**WTMPA 2-1.** Please explain why 2018 transmission wages are projected to increase by $1,215,665 (10.24%) over what was projected in 2017.

**Response:**

2018 transmission wages are based on 2016 actuals from the FERC Form 1 of $13,092,124. In the interim from completion of the FERC Form 1 and the 2016 Attachment O True-up, it was discovered $916,768 of distribution expense was recorded as transmission expense, with $644,145 of that amount related to labor. 2016 Attachment O True-up was corrected and decreased the total transmission labor to $12,447,979, which results in a variance of $571,520 over what was projected in 2017.

The 2017 transmission wages were based on 2015 actuals. SPS is focusing on performing certain O&M duties within the company versus contracting out to other companies. This will allow lower O&M in total by performing duties with employees rather than contractors. There will however be an increase in labor, offset by a cost savings in non-labor. The variance of $571,520 can be attributed to SPS’s efforts to use employees instead of contractors to preform transmission related duties.

**WTMPA 2-2.** Why are 2018 distribution wages projected to decrease by $4,121,896 (19.06%) over what was projected in 2017?

**Response:**

As mentioned in the response to WTMPA 2-1, the 2018 distribution wages are based on 2016 actuals from the FERC Form 1 of $17,499,535. In the interim from completion of the FERC Form 1 and the 2016 Attachment O True-up, it was discovered $916,768 of distribution expense were recorded as transmission expense, with $644,145 related to labor. The 2016 Attachment O True-up was corrected for this increasing the total distribution labor to $18,143,680, which results in a variance of $3,477,752 under what was projected in 2017.

The 2017 distribution wages were based on 2015 actuals. In 2016 distributions overall head count was down approximately 20 people (5.1%), and overtime was reduced by $800K (21.8%).

**WTMPA 2-3.** Please explain the driver(s) behind the $78,603,426 (54.70%) total company increase to intangible plant from the 2016 Attachment O True-Up to the 2018 Attachment O Projection.

**Response:**

The increase in intangible plant is driven by the implementation of a new general ledger system and a new Work Management System. For further detail, please refer to 10-2017---Attachment O-SPS Variance Analysis Projected 2018vs2017.xlsx file, specifically the tab labeled “Closings” and 06-2017---Customer Variance Packet 2016 True-up.xls file, specifically the tab labeled Plant Additions.

**WTMPA 2-4.** Why did transmission O&M decrease by $644,145 from the 2016 Attachment O True-Up to the 2018 Attachment O Projection when transmission wages increased by the same amount during the same period?

**Response:**

The $644,145 of O&M expense should have been removed from the 2016 Attachment O True-Up and will be reflected in the formula posted on December 12, 2017. The changes to the transmission wages will not be included in the 2018 Attachment O Projection.