits 2022	Postretirement Health Care Benefits 2021
Service cost	$ 2	$ 3	$ —	$ —
Interest cost [(a)]	4	3	—	—
Expected return on plan assets [(a)]	(8)	(7)	—	—
Amortization of net loss (gain) [(a)]	3	4	(1)	—
Settlement charge [(b)]	2	—	—	—
Net periodic benefit cost	$ 3	$ 3	$ (1)	$ —
Effects of regulation	(1)	(1)	—	—
Net benefit cost recognized for financial reporting	$ 2	$ 2	$ (1)	$ —

(Millions of Dollars)	Nine Months Ended Sept. 30 Pension Benefits 2022	Pension Benefits 2021	Postretirement Health Care Benefits 2022	Postretirement Health Care Benefits 2021
Service cost	$ 7	$ 8	$ —	$ —
Interest cost [(a)]	12	11	1	—
Expected return on plan assets [(a)]	(23)	(22)	(1)	(1)
Amortization of net loss (gain) [(a)]	8	11	(1)	—
Settlement charge [(b)]	2	—	—	—
Net periodic benefit cost	$ 6	$ 8	$ (1)	$ (1)
Effects of regulation	(1)	—	—	—
Net benefit cost recognized for financial reporting	$ 5	$ 8	$ (1)	$ (1)

(a) The components of net periodic cost other than the service cost component are included in the line item “Other income, net” in the statements of income or capitalized on the balance sheets as a regulatory asset.

(b) A settlement charge is required when the amount of all lump-sum distributions during the year is greater than the sum of the service and interest cost components of the annual net periodic pension cost. In the third quarter as a result of lump-sum distributions during the 2022 plan year, SPS recorded a pension settlement charge of $2 million, the majority of which was not recognized in earnings due to the effects of regulation.

In January 2022, contributions of $50 million were made across four of Xcel Energy’s pension plans, none of which was attributable to SPS. Xcel Energy does not expect additional pension contributions during 2022.

9. Commitments and Contingencies

The following includes commitments, contingencies and unresolved contingencies that are material to SPS’ financial position.

Legal

SPS is involved in various litigation matters in the ordinary course of business. The assessment of whether a loss is probable or is a reasonable possibility, and whether the loss or a range of loss is estimable, often involves a series of complex judgments about future events. Management maintains accruals for losses probable of being incurred and subject to reasonable estimation. Management is sometimes unable to estimate an amount or range of a reasonably possible loss in certain situations, including but not limited to when (1) the damages sought are indeterminate, (2) the proceedings are in the early stages, or (3) the matters involve novel or unsettled legal theories.

In such cases, there is considerable uncertainty regarding the timing or ultimate resolution, including a possible eventual loss. For current proceedings not specifically reported herein, management does not anticipate that the ultimate liabilities, if any, would have a material effect on SPS’ financial statements. Legal fees are generally expensed as incurred.

Other Litigation — In 2019, SPS and Xcel Energy Services, Inc. were served with a lawsuit related to a traffic accident that resulted in two fatalities in New Mexico. A loss contingency of approximately $50 million was recorded as of Sept. 30, 2022 within Other current liabilities. In July 2022, a confidential settlement was reached. No impact to earnings has or is expected to occur, as the amounts are expected to be reimbursed by SPS’ insurers. An offsetting asset has been recorded to reflect the reimbursement within Prepayments and other current assets.

Rate Matters and Other

SPS is involved in various regulatory proceedings arising in the ordinary course of business. Until resolution, typically in the form of a rate order, uncertainties may exist regarding the ultimate rate treatment for certain activities and transactions. Amounts have been recognized for probable and reasonably estimable losses that may result. Unless otherwise disclosed, any reasonably possible range of loss in excess of any recognized amount is not expected to have a material effect on the financial statements.

SPP OATT Upgrade Costs — Costs of transmission upgrades may be recovered from other SPP customers whose transmission service depends on capacity enabled by the upgrade under the SPP OATT. SPP had not been charging its customers for these upgrades, even though the SPP OATT had allowed SPP to do so since 2008. In 2016, the FERC granted SPP’s request to recover these previously unbilled charges and SPP subsequently billed SPS approximately $13 million.

