12/15/81

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION OF NORTHERN STATES POWER COMPANY FOR AUTHORITY TO ESTABLISH INCREASED RATES FOR ELECTRIC SERVICE IN SOUTH DAKOTA.	)))))	DECISION AND ORDER (F-3382)

On June 15, 1981, Northern States Power Company (NSP) filed with the Commission an application for authority to establish increased rates for its retail electric service in South Dakota. By the terms of its application, NSP sought to increase retail electric revenues by approximately $6,184,000 on an annual basis, which constitutes an overall increase in annual revenues of approximately 20%. NSP serves approximately 46,000 customers in South Dakota. NSP sought to implement its proposed rate increase to become effective on December 15, 1981. On July 21, 1981, the Commission filed its Notice of and Order for Deposit and Procedural Schedule herein. By the terms of that Order a schedule for the filing of testimony and a time for hearing was established. By its Amended Order for and Notice of Procedural Schedule entered on October 2, 1981, the evidentiary hearing set in the case was delayed one day to accommodate a state and federal holiday. On September 30, 1981, the Commission held a consumer input hearing in Sioux Falls, South Dakota. On October 13, 1981, the formal evidentiary hearings in this case were commenced in Pierre. NSP was represented by its counsel David Lawrence of Minneapolis, Minnesota and by Samuel L. Hanson of Briggs and Morgan, Minneapolis, Minnesota. Commission Staff was represented by Wayne F. Gilbert and Doyle D. Estes of Gunderson, Farrar, Aldrich, Warder and DeMersseman, Rapid City, South Dakota.

DISCUSSION

I.

TEST YEAR

A. NSP Position

NSP Witness McIntyre's adjustments to rate base, revenues and expenses are based on 1981 sales levels and associated demands. It is NSP's contention that SDCL Chapter 49-34A does not prohibit usage of partially or fully forecasted test years. Witness McIntyre testified that he had little confidence that Staff's case utilizing historical test year data

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

one budgetary period forward in order to give their budget the appearance of being precise. Staff alleges that due to the adoption of a budget, NSP may receive rate base treatments months before an item becomes used and useful, yet because the item became used and useful within the budget year the budget will maintain the appearance of being correct. Staff asserts that the forecast depends heavily on the forecast of sales in order to establish cost/revenue relationships. Staff believes that sales cannot be forecast accurately due to the present difficulty in forecasting trends.

Staff Witness Rislov testified that historical test years are not "backward looking" in a rate case context. It is Witness Rislov's testimony that historical test years adjusted for known and measurable changes are sound for development of appropriate cost/revenue relationships. Staff Witnesses Towers and Rislov testified that in their opinion, NSP has failed to document known and measurable changes and that NSP is now trying to capitalize on this failure by requesting the Commission to adopt a self-fulfilling budget that offers little economic incentive for being cost-conscious.

Staff asserts in its case that they have recognized more adjustments to NSP's case than they have in the past. Staff Witness Rislov, for example, annualized non-revenue producing plant through July of 1981, a full six months after the test year ended. Witnesses Rislov and Towers additionally testified that NSP could offer known change adjustments occurring prior to the Commission Order.

Staff also noted, contrary to NSP Witness McIntyre's testimony, that usage of forecast test years does not necessarily limit the number of rate increase filings. Staff points out that NSP filed for an increase in rates in Minnesota on July 1, 1981, only two months after Minnesota had issued a rate increase Order.

Staff Witness Rislov further pointed out that the Staff must process a rate case within six months of the date of filing, and that this relatively rapid processing time coupled with known change adjustments should make, in Witness Rislov's view, the test year reasonably reflective of current conditions.

II.

INCOME TAX NORMALIZATION

A. NSP Position

NSP urged the Commission to abandon its past precedent requiring flow-through of income tax benefits and adopt income tax normalization. NSP Witness McIntyre testified that tax

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

12/15/81

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION OF NORTHERN STATES POWER COMPANY FOR AUTHORITY TO ESTABLISH INCREASED RATES FOR ELECTRIC SERVICE IN SOUTH DAKOTA.	)))))	DECISION AND ORDER (F-3382)

On June 15, 1981, Northern States Power Company (NSP) filed with the Commission an application for authority to establish increased rates for its retail electric service in South Dakota. By the terms of its application, NSP sought to increase retail electric revenues by approximately $6,184,000 on an annual basis, which constitutes an overall increase in annual revenues of approximately 20%. NSP serves approximately 46,000 customers in South Dakota. NSP sought to implement its proposed rate increase to become effective on December 15, 1981. On July 21, 1981, the Commission filed its Notice of and Order for Deposit and Procedural Schedule herein. By the terms of that Order a schedule for the filing of testimony and a time for hearing was established. By its Amended Order for and Notice of Procedural Schedule entered on October 2, 1981, the evidentiary hearing set in the case was delayed one day to accommodate a state and federal holiday. On September 30, 1981, the Commission held a consumer input hearing in Sioux Falls, South Dakota. On October 13, 1981, the formal evidentiary hearings in this case were commenced in Pierre. NSP was represented by its counsel David Lawrence of Minneapolis, Minnesota and by Samuel L. Hanson of Briggs and Morgan, Minneapolis, Minnesota. Commission Staff was represented by Wayne F. Gilbert and Doyle D. Estes of Gunderson, Farrar, Aldrich, Warder and DeMersseman, Rapid City, South Dakota.

DISCUSSION

I.

TEST YEAR

A. NSP Position

NSP Witness McIntyre's adjustments to rate base, revenues and expenses are based on 1981 sales levels and associated demands. It is NSP's contention that SDCL Chapter 49-34A does not prohibit usage of partially or fully forecasted test years. Witness McIntyre testified that he had little confidence that Staff's case utilizing historical test year data

A-3

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

properly reflects 1981 conditions, and is altogether insufficient for recognizing 1982 conditions. Witness McIntyre then defended his recommended use of forecasted and budgeted data arguing that the complexity and thoroughness of a budget enhances its reliability. He also testified that it is unnecessary for the Staff to develop its own budget but that Staff could fulfill its responsibilities by reviewing the Company's budget in light of historical results, changing conditions and abnormal deviations. NSP further claimed that its budget should be adopted because there have been no serious criticisms of its accuracy, it better reflects cost/revenue relationships, its accuracy can be assessed as actual results occur and it can be corrected in the process, and because serious revenue gaps will occur if historical test years are utilized.

NSP Witness McIntyre testified that other jurisdictions have had good experience using forecasted test years based on NSP's budget, and that the budget has historically proved to be quite reliable in reflecting the near future. Because the budgets are used primarily for operating, planning and conducting Company business, he believed the budget to represent the Company's best efforts to forecast its financial future. NSP also contends that the budgeted data is superior to Staff's historical test year, and further contends that Staff's determinations have failed to work in the past.

B. Staff Position

Staff opposes the use of partially or fully forecasted test years. Staff Witness Rislov testified that the purpose of a rate increase application is to derive cost/revenue relationships that will be in effect for the forthcoming period. He maintained that historical data reflects actual cost/revenue relationships, and when adjusted, is a better indicator of future relationships than a budget. Witness Rislov testified that a budget is based on a series of assumptions, projections and guesses made by 385 department heads, and that given the number of people involved and the possibility of errors on the part of each, budgets may be adequate for planning, but lack sufficient precision for ratemaking.

Staff Witnesses Towers and Rislov pointed out that NSP's claim that their budget performs acceptably in other jurisdictions in an allowed verus earned return sense is meaningless because the budget becomes a self-fulfilling prophecy. Staff claims that NSP can and does time expenditures to their benefit when a forecast test year based on their budget is utilized. Staff believes that NSP may delay expenditures from

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

one budgetary period forward in order to give their budget the appearance of being precise. Staff alleges that due to the adoption of a budget, NSP may receive rate base treatments months before an item becomes used and useful, yet because the item became used and useful within the budget year the budget will maintain the appearance of being correct. Staff asserts that the forecast depends heavily on the forecast of sales in order to establish cost/revenue relationships. Staff believes that sales cannot be forecast accurately due to the present difficulty in forecasting trends.

Staff Witness Rislov testified that historical test years are not "backward looking" in a rate case context. It is Witness Rislov's testimony that historical test years adjusted for known and measurable changes are sound for development of appropriate cost/revenue relationships. Staff Witnesses Towers and Rislov testified that in their opinion, NSP has failed to document known and measurable changes and that NSP is now trying to capitalize on this failure by requesting the Commission to adopt a self-fulfilling budget that offers little economic incentive for being cost-conscious.

Staff asserts in its case that they have recognized more adjustments to NSP's case than they have in the past. Staff Witness Rislov, for example, annualized non-revenue producing plant through July of 1981, a full six months after the test year ended. Witnesses Rislov and Towers additionally testified that NSP could offer known change adjustments occurring prior to the Commission Order.

Staff also noted, contrary to NSP Witness McIntyre's testimony, that usage of forecast test years does not necessarily limit the number of rate increase filings. Staff points out that NSP filed for an increase in rates in Minnesota on July 1, 1981, only two months after Minnesota had issued a rate increase Order.

Staff Witness Rislov further pointed out that the Staff must process a rate case within six months of the date of filing, and that this relatively rapid processing time coupled with known change adjustments should make, in Witness Rislov's view, the test year reasonably reflective of current conditions.

II.

INCOME TAX NORMALIZATION

A. NSP Position

NSP urged the Commission to abandon its past precedent requiring flow-through of income tax benefits and adopt income tax normalization. NSP Witness McIntyre testified that tax

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

normalization better achieves the goal of equity and fairness in rates than does flow-through. One of the reasons given by Witness McIntyre is that tax normalization synchronizes the recognition in rates of the deductibility of an expense with the recognition of the expense itself. In other words, under normalization procedures, income taxes are allocated over the life of the plant giving rise to the tax expense rather than to the construction period when the costs were actually paid. Another reason given by NSP is that flow-through treatment, according to the FERC, costs ratepayers the same as normalization. (However, on rebuttal, NSP argues that according to the Massachusetts Accountants For Public Issues, Inc., normalization is less costly to the customers than flow-through.)

NSP further summarizes certain findings made by the FERC in its Order No. 144 to support Witness McIntyre's contention that normalization is more fair and equitable than flow-through. These findings are:

(1) That normalization balances obligations to insure reasonable rates to ratepayers while maintaining the financial integrity of the utility;

(2) That normalization is more properly cost-based than flow-through;

(3) That tax normalization meets the "actual taxes paid" principle from policy and legal standpoints;

(4) That tax normalization meets the just and reasonable rate standards of the Federal Power Act and Natural Gas Act;

(5) That tax normalization is likely to produce more stable rates over time than flow-through;

(6) That no adverse incentives are given to companies by the use of normalization; and

(7) That issuance of a generic rule resolving the issues will result in administrative efficiency and clarity which will benefit all parties.

NSP Witness McIntyre testified that the idea of a "permanent tax saving" resulting from normalization is not a valid reason for rejecting normalization because no such permanent tax savings results from normalization. The reason there is no such savings is that tax deferrals do reverse, or turn around. Witness McIntyre similarly testified that a growth in the aggregate size of the accumulated deferred tax account does not justify rejection of tax normalization policies because even

A-6

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

though the account in the aggregate may be growing, individual timing differences still are reversing continuously.

NSP contends that it must be permitted to utilize normalization in order that its accounting procedures conform to generally accepted accounting principles, in this instance those embodied in APB No. 11.

NSP points out that its other regulating jurisdictions all utilize normalization and that the unique treatment in South Dakota is requiring special accounting treatment that is becoming more complex with time. Hence, NSP argues that because of the FERC comprehensive review of the issue, the treatment given the Company in other jurisdictions, and recent trends in tax law changes favoring normalization, the Commission should reassess its past precedent.

D. Staff Position

The Staff urges the Commission to continue its past precedent requiring flow-through of income tax benefits except where federal law makes it imprudent to do so.

Staff Witness Brown testified that flow-through is desirable because it reflects in utility rates only the actual taxes paid or payable and because it matches costs imposed on the utility with those included in rates. Staff Witness Brown also testified that flow-through is less costly to the customer than income tax normalization. The reason flow-through is less costly is that customers pay currently, under normalization, for federal income taxes the utility will pay, theoretically, only in the later years of the plant life. Hence, time value considerations favor flow-through as the less costly alternative for customers. Also, Staff Witness Brown testified that the cost of capital for a utility is less than the cost of capital for most consumers. Since the customers are given carrying charges on their contribution of federal income taxes in advance of the payment of these taxes to the federal government at the utility's cost of capital rate, most customers will never be fully reimbursed under normalization. Staff further argues that because the type of deductions at issue recur year after year so long as there is a construction program for either new or replacement plant, each year's tax saving generated by construction will in all likelihood exceed any tax currently payable associated with the "turnaround" of deferred taxes related to older plant. Staff explained that the reason total taxes currently payable will not increase over time is that tax savings are generated each year, but reverse very slowly, generally over a period of about 30 years. Moreover, Staff Witness Brown stated that it is reasonable to assume that the utility's tax

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

deductions will recur each in increasingly greater amounts because of real growth and even modest price inflation related to construction expenditures. Therefore, Staff concludes that, as a practical matter, a utility's actual tax liability will never be increased because even as tax deferrals turn around, construction of new and replacement plant is generating more and probably greater tax deductions each year.

As to the arguments advanced by normalization proponents regarding equity between present and future ratepayers, Staff Witness Brown testified that adoption of flow-through does not result in inequities between present and future ratepayers. The first reason that it is not inequitable is that the utility's actual tax liability, in all probability, will never increase because of the fact that these deductions recur and grow. Secondly, Staff testified that adoption of flow-through levels out the total revenue requirement associated with a single plant over its life. The alternative, i.e., normalization, would require that customers on the system at the time a new plant comes into rate base at its full, undepreciated cost not only be burdened with the return on this investment, but also be burdened with greater amounts of income tax expense than would be the case under flow-through. Finally, the Staff asserts that it is incorrect to state that these tax savings belong to future ratepayers because present customers, although not required to pay a current return on construction work in progress, have paid rates based on the Company's composite cost of capital which has been secured both for construction and present operations.

Staff Witness Brown testified that her recommendation regarding flow-through is one that is in accordance with generally accepted accounting principles. Although ABB Opinion No. 11 requires normalization, the Addendum to APB Opinion No. 2 exempts public utilities from these requirements.

III.

WISCONSIN PRE-CERTIFICATION EXPENSES

A. NSP Position

The issue of Wisconsin pre-certification expenses arises because NSP-Wisconsin changed its accounting procedures and currently expenses through the Coordinating Agreement its pre-certification expenses which include "expenses incurred in planning, obtaining environmental and other studies, and all other activities required to secure governmental approvals prior to receipt of construction certificates authorizing electric production and transmission facilities projects."

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

NSP contends that because the charges at issue are billed pursuant to an FERC rate schedule, the South Dakota Commission has no choice but to allow NSP to pass these on to ratepayers. NSP argues that while the pre-certification expenses are similar to the Tyrone-related expenses, there is no currently pending FERC case regarding pre-certification expenses. Moreover, NSP Witness McIntyre argued that Staff's recommendation, (*infra*), is not a viable option since NSP-Minnesota will have no asset on its books with which associated pre-certification expenses may be capitalized.

B. Staff Position

Staff Witness Brown recommended that NSP-Minnesota be required to capitalize Wisconsin pre-certification expenses and subsequently recover them over the life of the facility to which the costs relate. From an accounting viewpoint, Witness Brown testified that costs of this nature are properly capitalized rather than expensed. Staff further contends that if certain pre-certification expenses do not result in construction of a facility, special consideration can be given to the amortization of these costs just as Tyrone costs are currently being considered.

IV.

NUCLEAR PLANT DECOMMISSIONING

A. NSP Position

In this proceeding, NSP is attempting to have recognized in its South Dakota retail electric rates for the first time an increase in depreciation rates for nuclear facilities attributable to the addition of a "25% contingency" allowance to its engineering estimates of the cost to decommission the plants. The depreciation rates for nuclear facilities underlying NSP's present South Dakota retail rates include a negative 10% salvage allowance, which implies that it will cost 10% of the original cost of the facility to decommission the plants. In this proceeding NSP is also proposing to change its methodology for the recovery of anticipated nuclear fuel disposal costs and decommissioning costs to a sinking fund method. NSP contends its "25% contingency" allowance is proper since it was derived by experienced consultants who used a minimum base plus contingency method, which NSP contends is customary and appropriate for engineering estimates of single event costs. NSP Witness Ewers testified that the depreciation rate issue was fully and comprehensively studied in hearing before the Minnesota Public Utilities Commission.

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

The Minnesota Commission apparently has allowed NSP to implement its proposed depreciation rate, and NSP argues that a different rate in South Dakota would cause accounting problems for the Company.

NSP further argues that rejection of the contingency would amount to a deliberate understatement of the best estimate of the decommissioning costs because Mr. Ewers testified that in his experience, costs of decommissioning nuclear projects are always underestimated. Mr. Ewers further pointed out that, in his opinion, the inflation rate assumption included in the engineer's estimate was modest.

NSP contends that if Staff Witness Towers' objective was to allow the best estimate of decommissioning, the Company's proposal should be implemented because NSP has established conclusively that without the contingency, the estimate is too low. If the estimate included ultimately proves too low, future ratepayers would be inordinately saddled with a cost associated with plants from which they received no benefit.

NSP argues that the decommissioning costs are subjected to periodic review for update and correction, if necessary, and that this safeguards consumers. Finally, NSP contends that it would be unfair if the Commission accepts the sinking fund methodology, which reduces current revenue requirements, but rejects the contingency and imposes difficult accounting problems on NSP in the process.

B. Staff Position

Staff Witness Towers did not dispute NSP's proposed change to a sinking fund methodology of recovery of the costs of decommissioning and nuclear fuel disposal. Staff Witness Towers did not take issue with the actual decommissioning estimates underlying NSP's depreciation rate, which include incidentally an allowance for inflation in the intervening years. The only area disputed by Mr. Towers was the "25% contingency" allowance proposed to be recovered by NSP. Staff Witness Towers testified that a 10% negative salvage indicates that it will cost about $56,000,000 to decommission plants with an original cost of $561,000,000. He further explained that the new estimates proposed to be included by NSP include decommissioning costs of $121.1 million in 1979 dollars, an increase in cost from 10% of the original cost of the facility to over 21%. Mr. Towers testified that in terms of price levels at the time of decommissioning, the new estimate is $762.7 million, or 135% of the plant's original cost.

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

Of the $121.1 million which is NSP's latest estimate, the detailed engineering estimate of the actual cost of dismantlement and removal accounts for $96.9 million of the total. The remaining $24.2 million represents the "25% contingency" allowance.

Staff Witness Towers recommended exclusion of the contingency allowance. He testified that the engineering analysis does not explain the need for a contingency allowance, but only states that such an allowance has been added to the estimated costs to determine a total cost. Mr. Towers further testified that the use of a "contingency" allowance suggests that there is some uncertainty involved in the engineering studies, which indicates that the estimates may be too high or too low. He recommended that in the absence of persuasive evidence to indicate that the detailed engineering studies are wholly or, on balance, understated by 25%, the contingency allowance be excluded.

In support of its recommended exclusion, Staff argues that there are a number of uncertainties involved in this area which should be considered, some of which may prove NSP's estimate of even the basic decommissioning, let alone the contingency, to be too high. For example, NSP's study outlined four modes of decommissioning, and selected one as the most probable. NSP concedes, however, that there is uncertainty that even the method on which the cost estimates are based will ultimately be used when the plants are decommissioned in the next century. Moreover, Staff points out that even decommissioning policies and technology may change in the intervening years, thereby rendering the current estimates wrong. If recommissioning becomes technologically viable before these plants are exhausted, the monies collected for decommissioning would not even have been wholly needed in the first instance.

Staff contends that the decommissioning estimates may be reviewed periodically and that if NSP is able to demonstrate that a change is warranted, based on engineering analysis, the rates be revised at that time, but that there is no valid reason for allowing collection of this unsupported "25% contingency" allowance from present ratepayers.

V.

INCOME TAX EXPENSES

A. Staff Position

Staff Witness Brown testified that NSP's income tax expense allowance should be computed so that it is consistent with the income tax expense which is implied by the rate of

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

return determination. In this particular proceeding, the synchornization of income tax expenses with the rate of return recommendation which is based upon a hypothetical capital structure, results in a decrease in the federal income tax expense from that supported by NSP. Staff Witness Brown testified that it would be wrong to ignore the hypothetical capital structure recommendations of Staff Witness Wilson in determining income tax expense. If NSP's present capital structure is inefficient and imprudent, as Dr. Wilson contends, then Staff Witness Brown testified that it would be wrong to base an income tax allowance on that implied by such inefficient and imprudent levels of capital, even if this means utilizing hypothetical taxes rather than actual taxes. As to NSP's contention that adoption of hypothetical taxes deprives NSP of the ability to earn its allowed rate of return, Staff Witness Brown conceded that NSP will not collect its total federal income taxes under her proposal, but that they should not if the capital structure modifications made by Staff Witness Wilson in this proceeding are approved. She testified that this is no different than any other disallowed cost and its resulting impact on NSP's ability to earn its rate of return. Staff states that the same considerations regardng synchronization apply also to working capital offsets for federal income taxes, long-term debt interest, and preferred stock.

B. NSP Position

NSP urges the Commission to reject Staff's proposal to base federal income tax expense and working capital offsets on the hypothetical capital structure recommendations of Staff Witness Wilson. NSP Witness McIntyre testified that Staff's recommendation results in assigning more interest expenses than NSP actually has and that this proposal serves only to further penalize NSP and further deprive it of the opportunity to earn its authorized rate of return. Additionally, Mr. McIntyre testified that Staff Witness Brown is violating the "actual taxes paid" principle which she otherwise advocates in using hypothetical tax deductions.

VI.