In July 2018, SPS’ appeal to the D.C. Circuit over the FERC rulings granting SPP the right to recover previously unbilled charges was remanded to the FERC. In February 2019, the FERC reversed its 2016 decision and ordered SPP to refund charges retroactively collected from its transmission customers, including SPS, related to periods before September 2015. In March 2020, SPP and Oklahoma Gas & Electric separately filed petitions for review of the FERC’s orders at the D.C. Circuit. In August 2021, the D.C. Circuit issued a decision denying these appeals and upholding the FERC’s orders. Refunds received by SPS are expected to be given back to SPS customers through future rates.

In October 2017, SPS filed a separate related complaint asserting SPP assessed upgrade charges to SPS in violation of the SPP OATT. In March 2018, the FERC issued an order denying the SPS complaint. SPS filed a request for rehearing in April 2018. The FERC issued a tolling order granting a rehearing for further consideration in May 2018. If SPS’ complaint results in additional charges or refunds, SPS will seek to recover or refund the amount through future SPS customer rates. In October 2020, SPS filed a petition for review of the FERC’s March 2018 order and May 2018 tolling order at the D.C. Circuit. In February 2022, FERC issued an order rejecting SPS’ request for hearing. SPS has appealed that order. That appeal has been combined with SPS’ prior appeal.

Contract Termination — SPS and LP&L have a 25-year, 170 MW partial requirements contract. In May 2021, SPS and LP&L finalized a settlement which would terminate the contract upon LP&L's move from the SPP to the Electric Reliability Council of Texas (expected in 2023). The settlement agreement requires LP&L to pay SPS $78 million, to the benefit of SPS' remaining customers. LP&L would remain obligated to pay for SPP transmission charges associated with LP&L's load in SPP. The agreement is subject to approval by the PUCT and FERC. Approval steps are in process, but approval timing from the PUCT is uncertain.

Environmental

Manufactured Gas Plant, Landfill and Disposal Sites

SPS is remediating a former disposal site. SPS has recognized its best estimate of costs/liabilities from final resolution of these issues, however, the outcome and timing are unknown. In addition, there may be insurance recovery and/or recovery from other potentially responsible parties, offsetting a portion of costs incurred.

Environmental Requirements — Air

Reasonable Progress Rule: In 2016, the EPA adopted a final rule establishing a federal implementation plan for reasonable further progress under the regional haze program for the state of Texas. The rule imposes sulfur dioxide emission limitations which would require the installation of dry scrubbers on Tolk Units 1 and 2; compliance would have been required by February 2021. SPS appealed the EPA's decision and obtained a stay of the final rule.

In 2017, the Fifth Circuit remanded the rule to the EPA for reconsideration (leaving the stay in effect). In a future rulemaking, the EPA may address whether further sulfur dioxide emission reductions are necessary.

Leases

SPS evaluates contracts that may contain leases, including PPAs and arrangements for the use of office space and other facilities, vehicles and equipment. A contract contains a lease if it conveys the exclusive right to control the use of a specific asset.

Components of lease expense:

(Millions of Dollars)	Three Months Ended Sept. 30 2022	2021
Operating leases		
PPA capacity payments	$ 13	$ 13
Other operating leases [(a)]	1	—
Total operating lease expense [(b)]	$ 14	$ 13

(a) Includes immaterial short-term lease expense for 2022 and 2021.
(b) PPA capacity payments are included in electric fuel and purchased power on the statements of income. Expense for other operating leases is included in operating and maintenance expense and electric fuel and purchased power.

(Millions of Dollars)	Nine Months Ended Sept. 30 2022	2021
Operating leases		
PPA capacity payments	$ 39	$ 40
Other operating leases [(a)]	4	2
Total operating lease expense [(b)]	$ 43	$ 42

(a) Includes short-term lease expense of $1 million for 2022 and 2021, respectively.
(b) PPA capacity payments are included in electric fuel and purchased power on the statements of income. Expense for other operating leases is included in operating and maintenance expense and electric fuel and purchased power.