AMORTIZATION OF EXCESS ACCUMULATED DEFERRED INCOME TAXES

A. NSP Position

NSP urges the Commission to leave undisturbed its present accounting mechanism which will flowback all deferred taxes to ratepayers eventually, albeit over a period of time longer

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

than the associated plant lives. NSP Witness McIntyre testified in favor of this position particularly in light of potential tax rate increases, which he testified would require imposition of an amortization of the deficiency. NSP further contends that the current system will equitably treat ratepayers without disruption of the normal accounting process and without additional and unwarranted expense to the ratepayer. NSP notes that its procedure has been scrutinized by the FERC audit staff and found acceptable to them and that the procedure is consistent with FERC Order No. 144. NSP does not dispute the fact that there is an excess in the accumulated deferred income tax account, but does take issue with Staff's recommended three year amortization period.

D. Staff Position

Staff proposes an adjustment reducing deferred federal income tax expense by amortizing over three years the excess which now exists in NSP's accumulated deferred income tax account by virtue of the fact that the corporate tax rate has been reduced. Staff Witness Brown testified that prior to January 1, 1979, South Dakota ratepayers provided deferred taxes with regard to federally mandated tax normalization at rates in excess of the current federal income tax rate of 46%. Under normalization procedures tax savings are deferred at the prevailing tax rate on the theory that these taxes will be payable in the future. Staff Witness Brown testified that the accumulated deferred income tax account now includes amounts which will be required for a future theoretical income tax expense which would be fully incurred in the future only if the tax rates were then in excess of 46%. Hence, she recommended that the excess be returned over a shorter three year period rather than NSP's proposed period, which would not return all accumulated deferred income taxes until after the plant is retired. Witness Brown recommended a three year period in order to assure that the customers who provided the deferred taxes will have a better opportunity to recover them and because a three year period would continue the amortization period begun in NSP's prior proceeding.

Staff contends that there is no reason not to pass this tax excess back to ratepayers now, rather than waiting until some distant point in the future in anticipation of the possibility that tax rates may go up again in the future. Staff Witness Brown testified that if tax rates go up, no adjustment to the accumulated deferred income tax account will be necessary under flow-through accounting (which Staff is also recommending). Finally, Staff notes that its recommendation is not inconsistent with FERC Order No. 144.

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

VII.

REPAIR ALLOWANCE AMORTIZATION

A. NSP Position

NSP Witness McIntyre recommended an amortization period of three years for the repair allowance recoupment. Witness McIntyre testified that a three year amortization would be consistent with the period proposed by Staff for the amortization of excess deferred taxes. NSP further supports its three year period by contending that rates actually providing the tax benefit have been in effect approximately 3 1/2 years.

B. Staff Position

Staff agrees with NSP that tax benefits associated with the repair allowance previously flowed through to South Dakota ratepayers, subsequently partially disallowed as tax deductions by the IRS, should be recouped. The issue is the amortization period. Staff Witness Brown chose an amortization period of five years because the tax deductions in question were taken over five years, 1975 through 1979, although the tax deductions actually related to six tax years (NSP retroactively elected to take the repair allowance in one year). Staff Witness Brown conceded that while a shorter period could be used, the five year period had a rational basis. Moreover, since unamortized amounts are included in the rate base, there is no question that NSP will recover all costs plus carrying costs.

VIII.

ADVERTISING EXPENSES

A. NSP Position

NSP Witness McIntyre testified that the Company's "energy supply" advertising should be allowed because it provides information which is useful to consumers in making future fuel choices and in modifying energy use patterns, and therefore is of benefit to consumers. NSP further argues that it has an obligation to maintain contact with the economic life of the area that it serves and that advertising is a prime way of doing that. NSP contends that the Commission should not disallow advertising expenses unless the expenditures are excessive, unwarranted, or incurred in bad faith because the type and quantity of advertising is a matter which should be decided by management.

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

B. Staff Position

Staff Witness Knadle recommended the exclusion of $3,741 of advertising denominated by NSP as "energy supply" advertising, but which Staff Witness Knadle testified was institutional in nature. Witness Knadle recommended exclusion of these expenditures because they are not necessary for the rendition of safe, adequate and reliable electric service. The ads in question show that tests are being conducted in the hope that garbage briquets might find some use as fuel. Staff submits that these type of ads do not meet the standards set forth by Witness Knadle and therefore should be disallowed.

IX.

DONATIONS

A. NSP Position

NSP Witness McIntyre supported inclusion of charitable contributions in the cost of service. He testified that inclusion of these amounts is especially appropriate now in times of government reduction in support of social programs. He testified that Staff's standard is too limited because NSP has a responsibility to local and charitable organizations. He stated that the organizations benefit all residents of NSP's South Dakota service area and that it is the customers, not the stockholders, who receive and should fund such benefits. Finally, as a compromise solution, Mr. McIntyre requested incluson of at least one-half the charitable contributions, thereby effecting a sharing of the expense between ratepayers and stockholders.

B. Staff Position

Staff Witness Knadle recommended the exclusion of $43,837 of "charitable" contributions from NSP's operating expenses because the expenditures were not essential to the rendition of safe, adequate and reliable electric service. Staff Witness Knadle testified that customers should be free to donate to such organizations as they choose and not be forced to make contributions to organizations they might not otherwise support through their electric bills.

X.

INFLATION ADJUSTMENT

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

A. NSP Position

NSP Witness McIntyre supported inclusion of an additional inflation adjustment of $280,000 above that reflected in NSP's direct and rebuttal presentations. NSP contends that the inclusion of this adjustment would allow for inflation beyond the end of the test year of 3.86% in 1981 and 3.86% in 1982, or looked at another way, would approximate inflation during 1981. NSP argues that the adjustment is a conservative one and is appropriate in light of the probable December 15, 1981 effective date of these rates. NSP also asserts that the expenses being adjusted are not related to revenue production and that there are no offsetting sales increases. Finally, NSP argues that its proposed additional adjustment is still conservative because, in its view, a two year inflation adjustment to approximate 1982 conditions is required.

B. Staff Position

Staff reflected in its direct presentation an adjustment to operation and maintenance not otherwise adjusted for inflation. Staff Witness Brown testified that the Staff did not oppose this adjustment because of a Supreme Court decision which directed the Commission to make such an adjustment. Staff does, however, resist the Company's request for an additional inflation adjustment (which NSP requested for the first time on the final day of hearing in this proceeding). Staff Witness Brown testified that the initial allowance made by Staff, in her opinion, satisfied the Court's directive. The procedure followed in both the Court case and this case was to apply one-half of the percentage increase in unit costs during the test year to test year O & M. Witness Brown testified that this procedure, in effect, reflects in NSP's cost of service inflation at year-end levels. She recommended not adjusting further for inflation because this is not a known change and because it would be improper to employ this rough estimating technique to reflect inflation which may occur outside the confines of the test year selectively without assessing other changes that might be occurring in NSP's operations beyond the test year. Staff argues that productivity may be experienced by NSP in certain areas. As an example, Staff contends that gasoline expense may not increase as it did during the test year, or may even decline from the test year levels, despite increases in the unit cost of gas because of more fuel efficient vehicles which have been acquired by NSP in the post-tear year period. Staff notes that they have not proposed such an adjustment for the same reasons it resists NSP's proposed inflation adjustment.

Staff Witness Brown testified, as did Staff Witnesses Rislov and Towers, that utilities have every opportunity to identify and come forward with known changes in costs and if the adjustments are properly developed there can be no dispute about their inclusion in revenue requirements. Witness Brown

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

testified that, as a practical matter, a utility does not have to exhaustively study every single good and service purchased by it. She stated that by focusing on just a few of the larger components of "other O & M" another utility in the South Dakota jurisdiction was able to specifically identify increases in costs that were nearly equivalent to, if not higher, than its originally proposed inflation adjustment.

Finally, Staff argues that NSP's inflation adjustment was not presented in a timely manner, but instead was a last minute request which did not allow Staff the opportunity to fully scrutinize and develop its position.

XI.

WAGE AND FICA ADJUSTMENTS

A. NSP Position

At hearing, NSP Witness McIntyre testified that wage and FICA increases which will take effect January 1, 1982 were developed by applying the new rates to test year work force levels. NSP argues that recognition of these adjustments is proper and crucial if NSP's rates are to be just and reasonable. NSP argues that the Commission is not constrained by law or rules from including the January 1, 1982 rate changes. NSP filed after the close of the hearing an additional exhibit documenting a further wage increase of $182,000 which relates, in part, to the addition of employees subsequent to the test year. NSP states, however, in its Reply Brief that it will forego this amount if the other labor adjustments are recognized.

B. Staff Position

Staff objected to NSP's attempt to introduce into the record late in the hearing additional information regarding the wage and FICA increases which will take effect January 1, 1982. Staff Witnesses Rislov and Towers testified that they had no technical objection to inclusion of such adjustments if they were in fact known and measurable and if there were no legal impediments to their inclusion. Additionally, Staff, through its Reply Brief, suggested certain refinements to the January 1, 1982 wage and FICA rate changes if they were to be considered by the Commission. These refinements would modify NSP's proposed adjustments from $603,104 to $541,794 (for labor) and from $34,280 to $31,711 (for FICA). Staff does not object to the inclusion of the September 1, 1981 wage rate changes which add approximately $50,000 to revenue

A-17

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

requirements.

Staff's objections to the January 1, 1982 cost changes relate to the fact that they were untimely filed, that the Commission's filing rules preclude consideration of these adjustments, that the changes are not known and measurable, and that there may be logistical constraints to their inclusion.

XII.

SURPLUS CAPACITY

A. Staff Position

Staff Witness Towers recommended excluding from revenue requirements in this proceeding $505,000 associated with the common equity return on generating capacity surplus which will exist on NSP's system during the summer of 1982. Mr. Towers defined surplus capacity as the amount by which the Company's generating capacity exceeds the Company's capacity obligation, which includes the coincident peak demands of its customers, firm sale obligations to other utilities, and the obligatory, MAPP-required 15% reserve margin.

Staff Witness Towers identified the amount of surplus capacity by looking at the MAPP Load and Capability Report of April, 1981. This report indicates that available capacity exceeds capacity requirements by 975 MW at the time of the 1981 peak, by 794 MW at the time of the 1982 peak, and that the Company expects the surplus to continue through the summer of 1984, albeit in declining amounts. In 1985, the surplus is expected to increase as a result of the addition of the 431 MW Sherco No. 3 unit. Mr. Towers calculated his recommended disallowance on 794 MW of capacity, the expected surplus during the peak in 1982, because 1982 is the first year that rates established in this proceeding will become effective.

Staff Witness Towers testified that because the portion of NSP's plant which is surplus is clearly not "used and useful" in rendering electric service to NSP's customers, the Company's present South Dakota customers should not be burdened with all the costs of the plant. However, because NSP's customers will derive benefits from recent plant additions made by NSP, particularly the substantial investments in transmission plant which were required to obtain 500 MW of seasonal capacity from Manitoba Hydro-Electric Board, Mr. Towers recommends that only the common equity return on the surplus capacity be disallowed. This means that NSP-Minnesota would be entitled to recover all its out-of-pocket costs associated with its generating plant and the Manitoba-Hydro transmission facilities, including interest and preferred stock dividends on the debt and pre-

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

ferred stock associated with the plant investment, depreciation expense, operation and maintenance expense, and property taxes. Another reason that Staff Witness Towers is not recommending a total disallowance of all the costs associated with the unneeded plant is that he testified that he has no evidence suggesting that the Company acted imprudently in constructing the plant or by failing to seek a buyer for the capacity once it became clear that the capacity would not be needed to meet internal loads. Mr. Towers testified that if there were evidence of imprudent managerial decisions, the stockholders should be required to absorb all costs of surplus capacity. Even though he had no evidence suggesting that NSP acted imprudently, he still recommends a sharing of the costs of excess capacity between stockholders and ratepayers because the common shareholders receive a return on their equity which is higher than the returns allowed on other forms of capital because they are compensated for the risks they assume as residual owners of the Company. Mr. Towers contends that this "risk premium" would not be justified if the risk of earnings shortfalls is eliminated by placing the entire burden of adverse developments on the utility's customers.

Mr. Towers testified that his recommendation does not prevent NSP from actually earning an equity return on its investment in the plant. If the Company succeeds in its efforts to sell the unneeded capacity, the capacity-related revenues it receives will inure to the benefit of the stockholder. On the other hand, if the Commission does not make the adjustment he recommends, thereby setting rates with the implicit assumption that NSP will not be able to sell the excess, and NSP subsequently does sell the capacity, the Company's stockholders will be compensated twice for the same costs.

Staff Witness Towers computed the common equity return associated with the excess capacity on the basis of the NSP average net investment in all such facilities. He did this because he testified that the excess capacity cannot be associated with specific generating units or transmission agreements.

Mr. Towers discussed an alternative method of treating the costs associated with excess capacity. He stated that the associated capital costs could be deferred, in effect treating the excess capacity as though it were construction work in progress. The Company would capitalize an allowance for funds used during the period of the excess capacity and ratepayers would be relieved of paying a current return on the plant. Depending on the manner in which costs would be deferred, the Company's stockholders could eventually recover

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

all costs. Mr. Towers did not recommend this alternative, however, because he believes that NSP's stockholders should not be held harmless, rather that the costs be shared between ratepayers and stockholders.

B. NSP Position

NSP-Minnesota through its Witnesses McIntyre and Caskey dispute Mr. Towers' recommended excess capacity adjustment on several grounds. Essentially, NSP's position is that no surplus capacity exists when taking into account all relevant economic and other factors. Even if a surplus did exist, NSP contends that Mr. Towers has not identified the specific surplus capacity.

NSP argues that the 15% reserve requirement of MAPP is not a maximum level of reserve as Mr. Towers implies through his adjustment but rather is a minimum reserve level. NSP Witness Caskey contends that there are compelling reasons that NSP has installed capacity in excess of the MAPP reserve requirement, and even if there were not, it is unreasonable to expect a utility to have installed capacity precisely equal to the minimum.

NSP Witness Caskey testified that NSP has determined its level of reserves by consideration of the types and sizes of existing facilities, fuel availability, individual plant reliability, plant locations on the transmission system, customer daily and seasonal load patterns, opportunities for new facilities with lower overall costs, and the possible loss of major facilities due to governmental action or other causes beyond management's control. Mr. Caskey testified that NSP's policy in maintaining reserve levels is to achieve goals of low cost power and a reliable power supply. NSP has gone above traditional reserve margins for economic reasons, particularly to avoid using high cost oil generation. Since NSP acquired its oil-fired generation, the cost of operating those units has been driven up by world events driving up the cost of oil. NSP Witness Caskey testified that NSP responded to these events by constructing non-oil facilities to minimize use of oil in the generation of electricity. NSP contends there can be no question about the prudence of acquiring the oil-fired facilities in the first instance considering all relevant economic factors. As to whether NSP should maintain the oil-fired generation today considering their high operating cost and the fact that they were not used during the test period, NSP contends that there are many factors involved in deciding

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

to retire a plant. NSP has decided to keep the units for system reliability purposes and contends that the units provide a relatively cheap insurance policy against power shortages of whatever cause. Moreover, NSP contends that it is not reasonable to assume that a utility maintain its reserves at precisely the target level at all times, particularly because capacity cannot be added efficiently in small increments.

NSP contends that the expansion of a utility system is a judgmental decision which management must make without being second-guessed by regulators and courts. NSP contends that it has made its decisions wisely and in the best interests of its customers.

NSP disputes Staff Witness Towers' contention that some portion of NSP's generating capacity is not fully "used and useful" in rendering service. Company Witness Caskey testified that base and intermediate plants are intensively used and useful to the NSP system. The Manitoba Hydro interconnection is, according to NSP, fully used and useful. NSP also contends that the peaking units are very useful and beneficial to the system. In summary, NSP does not believe that capacity in excess of the 15% MAPP-required reserve requirement is necessarily not used and useful.

NSP-Minnesota next contends that even if there exists excess capacity, Mr. Towers has not specifically or correctly identified it. NSP contends that Mr. Towers' use of the average net investment in all facilities in computing the common equity return represents a conceptually incorrect method of adjusting revenue requirements. In addition to depriving NSP of a return on investments which are clearly used and useful, NSP argues that it fails to recognize the impact on operating costs. In other words, the NSP argument is that it is unfair to allow customers to receive low cost power from the newer base load capacity while not requiring them to pay a full return on the investment.

NSP argues that Staff should have identified specific units and computed the equity return on these rather than on the average investment of the Company's whole system. NSP contends that its identification of oil-fired capacity as excess would have to be used if any adjustment is made at all. NSP also suggests that accumulated deferred income taxes be netted out against the investment.

As to Mr. Towers' argument that NSP can make itself whole by selling its excess, the Company states that such sales cannot occur as there is currently no market for sales in the MAPP pool.

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

In conclusion, NSP argues that an adjustment for excess capacity would amount to punishing NSP for the recent Manitoba-Hydro addition while allowing customers to enjoy the cost savings to be derived from this seasonal exchange of power.

XIII.

WORKING CAPITAL

A. NSP Position

NSP cites three areas of difference between their computed working capital and that of Staff:

1. The shorter revenue lead days proposed by Staff Witness Knadle (39.6 days) as compared to that proposed by NSP (43.2 days).

2. Staff's use of hypothetical long term debt interest.

3. No treatment recommended by Staff for the return on common stock equity.

NSP takes exception to Witness Knadle's recommended revenue lead days basically because they contend the late payment charge is not known or measurable and therefore would be incapable of reflecting true costs. NSP also contends that the level of late payment charges proposed by Staff Witness Knadle are inappropriate.

NSP disagrees with Staff Witness Knadle's usage of pro-forma long-term debt interest for development of the working capital allowance. The pro forma interest amount developed by Staff Witness Brown in NSP's opinion incorrectly reflects the hypothetical capital structure testified to by Staff Witness Wilson. NSP also objects to inclusion of any interest related to the financing of CWIP, as CWIP is not included in rate base and is not funded by ratepayers. NSP further contends that Staff Witness Rislov's concerns about booking AFUDC prior to the time interest is paid are unfounded as interest and dividend payment must precede booking of AFUDC.

NSP objects to Staff Witness Rislov's testimony that the return on common stock equity should not be recognized in the lag study. NSP believes Witness Rislov's contention that the

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

return cannot be accurately measured is incongruous with Staff's usage of other pro forma amounts in the lag study. NSP Witness McIntyre disputed Mr. Rislov's claim that the return is a customer-provided source of funds until the dividend is paid; he argued that proprietary rights of the earnings are transferred to the investors when they are recorded on the books. Witness McIntyre further testified that if the dividends were paid out to investors immediately upon receipt of earnings a new source of funds would have to be provided and paid for by customers. Therefore, the investors are actually providing funds by delaying dividend pay-outs. NSP does not agree with Staff's assertion that investors discount the delay in payment of dividends when making a decision to purchase common stock and therefore are compensated for the delay of the return on common equity. NSP asserts that Staff does not identify what investor expectation is built into the cost of capital. NSP believes that investors would more logically expect a return to be granted on earnings received but not paid out. NSP claims the only way one could support Staff's proposition that the investors discount the delay is if NSP Witness Kolkmann's recommended equity return of over 16% is allowed.

NSP points out that if Staff wishes to exclude the common equity portion of the return it must also exclude the delayed recovery of debt interest and preferred stock dividends which, like the common equity return, are recorded below the line.

B. Staff Position

Staff points out that the South Dakota Administrative Rules provide that customers' bills should be paid 20 days after the billing transmittal date. Staff Witness Knadle did not assume that all customers will pay within 20 days, even though 20 days is the maximum amount of time he allowed for bill payment. Instead, in accordance with the rules, Witness Knadle recommended that NSP assess a late payment charge to recover its cost for late paying customers. This charge, which would be considered below the line income for NSP, would compensate the Company for carrying costs of bills requiring more than 20 days for payment. In this manner NSP would be fully reimbursed for its carrying costs. In actuality, Staff believes that it is being more than fair with NSP because Witness Knadle's revenue lag days' calculation assumes all customers would require a minimum of 20 days to pay their bills, although it is a virtual certainty that many customers will pay their bills in less than 20 days.

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

Staff does not believe that the level of debt interest is a working capital problem. It is Staff's position that Witness Knadle must utilize pro forma debt interest in his determination of working capital, just as he utilizes pro forma levels of other costs such as labor, taxes, fuel, etcetera. Staff Witness Rislov testified that NSP's proposal to reduce the level of debt interest by the amount attributable to CWIP is unjustified unless NSP can quantify the lags between the booking of AFUDC and the payments of debt interest and dividends. Staff claims that NSP is not addressing the issue when it claims monies must be spent before AFUDC is claimed. Staff believes that although monies must be spent on CWIP prior to booking AFUDC, there does not necessarily have to be interest and dividend payments made prior to booking AFUDC.

Staff Witness Rislov, in accordance with prior Staff recommendations and Commission precedent, excluded treatment of the return on common stock equity from the lag study. Staff contends that there will be a lag in payment of dividends, and investors are aware of that lag when they make a purchase decision. A positive purchase decision would indicate that the return compensates for the lag. Staff argues that regardless of whether or not the common stock equity return is a pro forma amount derived as a result of cost of service recommendations, similar to other items in the working capital study, it must be handled differently for several reasons:

1. There is no requirement for funds, as NSP would claim, related to common equity dividends.

2. Earnings may fluctuate and dividend payments may be altered by the board of directors.

3. Staff could actually make additional working capital offsets for the lag in payment of common stock dividends but because of (2) above, refuses to do so. Staff further alleges that becuase the dividends paid on common stock may flucutate, they differ from interest paid on debt and dividends for preferred stock which are fixed amounts.

XIV.

LATE PAYMENT CHARGE

A. NSP Position

NSP Witness Dupay testified in favor of the establishment of a 4% one time late payment charge on a current month's billing to encourge prompt payment of bills. Witness Dupay

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

testified that a sufficiently high late payment charge for residential customers would reduce the level of accounts receivable and subsequent collection activity with an attendant reduction in costs. NSP believes that actual experience with a late payment charge for large commercial and industrial customers proves the effectiveness of a sufficiently high charge. NSP disagrees with Staff Witness Knadle's recommended 1% late payment charge because it has not been proven effective in inducing prompt payment, is more in the nature of a finance charge, and understates NSP's financing costs.