Commitments under operating leases as of Sept. 30, 2022:

(Millions of Dollars)	PPA Operating Leases	Other Operating Leases	Total Operating Leases
Total minimum obligation	$ 508	$ 54	$ 562
Interest component of obligation	(106)	(14)	(120)
Present value of minimum obligation	$ 402	$ 40	442
Less current portion			(31)
Noncurrent operating lease liabilities			$ 411

Variable Interest Entities

Under certain PPAs, SPS purchases power from IPPs for which SPS is required to reimburse fuel costs, or to participate in tolling arrangements under which SPS procures the natural gas required to produce the energy that they purchase. These specific PPAs create a variable interest in the IPP.

SPS had approximately 1,197 MW of capacity under long-term PPAs at both Sept. 30, 2022 and Dec. 31, 2021 with entities that have been determined to be variable interest entities. SPS concluded that these entities are not required to be consolidated in its financial statements because it does not have the power to direct the activities that most significantly impact the entities' economic performance. The PPAs have expiration dates through 2041.

ITEM 2 — MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Discussion of financial condition and liquidity for SPS is omitted per conditions set forth in General Instructions H(1)(a) and (b) of Form 10-Q for wholly owned subsidiaries. It is replaced with management's narrative analysis of the results of operations set forth in General Instruction H(2)(a) of Form 10-Q for wholly owned subsidiaries (reduced disclosure format).

Non-GAAP Financial Measures

The following discussion includes financial information prepared in accordance with GAAP, as well as certain non-GAAP financial measures such as ongoing earnings.

Generally, a non-GAAP financial measure is a measure of a company's financial performance, financial position or cash flows that adjusts measures calculated and presented in accordance with GAAP.

SPS' management uses non-GAAP measures for financial planning and analysis, for reporting of results to the Board of Directors, in determining performance-based compensation, and communicating its earnings outlook to analysts and investors. Non-GAAP financial measures are intended to supplement investors' understanding of our performance and should not be considered alternatives for financial measures presented in accordance with GAAP. These measures are discussed in more detail below and may not be comparable to other companies' similarly titled non-GAAP financial measures.

Earnings Adjusted for Certain Items (Ongoing Earnings)

Ongoing earnings reflect adjustments to GAAP earnings (net income) for certain items. We use this non-GAAP financial measure to evaluate and provide details of SPS' core earnings and underlying performance.

We believe this measurement is useful to investors to evaluate the actual and projected financial performance and contribution of SPS. For the three and nine months ended Sept. 30, 2022 and 2021, there were no such adjustments to GAAP earnings and therefore GAAP earnings equal ongoing earnings.

Results of Operations

SPS' net income was approximately $283 million for the nine months ended Sept. 30, 2022 compared with approximately $260 million for the prior year. The increase largely reflects regulatory rate outcomes, strong sales growth and favorable weather, partially offset by higher depreciation, O&M expenses and interest charges.

Electric Margin

Electric margin is presented as electric revenues less electric fuel and purchased power expenses. Expenses incurred for electric fuel and purchased power are generally recovered through various regulatory recovery mechanisms. As a result, changes in these expenses are generally offset in operating revenues.

Electric revenues and fuel and purchased power expenses are impacted by fluctuations in the price of natural gas and coal. However, these price fluctuations generally have minimal impact on earnings impact due to fuel recovery mechanisms. In addition, electric customers receive a credit for PTCs generated, which reduce electric revenue and income taxes.

Electric revenues, fuel and purchased power and electric margin and explanation of the changes are listed as follows:

	Nine Months Ended Sept. 30	
(Millions of Dollars)	**2022**	**2021**
Electric revenues [a]	$ 1,876	$ 2,007
Electric fuel and purchased power [a]	(881)	(1,195)
Electric margin	$ 995	$ 812

(a) The decrease in revenue and electric fuel and purchased power is primarily due to Winter Storm Uri in 2021 (higher fuel prices, as well as additional long-term energy sales/purchases market adjustments and SPP market transactions).