B. Staff Position

Staff Witness Knadle testified that the 1% late payment charge he proposed is fully compensatory for recovery of costs due to late payments. Staff argues that the 4% charge recommended by NSP is too high, and would effect an over-recovery. It is Staff's contention that the $98,000 in collection costs identified by NSP is included elsewhere in the cost of service. Staff argues that it has not been shown that a 1% late payment charge is too low to induce prompt payment of bills. It is Witness Knadle's opinion that a 1% monthly charge is consistent with the short-term debt rate of 12% to 13% utilized by Staff Witness Brown in developing pro forma interest expense. Witness Brown had originally used a rate reflective of the prime rate, but due to the rebuttal testimony of NSP Witness McIntyre adjusted the rate downward.

XV.

TYRONE-RELATED EXPENSES

A. NSP Position

NSP seeks to recover $455,872 in annual amortization expenses for the costs associated with the cancellation of the Tyrone nuclear plant in Wisconsin. Company Witness McIntyre testified that although the original estimate of the loss for NSP was $80,000,000, the amount was subsequently reduced to $75,000,000 and is now estimated at $67.1 million. He further testified that 91% of the total estimated loss has been actually established through contract settlements. NSP argues that as a matter of law it is entitled to recover the $455,872 as a current expense under the Coordinating Agreement.

In its Brief, NSP notes that in the appeal of this issue in the last rate case (F-3353), the Sixth Circuit Court decided that the Commission had exceeded its statutory authority in deferring consideration of this issue. The Company contends that the proper disposition of the issue in the present proceeding is to follow the procedure established

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

in Article IV of the Settlement Agreement approved in Docket F-3353. It argues, on that basis, that if the Commission decides to appeal the Circuit Court decision in F-3353, and secures a stay of that Order, Tyrone expenses would continue to be excluded from rates subject to the carrying charge provision of Article IV of the Settlement Agreement in F-3353. NSP further argues that if the Commission does not appeal the Circuit Court decision or does not succeed in obtaining a stay pending appeal, the Tyrone expenses should be allowed in retail rates subject to refund including carrying charges from November 23, 1980 as provided under Article IV of the Settlement Agreement.

B. Staff Position

Staff recommends that the amortization expenses associated with recovery of the Tyrone cancellation costs be treated in the same manner as they were in F-3353. Staff Witness Brown testified that due to the uncertainty of judicial review of the Commission's decision in F-3353 (still undecided at the time of the hearing in this case), the uncertainty of the result of the FERC decision on Tyrone (also undecided at the time of hearing) and in light of the Commission's allowance for accumulation of carrying charges on the unrecovered amount, she had not included test year expenses associated with Tyrone in the Company's cost of service.

XVI.

CAPITAL STRUCTURE

A. Staff Position

Staff Witness Wilson recommends the use of an adjusted capital structure in computing NSP's overall rate of return. Staff Witness Wilson asserts that NSP's actual test year ended common equity ratio is unnecessarily high. To remedy this situation, Dr. Wilson proposed a series of adjustments. First, he adjusted the common equity portion of the capital structure for events which are expected to occur during 1981. Dr. Wilson explained that this adjustment was necessary because NSP had adjusted the debt and preferred stock portions of the capital structure in this manner. He adjusted the common equity ratio by adding retained earnings for 1981 and subtracting an amount which represents common shares which NSP would or should retire during 1981. The amount which he assumed NSP would or should retire is based on the reduction in common equity which was effectuated by NSP in 1980. Staff Witness Wilson explained that NSP's entire capital structure is now at year-end 1981 levels.

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

Dr. Wilson testified that the repurchase of common shares for 1980 and 1981 should be fully reflected because these efforts reduce the common equity ratio to a level nearing that of the industry average. Moreover, he stated that the stockholders are better off if NSP can repurchase its shares at below book value. Dr. Wilson testified that if the Company does not continue its efforts to reduce the common equity ratio, a lower return should be authorized.

Secondly, Dr. Wilson excluded NSP's non-utility investments from the common equity balance. He explained that this adjustment is necessary because these investments are at the risk of and for the benefit of NSP's shareholders. These investments, in Dr. Wilson's view, are responsible for providing their own equity return for shareholders, and the fact that NSP has made such investments for its shareholders should not burden the utility customers.

Third, Dr. Wilson excluded the Tyrone expenditure from NSP's common equity balance, again using a 1981 amount. Dr. Wilson testified that the Tyrone project is not a South Dakota ratepayer obligation and it is unnecessary for them to provide a return on this capital.

Dr. Wilson also adjusted the preferred stock balance. Dr. Wilson's preferred equity ratio is higher than NSP's because he restated the balance as if NSP's maximum sinking fund retirements had been made during 1980 and 1981. The maximum requirement is 12,500 to 25,000 shares rather than the 42,696 which NSP actually retired during 1980. Dr. Wilson testified that he proposes this adjustment because the retirements were extraordinary and unwarranted and in addition, drive up NSP's overall capital costs unnecessarily.

Staff argues that its proposed capital structure is more favorable to NSP than a capital structure which is typical to the electric utility industry as a whole.

B. NSP Position

NSP disputes the adjustments made by Staff to its capital structure.

First, NSP disputes the adjustments to the common equity balance for events expected to occur during 1981. NSP concedes that their proposed common equity portion of the capital structure is not updated through the end of 1981 as are debt and preferred stock components. NSP also concedes that its use of 13-month test year average balances for the

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

common equity portion overstates this component from what it actually was at year-end 1980. NSP argues, however, that its failure to fully reflect the repurchase of common shares at year-end 1980 levels is more than offset by its deliberate failure to adjust upward for the increase in retained earnings expected to occur during 1981. Hence, NSP argues that its common equity balance is conservative.

Moreover, NSP argues that its proposed common equity ratio is below NSP's actual common equity ratio for the past several years and is consistent with common equity levels found reasonable by the Minnesota Public Utilities Commission in recent cases.

NSP also disputes Staff Witness Wilson's assumption that NSP would or should retire more of its common stock during 1981. First, NSP states that it has not made any purchases of its shares as of October, 1981. NSP further argues that because the industry average common equity ratio is not a proper financial goal for NSP, any repurchase of common shares would now be inappropriate. In support of its argument that NSP should not further reduce its common equity ratio, NSP Witness Kolkmann stated that the current trend is toward a stronger equity position and that Standard & Poor's, in a rating analysis of NSP in March, 1981, indicated that the criteria for a AA rating include a common equity ratio in excess of 42%. Moreover, NSP argues that to become eligible for tax benefits under the dividend reinvestment plans, NSP must actually issue new stock. NSP points out that it has petitioned the Minnesota Public Utilities Commission for such authority to issue new common shares.

NSP Witness Kolkmann testified that Staff Witness Wilson improperly deducted non-utility investments and Tyrone from the common equity balance. NSP argues that funding for these investments was provided not only from common equity but also from other components of capitalization. Indeed, NSP argues, the return during the construction period (AFUDC) is capitalized at a rate which is the composite of all capital, including short-term debt. Hence, NSP Witness Kolkmann argues that if these are to be purged from the capital structure, they should be used to reduce all sources of capital proportionately. NSP also argues that the deduction for Tyrone was too high and constitutes a double counting of the total Tyrone loss.

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

NSP Witness Kolkmann also disputes Dr. Wilson's adjustment to the preferred stock portion of the capital structure. NSP Witness Kolkmann contends that the early retirement of preferred benefitted ratepayers. Mr. Kolkmann argued that the preferred was replaced by debt, which is lower cost capital. NSP further argues that Staff's attempt to relate the retirement of preferred to retirement of common, implying that NSP should have retired common rather than preferred, is erroneous. NSP argues that the retirements are separate and should be so considered because the retirement of preferred would not have prevented the retirement of additional common stock, had NSP choosen to do so.

XVII.

RETURN ON COMMON EQUITY

A. NSP Position

NSP Witness Kolkman presented four different studies which, in NSP's view, provides for a comprehensive consideration of the return issue. His four methodologies employed were:

(1) An in-depth analysis of the standard dcf approach;

(2) An alternative dcf approach which purported to more completely and accurately reflect underlying mathematical principles;

(3) An analysis of the market price to book value ratio; and

(4) A comparable return analysis.

Witness Kolkmann testified that the dcf formulations utilized for regulatory purposes had to be applied carefully, conscientiously, and in a manner consistent with the theory of dcf.

Kolkmann testified that because of some shortcomings in translating dcf philosophy into workable formulas, it should not be solely relied on in developing a required cost of common equity.

For production of the results generated under Method I, Witness Kolkmann conducted a regression analysis which related historical yields to general financial and economic

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

parameters and then utilized forecasts of these financial and economic parameters to forecast the expected yield. This procedure was utilized to limit reliance upon historical data for determination of investors' expectations for the future. He utilized growth in book value, because of its historic stability, to estimate the value of growth.

Method II of Kolkmann's analysis separated the return into two components; the real rate of interest including a risk premium and the impact due to inflation. Kolkmann's usage of this method limited the assumptions he was forced to take into account in Method I.

Kolkmann purported to demonstrate the necessity for Methods I and II to consider underwriting expenses and market pressure in determining the required rate of return.

Method III was a market price to book value analysis that attempted to measure the impact of various factors on NSP's market price to book value ratio. He testified that he was able to account for 98.5% of the quarterly variation of the ratio from 1960-1979.

Method IV compared NSP's return to companies that Kolkmann considered similar to NSP in 1974-1975, when NSP's market to book ratio was near one. He then averaged these companies' equity returns in 1979. All four Methods utilized by NSP Witness Kolkmann identified a required equity return in the range of 16.1%-16.6%.

NSP contends that Staff Witness Wilson utilized a dividend yield and a range of growth rates that are unreliable and fail to reflect investors' expectations for NSP's future. It is NSP's belief that Wilson selected an inappropriate time period representative of conditions that deviated from general conditions prevailing for the past two years. NSP suggests that these general conditions will continue in light of the Chairman of the Federal Reserve reiterating their intention to stay with the tight money policy

NSP argues that Staff's selection of an arbitrary time period for use in its dcf method is unexplained. NSP asserts that the dcf formula is useless if present dividend yields cannot automatically be used in applying the formula.

NSP contends that a better estimate of dividend yield would have resulted from use of data for the entire twelve months of 1980. Moreover, NSP contends that Wilson's growth rate estimates are unrealistically low, as borne out by various investment advisory publications recently.

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

Witness Kolkmann disputes Wilson's selection of companies comparable to NSP in terms of business and financial risk. Kolkmann therefore performed his own statistical study wherein 23 companies similarly correlated to NSP were ultimately selected. The conclusions to be drawn from studying the dividend yields and growth rates of these companies for 1980 is that the bare bones equity cost is 14.37%.

NSP argues that the fact that the recommendation of the Staff witness is well below current yields for long-term AA-rated debt renders it clearly inadequate.

D. Staff Position

Staff Witness Wilson recommended a return on common stock equity in the range of 14.0%-14.5%. In making his recommendation, he focused on investor requirements, measured by means of a traditional discounted cash flow (DCF) model, modified to account for intra-industry differences.

Dr. Wilson testified that the DCF method is based on the principle that rational investors evaluate the risk and expected returns of all securities in the capital markets and establish a price for a particular security which adequately compensates investors for the risks to which they are exposed. The model also is based on the proposition that the total return received by shareholders consists of dividends and capital gains, and these are measured in terms of the current dividend yield plus the expected rate of dividend growth.