(Millions of Dollars)	**Nine Months Ended Sept. 30, 2022 vs. 2021**
Regulatory rate outcomes (Texas and New Mexico)	$ 100
Revenue recognition for the Texas rate case surcharge [a]	85
Sales and demand	41
Estimated impact of weather	18
Proprietary commodity trading, net of sharing [b]	(5)
PTCs flowed back to customers (offset by lower ETR)	(25)
Other (net)	(31)
Total increase	$ 183

(a) Recognition of revenue from the Texas rate case outcome is largely offset by recognition of previously deferred costs, see Public Utility Regulation and Other for additional information.

(b) Includes $4 million of trading margin recognized in the first quarter of 2021, driven by market changes associated with Winter Storm Uri.

Non-Fuel Operating Expense and Other Items

O&M Expenses — O&M expenses increased $30 million year-to-date. The increase is primarily due to recognition of previously deferred amounts related to the Texas Electric Rate Case, additional investments in technology and customer programs and inflation. These increases were partially offset by a reduction in employee benefits costs.

Depreciation and Amortization — Depreciation and amortization increased $72 million year-to-date. The increase is primarily due to the recognition of previously deferred amounts related to the Texas Electric Rate Case, normal system expansion and the implementation of new depreciation rates in Texas and New Mexico.

Taxes (Other than Income Taxes) — Taxes (other than income taxes) increased $25 million year-to-date, largely due to an increase in property taxes and the recognition of previously deferred amounts related to the Texas Electric Rate Case.

Interest Charges — Interest expenses increased $21 million year-to-date, largely due to the recognition of previously deferred amounts related to the Texas Electric Rate Case and increased long-term debt levels to fund capital investments.

Public Utility Regulation and Other

The FERC and state and local regulatory commissions regulate SPS. SPS is subject to rate regulation by state utility regulatory agencies, which have jurisdiction with respect to the rates of electric distribution companies in New Mexico and Texas.

Rates are designed to recover plant investment, operating costs and an allowed return on investment. SPS requests changes in utility rates through commission filings. Changes in operating costs can affect SPS' financial results, depending on the timing of rate cases and implementation of final rates. Other factors affecting rate filings are new investments, sales, conservation and demand side management efforts, and the cost of capital.

In addition, the regulatory commissions authorize the ROE, capital structure and depreciation rates in rate proceedings. Decisions by these regulators can significantly impact SPS' results of operations.

Except to the extent noted below, the circumstances set forth in Public Utility Regulation included in Item 7 of SPS' Annual Report on Form 10-K for the year ended Dec. 31, 2021 appropriately represent, in all material respects, the current status of public utility regulation and are incorporated herein by reference.

Pending and Recently Concluded Regulatory Proceedings

2021 Texas Electric Rate Case — In 2021, SPS filed an electric rate case with the PUCT and its municipalities seeking an increase in base rates of approximately $140 million. In May 2022, the PUCT approved a settlement between SPS and intervening parties, which reflects the following terms:

- Base rate increase of $89 million effective retroactively to March 15, 2021.
- A 9.35% ROE and 7.01% weighted average cost of capital for AFUDC purposes only.
- Depreciation lives for Tolk accelerated to 2034 and Harrington coal assets accelerated to 2024.

In July 2022, SPS filed to surcharge the final under-recovered amount, estimated to be approximately $85 million, substantially offset by the recognition of previously deferred costs. The impact of the retroactive amounts is as follows:

(Millions of Dollars)	**Nine Months Ended Sept. 30, 2022**
Revenue surcharge accrual	$ 85
Depreciation and amortization	(43)
O&M expenses	(16)
Interest expense	(12)
Taxes other than income taxes	(10)
Fuel and purchased power	(2)

Other

Supply Chain

SPS' ability to meet customer energy requirements, respond to storm-related disruptions and execute our capital expenditure program are dependent on maintaining an efficient supply chain. Manufacturing processes have experienced disruptions related to scarcity of certain raw materials and interruptions in production and shipping. For example, availability of certain types of transformers has been significantly impacted and in some cases may result in delays in new customer connections as we work to address the shortage. These disruptions have been further exacerbated by inflationary pressures, labor shortages and the impact of international conflicts/issues. SPS continues to monitor the situation as it remains fluid and seeks to mitigate the impacts by securing alternative suppliers, modifying design standards, and adjusting the timing of work.

Inflation Reduction Act — In August 2022, the IRA was signed into law.