To determine the value of the growth component of the cost of common equity, Dr. Wilson made a statistical analysis of the relationships between dividend yields and growth rates for the electric utility industry as a whole. Dr. Wilson testified that he utilized data from a large number of companies to alleviate several problems which may occur from estimating growth on a single company basis. Such problems are that single company data may give an extreme and invalid indication of the true investor expectation for future growth of that company and that individual past growth rates may be erratic. Dr. Wilson testified that use of data for a large number of utilities is superior because it enables one to undertake statistical analyses that help identify and quantify the relative significance of different growth variables and time periods so as to produce the best reflection of the way investors formulate their expectations about dividend growth in the future.

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

Dr. Wilson testified that the large number of companies included permitted the evaluation of risk associated with each company, as perceived by investors.

Staff Witness Wilson testified that his approach did not ignore unique financial circumstances of NSP because it specifically quantified capital cost differences among utilities in an analytically objective and explicit way.

Dr. Wilson utilized mid-1980 pricing data in his DCF study. On this basis he found that NSP's cost of common equity capital was 12.1% to 13.2% compared to 13.2% to 14.5% for the industry as a whole. Dr. Wilson testified that this cost of equity estimate embraced the most recent period during which interest rates and electric utility risks were similar to historic conditions. Wilson testified that he used mid-1980 data in his DCF formula because under prevailing conditions, when markets are disturbed, the best estimate of current money costs is one based upon the combination of expected growth and dividend yields taken from a time during which the financial markets were reasonably normal, recognizing that common equity costs may be somewhat higher than a year ago. Dr. Wilson testified that in normal times current dividend yield plus historic growth patterns produce a good estimate of equity costs. However, historical growth patterns are not a good proxy for market expectations when financial markets are disturbed. He testified that a change in dividend yields indicates that expectations have changed, and when dividend yields increase rapidly over a short period of time, as they have for most utilities recently, that is a clear signal that growth expectations have changed. Hence, because present dividend yields do not match historical data and the expected growth consistent with present yields is not clear from the available data, Dr. Wilson testified that it was necessary to select the time period he did to use in his DCF formula.

Staff Witness Wilson also provided recent return data for companies of comparable risk. In this regard, he examined returns on equity earned by regulated electric and combination utilities as well as returns earned by firms in the unregulated sector of the economy. Wilson testified that it is appropriate for the Commission to consider this data because it is only fair to make an effort to allow similar profit rates to firms in similar circumstances. Wilson stated that comparable earnings analysis is superior if it focuses on firms in unregulated enterprises because returns earned by regulated industries are the result of past regulatory decisions and therefore are not independent yard-

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

sticks unaffected by the regulatory process. Firms in unregulated industries are subject to fewer earnings controls and conclusions drawn from comparable earnings studies of these firms are less subject to circular logic.

The comparable earnings study showed that electric and combination utilities experienced average earnings on common equity in the 11.0% to 12.7% range over the 1970-1977 period.

The return on common equity for all industries, regulated and unregulated, was 15.3% during the past year.

Dr. Wilson testified that unregulated non-utility industries, however, are generally more risky because they are not favored with monopoly franchises and because their profits are less stable and less predictable. Moreover, Dr. Wilson stated that certain unregulated industries, which are not free of monopoly power and which are among the most highly successful in the United States economy, are inappropriate standards because they are not comparable to electric utilities. Hence, Dr. Wilson concluded that it would be poor regulatory policy to permit utilities to earn profits in excess of or equivalent to earnings in the competitive sector.

In support of his assertion that utilities are less risky than competitive firms, Dr. Wilson examined beta coefficients and indices of safety, price stability, and earnings predictability. He also observed that while there have been numerous business failures and bankruptcies in the competitive sector in the past quarter century, there have been none among major electric and gas utilities. Also, he stated that whereas dividends in the utility industry have followed a remarkably stable upward trend in recent decades, cyclical dividend reductions are more frequent in the unregulated sector.

Dr. Wilson testified that the average beta coefficient for electric utilities is less than 1.0, indicating that, on average, electric utility common stock is less volatile than the stock market as a whole. He then presented data with regard to 1,351 companies reported in Value Line which showed that firms with higher beta coefficients, and therefore more risky, tended to earn high returns on book value. Companies in beta ranges similar to utilities earned returns on book value from 11.89% to 12.01% in 1978 and 13.99% to 14.26% in 1979.

From his comparable earnings study, Dr. Wilson concluded a 14.0% to 14.5% equity cost would be reasonable.

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

Dr. Wilson testified that it would not be appropriate to use long-term interest rate trends as a basis for determining the extent of common equity cost changes because it assumes debt and equity costs parallel each other over time. Dr. Wilson stated that such an assumption is incorrect, and in fact, debt and equity cost and risk relationships have reversed in the recent period to the extent that it is now generally accepted that debt costs exceed equity costs under prevailing economic conditions. Dr. Wilson asserts that the reason the "risk premium" is now negative is that the interest rate risk is so great for investors in senior securities which bear a fixed return for the life of the securities. Investors in common equity, especially in regulated public utilities, need not bear this risk because the return on equity is not fixed and may be increased at any time.

Dr. Wilson recommended rejecting NSP's request for an additional return allowance designed to include both the cost of issuing new common stock and presumed market pressure because NSP has not sold common equity at all in the past five or six years and because of various efforts recently made by NSP to restrain the growth of common equity capital. If there are no issuances, there will be no costs. Moreover, Dr. Wilson stated that even if new stock issuances were expected, presumed market pressure costs should not be recognized and flotation costs are very small.

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

Based on its careful consideration of the issues outlined above, and after careful consideration of the entire record, of the Briefs submitted by Company and Staff, the Commission hereby enters the following

FINDINGS OF FACT

I.

The Commission finds that NSP Witness McIntyre filed testimony and exhibits that incorporate estimates based on NSP's budget for the years 1981 and 1982. The Commission further finds that Staff supports its recommended revenue requirement by relying on data for the test year ended December 31, 1980 updated for known and measurable changes. The Commission finds that a large portion of the record developed in this case is devoted to argument of the merits of budgeted versus historical test years. The Commission finds that NSP contends that use of historical test years is backward looking while the use of forecasts based on NSP's budgets prepared in-house are more reflective of the future. The Commission finds that Staff contends that forecasts are speculative and imprecise and that the use of NSP's budgets tend to limit economic incentives and may be self-fulfilling.

The Commission notes that NSP, in addressing Staff limitations on manpower, time, and money, stated that Staff should not construct its own budget for the utility. The Commission further notes that NSP claimed that Staff should review the reasonableness of the Company's budget in light of historical results, changing conditions and unusual departure from the norm. The Commission further notes that NSP believes that Staff should not object to a budget based on input of 285 department heads when the actual book results relied on by Staff involve more than 285 people.

The Commission finds that the budget-related ratemaking philosophy proposed by NSP suffers from several shortcomings. The Commission finds that if Staff review consisted of merely determining at budget year-ends the return earned compared to the return allowed, Staff would be conducting an incomplete and inadequate review. The Commission finds that expenditures may be made within the budget year at a level similar to what the budget had forecast. The Commission finds, however, that due to timing of rate base additions, the limited analysis would not be as revealing as that of an average rate base analysis. The Commission finds there would seem to be little

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

doubt that adoption of a budget for ratemaking purposes offers reduced economic incentives. The Commission further finds that NSP stated that it was important for the Company to produce a budget as accurate as possible. The Commission finds that this accuracy may be of dubious value when it is predicated on NSP's increasing or delaying expenditures to maintain accuracy. The Commission finds that even if the aggregate accuracy of the budget was maintained by the aforementioned proceures, it may well be that individual expenditures budgeted may have deviated significantly from the budget, yet combined to appear accurate as a whole.

The Commission finds little merit in NSP's assertion that Staff should have no qualms in accepting a budget because actual book amounts received attention from a greater number of employees. The Commission finds that actual amounts have been expended or received, documented, checked and audited. The Commission finds, therefore, that there exists undeniable proof on what, in fact, occurred. The Commission further finds that the budget merely represents what may be, based on the opinions of many.

The Commission is aware of NSP's contention that historical test year is an adequate tool for development of meaningful rates because it fails to recognize costs that will occur during the period rates will be in effect. The Commission finds, however, that the ratemaking exercise should be devoted to the development of cost/revenue relationships that will be experienced in the forthcoming period. The Commission finds that there can be no doubt that the historical test year itself is an actual representation of cost/revenue relationships. The Commission finds that a budget is definitely not an actual representation as it relies on numerous cost estimates as well as speculative sales estimates.

The Commission finds that Staff has recognized many adjustments that accounted for cost increases occurring beyond the test year. In addition, the Commission finds that it will be allowing NSP to adjust the cost of service for labor increases that will be effective after the end of the six month suspension period. The Commission finds that the acceptance of known change adjustments offered by NSP should make the historical test year reasonably reflective of the cost/revenue relationships that will be effective during the time rates are in effect.

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

The Commission finds that much of the blame focused on usage of historicla test years for not providing adequate rates should be placed on the companies who fail to fully account for known and measurable changes. The Commission finds that in this case NSP failed to document or even request a labor and FICA increase prior to the hearing. The Commission finds that this adjustment accounts for 10% of NSP's request. The Commission finds that the burden of proof is NSP's, and that therefore the success or failure of the historical test year for the establishment of appropriate rates is heavily dependent on NSP's accounting for known and measurable changes.

The Commission finds, therefore, that the historical test year recommended by Staff, as adjusted by the terms of this Order, is the better method for development of rates for electrical service rendered by NSP.

II.

The Commission finds that the issue of flow-through versus normalization of income tax benefits is not a new one in this jurisdiction. The Commission finds that this issue has been raised and litigated many times and that the precedent of this Commission is quite clear. The Commission reaffirms that precedent.

The Commission finds that the issue is one of timing only. The Commission finds that there is no question that the Company will recover from ratepayers its full income taxes actually paid or payable under either method. The Commission further finds that the flow-through method is preferable because it reflects in rates only the actual taxes paid or payable. The Commission finds that another advantage to utilizing flow-through is that it is less costly for the customers to fund the Company's tax liability in this manner. The Commission finds that the only evidence to the contrary in the record is NSP Witness McIntyre's reference to a study performed by the Massachusetts Accountants For Public Issues, Inc. However, the Commission finds that when questioned about the respective discount rates used in that study, Witness McIntyre responded that he was not aware of the ones utilized. The Commission finds, therefore, that this argument is not persuasive. The Commission finds that time value of money considerations alone make flow-through more advantageous to customers than normalization. Moreover, the Commission finds that, as stated by Staff Witness Brown, even though accumulated deferred taxes are deducted from rate base, this does not fully reimburse most customers because their cost of capital is greater than the utility's cost of capital.

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

The Commission finds, in accordance with Staff's position, that it is reasonable to assume that a utility's total tax liability will not increase over time so long as there is a construction program because tax savings are recurring each year in increasingly greater amounts, yet turning around very slowly generally over a period of about 30 years. The Commission further finds that even with modest price inflation and real growth, the deductions generated each year can reasonably be expected to grow in size. The Commission finds that it is important to note that in making this finding it is not saying that the utility will experience a "permanent tax saving". The Commission recognizes that timing differences do reverse and flow-back to ratepayers.

The Commission finds, in agreement with Staff's position, that adoption of flow-through will not create inequities between present and future ratepayers. The Commission finds that as pointed out by Staff, it is reasonable to assume that the utility's tax liability will not increase because of the recurrence and growth of tax deductions. Moreover, the Commission finds that Staff's argument is persuasive that adoption of flow-through will actually treat intergenerational ratepayers more fairly because it tends to level out the total revenue requirement associated with a single plant over its life. The Commission finds that it is simply incorrect to state that tax savings "belong" to a future group of ratepayers.

The Commission takes notice of the FERC Order No. 144, but does not find compelling nor does it agree with the findings of that agency regarding tax normalization. Likewise, the Commission notes that the fact that other Commissions regulating NSP permit tax normalization cannot compel the South Dakota Commission to abrogate its reponsibilities to South Dakota customers in establishing just and reasonable rates. Finally, the Commission finds that a requirement that flow-through be utilized for ratemaking purposes is not inconsistent with generally accepted accounting principles.

III.

The Commission finds that Staff's position on Wisconsin pre-certification expenses should be adopted. The Commission finds that NSP-Minnesota should be required to capitalize NSP-Wisconsin pre-certification expenses and recover them over the life of the facility to which they relate. The Commission finds that this is consistent with the practice of capitalizing other identifiable expenses incurred during construction. The Commission finds that both the expensing treatment recommended by NSP and the capitalization treatment recommended by Staff will result in recovery of these costs by NSP-Minnesota, and that the decision as to which treatment to adopt affects only the timing of the recovery. The Commission finds, as observed elsewhere in this Order, that the fact that other state commissions having regulatory jurisdiction over NSP-Minnesota may require different bookkeeping treatment of Wisconsin pre-certification expenses should not control how this Commission carries out its statutory responsibilities to set rates for South Dakota customers.

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

IV.

The Commission finds that the sinking fund methodology and contingency allowance for nuclear fuel disposal costs and decommissioning costs does not have to be accepted as a package. The Commission finds that Staff Witness Towers recommended in the prior case, F-3353, that NSP should be required to develop a plan for presentation to the Commission which would levelize the cost of service impact of recovery of these costs. The Commission finds that the contingency relates to the level of decommissioning costs and the sinking fund is a method of recovering the total costs.

The Commission finds that NSP has not met its burden of proof in establishing that the engineering estimate plus the contingency represents the best estimate of decommissioning costs and that rejection of the contingency allowance would amount to a deliberate understatement of decommissioning costs. The Commission finds, in agreement with Staff, that the engineering estimate <u>before</u> consideration of an additional 25% allowance is itself subject to variation. The Commission finds that the mode of decommissioning 25 years hence is unknown, the inflation is unknown, the technological changes which may occur in an intervening 25 year period are unknown, and the engineering estimates themselves, although not subject to scrutiny in this form, are also just that -- estimates. The Commission finds that Staff Witness Towers testified that the reports he studied in no way explain the need for a contingency allowance. The Commission further finds that the testimony of NSP Witness Ewers amounts merely to assertions that NSP's estimate of total decommissioning costs is conservative. The Commission finds that this is not convincing.

The Commission finds that the decision of the Minnesota Commission on this issue cannot be binding on the South Dakota Commission. The Commission finds that while the Commission in this proceeding determines that NSP's contingency allowance should be rejected, NSP will not be harmed by this decision since they will eventually recover all reasonable decommissioning costs and since the depreciation rate established herein may be reviewed periodically and adjusted as facts and circumstances warrant.

V.

The Commission finds that NSP apparently objects to synchronizing the rate of return determination implications on federal income taxes with operating income only when a hypothetical capital structure is involved. The Commission finds that NSP's arguments are not persuasive. The Commission

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

finds that Staff Witness Brown has correctly determined NSP's federal income tax expense by synchronizing it with the cost of capital determination. Furthermore, the Commission finds that Staff Witness Knadle has appropriately determined the working capital implications of long-term debt interest, preferred dividends, and federal income taxes by synchronizing these elements of the lead-lag study with the cost of capital determination. The Commission finds that if NSP is to be constrained to a hypothetical capital structure, other elements of the cost of service should also reflect the implications of that decision.

The Commission finds that by adopting Staff's position, it will be disallowing certain federal income taxes which derive from imprudent and inefficient levels of capital, just as it is disallowing certain other expenditures made by NSP (see Findings of Fact VIII and IX. The Commission further finds that this decision is not inconsistent with the concept of reflecting in utility rates only the actual income taxes paid or payable.

VI.

The Commission finds that the excess which now exists in the accumulated deferred income tax account by virtue of the fact that deferrals were originally computed at a rate in excess of the current tax rate of 46% will presumably return to the ratepayers under Staff's method and under NSP's method. The Commission finds that one major problem with NSP's method is that the excess will not be returned, under NSP's present accounting mechanisms, until after the associated plant is retired. The Commission finds that even if NSP's method were changed so that flow-backs are computed at the rate originally deferred, thereby assuring the excess will be returned by the time the plant is retired, Staff's proposal will pass the excess back to ratepayers faster. The Commission finds that in this manner the customers who provided the deferred taxes in the first place will have a better chance to recover them. The Commission finds that utilization of a three year period will continue an amortization already begun, and the Commission finds that that amortization should not be disturbed.

The Commission finds that the suggestion that this adjustment be ignored because tax rates <u>might</u> go up in the future is not convincing. The Commission finds that Staff correctly argues that if tax rates do increase, no amortization of the deficiency would be necessary under flow-through accounting.

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

However, the Commission finds that whatever adjustment may or may not be necessary if tax rates increase is not an issue that we must decide in this proceeding. The Commission finds that if tax rates go up, that is something which will no doubt be raised as an issue in future proceedings and will be decided then. The Commission finds that the mere possibility of such an event will not preclude acceptance of the Staff recommendation in this proceeding. Finally, the Commission notes that, even though its is not bound by actions of the FERC that the three year amortization of excess accumulated deferred taxes which is ordered in this case, is not inconsistent with FERC Order No. 144.

VII.

The Commission finds that the unamortized repair allowance has been included in the rate base in this proceeding. The Commission finds, therefore, that since there is no question that NSP will be compensated for all its costs, including carrying charges, the length of the amortization period does not seem to be of critical importance. The Commission finds that there is more merit to a five year period because the tax deductions were taken over a five year period and because the impact on customers will be mitigated. Accordingly, the Commission finds that a five year amortization for recoupment of this expense should be adopted.

VIII.

The Commission finds that the standards set forth by Staff Witness Knadle are reasonable ones to utilize in assessing whether advertising expenditures should be included in the cost of service. The Commission finds that NSP's argument that the Commission may only disallow advertising expenses under the extreme circumstances set forth by them, i.e., when such expenditures are excessive, unwarranted, or incurred in bad faith, should be rejected. The Commission finds that disallowance of advertising expense in no way precludes NSP's stockholders from paying for such expenditures if NSP chooses to continue the type of advertising at issue in this proceeding. The Commission finds, in agreement with Staff, that the advertising at issue is not essential for the rendition of safe, adequate and reliable electric service and therefore should be excluded.

IX.

The Commission finds that there is no question that charitable contributions are not necessary for the provision of safe, adequate and reliable electric service. The Commission finds that ratepayers should not be required to fund

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

However, the Commission finds that whatever adjustment may or may not be necessary if tax rates increase is not an issue that we must decide in this proceeding. The Commission finds that if tax rates go up, that is something which will no doubt be raised as an issue in future proceedings and will be decided then. The Commission finds that the mere possibility of such an event will not preclude acceptance of the Staff recommendation in this proceeding. Finally, the Commission notes that, even though its is not bound by actions of the FERC that the three year amortization of excess accumulated deferred taxes which is ordered in this case, is not inconsistent with FERC Order No. 144.

VII.

The Commission finds that the unamortized repair allowance has been included in the rate base in this proceeding. The Commission finds, therefore, that since there is no question that NSP will be compensated for all its costs, including carrying charges, the length of the amortization period does not seem to be of critical importance. The Commission finds that there is more merit to a five year period because the tax deductions were taken over a five year period and because the impact on customers will be mitigated. Accordingly, the Commission finds that a five year amortization for recoupment of this expense should be adopted.

VIII.

The Commission finds that the standards set forth by Staff Witness Knadle are reasonable ones to utilize in assessing whether advertising expenditures should be included in the cost of service. The Commission finds that NSP's argument that the Commission may only disallow advertising expenses under the extreme circumstances set forth by them, i.e., when such expenditures are excessive, unwarranted, or incurred in bad faith, should be rejected. The Commission finds that disallowance of advertising expense in no way precludes NSP's stockholders from paying for such expenditures if NSP chooses to continue the type of advertising at issue in this proceeding. The Commission finds, in agreement with Staff, that the advertising at issue is not essential for the rendition of safe, adequate and reliable electric service and therefore should be excluded.

IX.

The Commission finds that there is no question that charitable contributions are not necessary for the provision of safe, adequate and reliable electric service. The Commission finds that ratepayers should not be required to fund

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

expenditures which are not essential. Furthermore, the Commission finds that as Staff Witness Knadle points out, ratepayers should not be forced to donate through their electric bills to organizations which they may not otherwise support. The Commission finds that the issue of whether or not NSP is under more pressure in these economic times to make charitable contributions is not one which need be addressed, since if NSP's management chooses to do so, we find that the stockholders should fund these expenditures.

X.

The Commission finds that the inflation adjustment initially proposed by NSP and adopted by Staff satisfies the direction of the Supreme Court in South Dakota Public Utilities Commission v. Otter Tail Power Company, 291 NW 2d 291 (S.D. 1980). The Commission finds that the further adjustment proposed by NSP is, in addition to being untimely filed, not known and measurable and is an attempt to selectively go outside of the test year without assessing the potential for productivity or sales increases. The Commission finds that it is not necessarily saying that NSP won't experience inflation in the post-test year period, but that it does find that NSP can make a reasonable attempt at specifically identifying cost increases it is experiencing. The Commission finds that it would not be unreasonable for NSP to isolate, for example, test year units of products consumed and apply the latest price to those units, or to at least isolate aggregate expenses associated with certain goods and services and apply a specific price index to those annual expenses.

The Commission finds that NSP's contention that its expenses are two years out of phase under South Dakota regulation is not persuasive. The Commission finds that, as discussed above, while inflation may continue, sales may also rise and efficiencies be gained in certain areas of the Company's business following the test year. The Commission finds that if the unit cost per kwh is established correctly, as sales increase or efficiencies are gained during the period the rates are in effect, these occurrences will cover additional cost increases. The Commission finds that it is not necessary that a cost of service determination correctly forecast the absolute level of expenses to be incurred in a future period, as NSP implies. The Commission finds that it is only necessary that cost/revenue relationships which translate into a unit charge to be applied to the future be correctly established.

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

The Commission finds that NSP has the burden of proof in these proceedings to establish that its proposed rates are just and reasonable. The Commission finds that NSP has failed to meet that burden of proof in regard to the proposed inflation adjustment, and that therefore said adjustment should be rejected.

XI.