Key provisions impacting SPS include:

- Extends current PTC and ITC for renewable technologies (e.g., wind and solar).
- Restores full value of the PTC and ITC for qualifying facilities placed in-service after 2021.
- Creates a PTC for solar, clean hydrogen and nuclear.
- Establishes an ITC for energy storage, microgrids, interconnection facilities, etc.
- Allows companies to monetize or sell credits to unrelated parties.

SPS anticipates the IRA will drive significant customer savings for both new and existing Company owned renewable projects, assuming appropriate regulatory mechanisms and development of a market for the sale of tax credits. The IRA is expected to allow SPS to monetize tax credits more efficiently with the incremental benefits passed through to customers.

In addition, the IRA created a new corporate AMT. SPS does not anticipate AMT having a material cash impact based on current estimates and our interpretation of AMT application.

Winter Storm Uri

In February 2021, the United States experienced Winter Storm Uri. Extreme cold temperatures impacted certain operational assets as well as the availability of renewable generation. The cold weather also affected the country's supply and demand for natural gas. These factors contributed to extremely high market prices for natural gas and electricity. As a result of the extremely high market prices, SPS incurred net natural gas, fuel and purchased energy costs of approximately $100 million (largely deferred as regulatory assets).

In 2021, SPS filed to recover $88 million of Winter Storm Uri costs over 24 months, as part of the Texas fuel surcharge filing, with total under-recovered costs of $121 million.

In April 2022, interim rates designed to recover $121 million over 30 months were approved. The interim rate recovery does not address the prudence of costs nor the retention of $10 million related to market sales during the event. These items will be reviewed through the triennial Fuel Reconciliation proceeding and are subject to a final PUCT decision.

In July 2022, the intervenors filed recommendations in the Fuel Reconciliation proceeding. The Texas Industrial Energy Consumers and PUCT staff recommended disallowances of approximately $10 million (off-system sales margins). The Office of Public Utility Counsel recommended disallowances of approximately $15 million (off-system sales margins and adjustment to energy loss factors). The Alliance of Xcel Municipalities recommended disallowances of approximately $100 million (natural gas storage, contracted capability and off-system sales margins).

A recommendation from the ALJ is expected in the fourth quarter of 2022 and a final decision is anticipated in the first quarter of 2023.

Environmental

Clean Air Act

In April 2022 the EPA proposed regulations under the "Good Neighbor" provisions of the Clean Air Act. The proposed rules impose a Federal Implementation Plan that establishes an allowance trading program for NOx, potentially impacting SPS generating facilities. Facilities without NOx controls will have to secure additional allowances, install NOx controls, or develop a strategy of operations that utilizes the existing allowance allocations. The EPA has indicated that it intends for the rule to be final by the end of 2022 with initial applicability for the 2023 ozone season. While the financial impacts of the proposed regulation are uncertain, SPS anticipates that costs will be recoverable through regulatory mechanisms.

CERCLA

PFAS are man-made chemicals that are widely used in consumer products and can persist and bio-accumulate in the environment. SPS does not manufacture PFAS but because PFAS are so ubiquitous in products and the environment, it may impact our operations. In September 2022, the EPA proposed to designate two types of PFAS as "hazardous substances" under the CERCLA, specifically perfluorooctanoic acid and perfluorooctanesulfonic acid. This proposed rule could result in new obligations for investigation and cleanup wherever PFAS are found to be present. The impact the proposed regulation may have on electric and gas utilities is currently uncertain.

ITEM 4 — CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

SPS maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms.

In addition, the disclosure controls and procedures ensure that information required to be disclosed is accumulated and communicated to management, including the CEO and CFO, allowing timely decisions regarding required disclosure.

As of Sept. 30, 2022, based on an evaluation carried out under the supervision and with the participation of SPS' management, including the CEO and CFO, of the effectiveness of its disclosure controls and procedures, the CEO and CFO have concluded that SPS' disclosure controls and procedures were effective.

Internal Control Over Financial Reporting

No changes in SPS' internal control over financial reporting occurred during the most recent fiscal quarter that materially affected, or are reasonably likely to materially affect, SPS' internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1 — LEGAL PROCEEDINGS

SPS is involved in various litigation matters in the ordinary course of business. The assessment of whether a loss is probable or is a reasonable possibility, and whether the loss or a range of loss is estimable, often involves a series of complex judgments about future events. Management maintains accruals for losses probable of being incurred and subject to reasonable estimation.

Management is sometimes unable to estimate an amount or range of a reasonably possible loss in certain situations, including but not limited to, when (1) the damages sought are indeterminate, (2) the proceedings are in the early stages or (3) the matters involve novel or unsettled legal theories. In such cases, there is considerable uncertainty regarding the timing or ultimate resolution of such matters, including a possible eventual loss.

For current proceedings not specifically reported herein, management does not anticipate that the ultimate liabilities, if any, would have a material effect on SPS' financial statements. Legal fees are generally expensed as incurred.

See Note 9 to the financial statements and Part I Item 2 for further information.

ITEM 1A — RISK FACTORS

SPS' risk factors are documented in Item 1A of Part I of its Annual Report on Form 10-K for the year ended Dec. 31, 2021, which is incorporated herein by reference. There have been no material changes from the risk factors previously disclosed in the Form 10-K.

ITEM 6 — EXHIBITS

* Indicates incorporation by reference

Exhibit Number	Description	Report or Registration Statement	Exhibit Reference
3.01*	Amended and Restated Articles of Incorporation, dated Sept. 30, 1997	SPS Form 10-Q for the quarter ended Sept. 30, 2017	3.01
3.02*	Amended and Restated Bylaws of SPS, dated Jan. 25, 2019	SPS Form 10-K for the year ended Dec. 31, 2018	3.02
10.01*	Fourth Amended and Restated Credit Agreement, dated as of September 19, 2022, among Southwestern Public Service Company, as Borrower, the several lenders from time to time parties thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Bank of America, N.A. and Barclays Bank PLC, as Syndication Agents, and Citibank, N.A., MUFG Bank, Ltd. and Wells Fargo Bank, National Association, as Documentation Agents	Xcel Energy Inc. Form 8-K dated September 19, 2022	99.04
31.01	Principal Executive Officer's certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.		
31.02	Principal Financial Officer's certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.		
32.01	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.		
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.		
101.SCH	Inline XBRL Schema		
101.CAL	Inline XBRL Calculation		
101.DEF	Inline XBRL Definition		
101.LAB	Inline XBRL Label		
101.PRE	Inline XBRL Presentation		
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)		

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Southwestern Public Service Company

10/27/2022 By: /s/ BRIAN J. VAN ABEL

Brian J. Van Abel
Executive Vice President, Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

Exhibit 31.01

CERTIFICATION

I, Robert C. Frenzel, certify that:

1. I have reviewed this report on Form 10-Q of Southwestern Public Service Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **10/27/2022**

/s/ ROBERT C. FRENZEL
Robert C. Frenzel
Chairman, Chief Executive Officer and Director
(Principal Executive Officer)

Exhibit 31.02

CERTIFICATION

I, Brian J. Van Abel, certify that:

1. I have reviewed this report on Form 10-Q of Southwestern Public Service Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting

Date: **10/27/2022**

/s/ BRIAN J. VAN ABEL
Brian J. Van Abel
Executive Vice President, Chief Financial Officer and Director
(Duly Authorized Officer and Principal Financial Officer)

Exhibit 32.01

OFFICER CERTIFICATION

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Southwestern Public Service Company (SPS) on Form 10-Q for the quarter ended Sept. 30, 2022, as filed with the SEC on the date hereof (Form 10-Q), each of the undersigned officers of SPS certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

(1) The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of SPS as of the dates and for the periods expressed in the Form 10-Q.

Date: **10/27/2022**

/s/ ROBERT C. FRENZEL
Robert C. Frenzel
Chairman, Chief Executive Officer and Director
(Principal Executive Officer)

/s/ BRIAN J. VAN ABEL
Brian J. Van Abel
Executive Vice President, Chief Financial Officer and Director
(Duly Authorized Officer and Principal Financial Officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. Section 1350 and is not being filed as part of the Report or as a separate disclosure document.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to SPS and will be retained by SPS and furnished to the SEC or its staff upon request.