The Commission finds that recognition of the September 1, 1981 wage rate change, which adds $60,000 to revenue requirements, is proper. The Commission further finds that recognition of the January 1, 1982 adjustments, with refinements which recompute the increase at 10.3% rather than 11% and which reduce the adjustments by 1/24th to account for the fact that the rates established in this proceeding precede the effective date of the adjustments by 1/24th of a year, are also proper. The Commission finds that these changes are known and measurable and have been computed properly on test year work force levels. The Commission finds that it will not consider the increase in labor costs which relate, in part, to additional employees and to other factors than a change in wage rates. The Commission finds that such an adjustment, in addition to being filed subsequent to the hearing, is improper because it would violate the matching concept. The Commission finds, therefore, that a total of $623,505 should be allowed in NSP's cost of service for these adjustments.

XII.

The Commission finds that NSP will have during its summer peak of 1982, 704 MW of capacity which will exceed its system requirements at that time . The Commission further finds that that 704 MW of capacity will not be used to generate electricity at the time of the system peak. The Commission finds, therefore, that this plant is not used and useful to NSP's present customers. The Commission finds that while it is true that most of NSP's present capacity was used at some time or another during the test year to generate electricity, this does not alter the fact that 704 MW exists over and above NSP's capacity obligations including the obligatory MAPP required reserve levels. The Commission finds that MAPP, after several years of continuing study has arrived at the present reserve capacity levels and considers them adequate for system reliability. The Commission finds that having found that excess capacity exists, it must now only concern itself with the rate treatment which it should be accorded. The Commission finds that NSP's position that all factors leading to the existence of excess capacity need be investigated before there can be a determination that surplus capacity

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

exists should be rejected.

The Commission finds that it is not necessary to find that management acted imprudently in order that the common equity return on excess capacity be disallowed. The Commission finds that a disallowance of the common equity return on surplus capacity does not constitute a penalty on the common shareholder. The Commission finds, rather, that it constitutes a sharing between ratepayers and stockholders of the costs of what is surplus capacity. The Commission finds that Staff is recommending that the stockholder bear $505,000 of the cost and that the ratepayer bear $1,245,000 of the cost of what Staff has concluded is excess capacity. The Commission finds that it is only proper that the ratepayers not be held totally responsible for these costs since the common stockholders expect to bear risks, for which they are compensated by virtue of the fact that the return they receive is higher than that paid for other forms of capital. The Commission finds that if the danger of any earnings shortfalls, for whatever reason, were eliminated, the common stockholder would not receive a "risk premium".

The Commission finds, moreover, that it is because there is no evidence of imprudence and because the ratepayers have derived benefits from recent capacity additions that a total disallowance of excess capacity costs should not be ordered, but that instead a sharing of such costs should be ordered.

The Commission finds that the amount of the common equity return is $505,000. The Commission finds that while Staff Witness Towers conceded that NSP made a reasonable attempt to identify where the excess capacity exists, he pointed out that even some of the oil-fired units identified by NSP were utilized at some point during the test year. This highlights exactly the reason Staff Witness Towers used the average net investment method he did. Just as the Commission will not determine that the latest capacity addition constitutes the excess, it will not determine that the oldest plants constitute the excess. The Commission finds that the surplus capacity simply cannot be actually associated with specific generating units or transmission agreements.

The Commission finds that the argument that use of the average investment in all of NSP's facilities requires that ratepayers somehow be deprived of the advantages of low cost power associated with recent capacity additions should be rejected. The Commission finds, as explained above, that the customers are entitled to this benefit because they are being required to bear all of the out-of-pocket costs, including depreciation, associated with these facilities. The Commission finds that the determination of the average net

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

investment does not include a deduction for accumulated deferred federal income taxes because these taxes, even though they can be associated with specific plants, represent prepayments of federal income taxes which belong to ratepayers.

XIII.

The Commission finds that there are three basic areas of contention between NSP and Staff regarding calculation of working capital.

(1) The Commission finds that NSP Witness McIntyre recommended that a revenue lead of 43.24 days be used in deriving the appropriate level of working capital. The Commission finds that Staff Witness Knadle testified that a revenue lead of 39.6 days is appropriate.

(2) The Commission finds that NSP objects to Staff's use of a hypothetical capital structure for determination of a pro forma interest amount applied to the working capital calculation. The Commission finds that NSP also claims that debt interest related to construction work in progress (CWIP) should be purged for working capital consideration. The Commission finds that Staff argues that it must use pro forma interest amounts, and that such utilization is consistent with usage of other pro forma amounts in the working capital analysis. The Commission finds that Staff also claims that interest on CWIP should not be purged unless NSP can quantify the benefit of booking AFUDC prior to the time interest and dividends are paid.

(3) The Commission finds that NSP contends that Staff should make allowance in the working capital study for the return on common stock equity. The Commission finds that because of Staff's refusal to do so, NSP recommends that Staff should purge from the lag study the other two components of the return on investment, debt interest and preferred stock dividends. The Commission finds that Staff does not allow for the return on common stock equity, a position consistent with prior Commission rulings, because of the unique characteristics of that portion of the overall return. The Commission further finds that Staff argues that there could be further offsets made for the delay in payment of common stock dividends, but declined to make this offset.

The Commission finds that the difference between NSP Witness McIntyre's calculation of revenue lag days and that of Staff Witness Knadle is basically due to the latter's usage of a 20 day cutoff for customer bill payment. The Commission finds that there is general agreement that Witness Knadle's method is a proper one when paired with his recommendation that NSP be allowed to recover the late payment charge

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

revenue below the line. The Commission finds that the advantage of Witness Knadle's method is that it does not compel customers who make timely payment to bear the burden imposed by late paying customers. The Commission finds that the revenue lead days established by Staff Witness Knadle are correct and should be utilized in the working capital determination.

The Commission finds that there is no basis for NSP's objection to Staff Witness Knadle's usage of pro forma interest amounts. The Commission finds in agreement with Staff, that Witness Knadle, who was not making recommendations concerning debt and related interest levels, is compelled to utilize recommendations of other Staff witnesses. The Commission finds that NSP failed to fully address Staff Witness Rislov's concerns regarding timing of interest and dividend payments with the booking of AFUDC. The Commission finds due to this failure, the Commission cannot authorize the purging of CWIP-related interest from the working capital analysis.

The Commission finds that, as noted by Staff, it has in prior decisions favored the recommendation which Staff Witness Rislov has now testified to in the current proceeding regarding the proper treatment of the return on common stock equity. The Commission finds that NSP's contention that debt interest and preferred dividends should also be removed from working capital consideration if the common equity return is not afforded treatment should be rejected. The Commission finds that there is little question that funds are made available with the lag in payment of debt interest and preferred dividends. The Commission further finds that the issue regarding the treatment of the return on common stock equity is one of determining whether or not a return, an offset, or an exclusion should be made. The Commission finds that Staff contends that investors recognize the lag of payment of dividends, and discount the lag when making a purchase decision. The Commission further finds that NSP alleges that because Staff failed to identify where Staff's recommended return recognizes such an investor expectation, it cannot account for the lag. The Commission finds that it appears to be logical that investors in common stock of any particular organization would deem it necessary to be aware of dividend payment habits. The Commission finds the lack of an explicit recommendation in Staff Witness Wilson's testimony regarding the payment lag would obviously not affect the stockholder who made a purchase decision. The Commission finds that it then follows that the purchaser made his decision after considering the dividend payment lag and the ultimate return, thus making it unnecessary for Dr. Wilson to identify a separate expectation. The Commission finds further that Staff could have made additional offsets for the lag in common stock

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

dividend payment, but agrees with Staff's contention that the general uncertainty regarding the level of payment precludes making that offset. The Commission finds, therefore, that Staff Witness Rislov make a proper recommendation to exclude treatment of the return on common stock dividends from the working capital study.

XIV.

The Commission finds that the chief reason for the different levels of late payment charges recommended by NSP and Staff appear to be a disagreement over the proper treatment of recovery of $96,900 of collection costs. The Commission finds that NSP recommended that these costs be recognized in and assessed through the late payment charge. The Commission finds that Staff argues that these costs are already included in the cost of service.

The Commission finds that the late payment charge should be designed to recover certain identifiable costs. The Commission finds that the late payment charge should not become a means by which to penalize late paying customers. The Commission finds that it appears from the testimony of NSP Witness Dupay that the $96,900 amount identified by her represents fixed costs in force for at least the range of late payment scenarios found within her exhibits. The Commission further finds that Witness Dupay further testified that declining numbers of late paying customers would tend to increase the amount required from each to recover collection costs. The Commission finds that because of the level of fixed costs which are incurred regardless of the level of late payments, it would seem that NSP's recommendations could eventually place unreasonable burdens on late paying customers if their numbers were substantially reduced. The Commission finds, however, that that issue becomes academic because absent an adjustment made to NSP's cost of service, the Commission is compelled to agree that the aforementioned costs are indeed included in the cost of service. The Commission finds, therefore, that adoption of NSP's recommended late payment charge would allow NSP to over-collect for the related costs. The Commission finds that Staff Witness Knadle's usage of a 1% monthly assessment to recover NSP's financing costs appears reasonable in light of Staff Witness Brown's usage of NSP Witness McIntyre's recommended short-term debt rate. The Commission finds that if Staff Witness Knadle were now to base his monthly charge on the prime rate, Staff Witness Brown would be required to alter her computed interest on short-term debt also to reflect the prime rate. The Commission

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

finds that there is no basis to adopt such a change, and therefore finds that Staff's recommended late payment charge is appropriate.

XV.

The Commission finds that the $455,872 of annual amortization expenses associated with the Tyrone cancellation costs which NSP seeks to recover in this case should be excluded from the Company's cost of service. Instead, the Commission finds that consistent with its holding in Docket No. F-3353 the recovery of Tyrone-related costs should be deferred until after the issues in the FERC proceeding have been finally determined by a final Order of the FERC no longer subject to judicial review.

The Commission finds that to the extent any portion of the $455,872 charge is later determined allowable by a final Commission Order no longer subject to further judicial review the allowed recovery shall include in addition a reasonable carrying charge to compensate NSP for the deferral, until such time as the deferred principle and accumulated charges are fully amortized, said carrying charges to be computed as provided in the Settlement Agreement.

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

XVII.

The adjustments proposed by Dr. Wilson to eliminate non-utility investments and Tyrone from the common equity balance are proper. With regard to the non-utility investments, the Commission agrees that these investments are at the risk of and for the benefit of NSP's stockholders and that the ratepayers should not be burdened with them. As to Tyrone, Dr. Wilson clearly testified that his procedure does not constitute a double count and that his adjustment must be made if the ratepayers are to be relieved of the Tyrone project cancellation costs pending the South Dakota Public Utilities Commission's determination of that matter. The source of the funds is irrelevant. Likewise, the fact that AFUDC at a composite rate was applied is irrelevant. Whatever the source of the funds, these are equity investments and their deletion from common equity is appropriate.

The adjustment made by Staff Witness Wilson which assumes that NSP will or should retire additional common stock in 1981 in like amount as that which was retired in 1980 is proper. The Commission determines that a retirement of this amount is reasonable and achievable and that the adjustment is one that should be made when considered in concert with Dr. Wilson's recommended return on common stock equity. As NSP itself concedes, through its financial plans, their current equity ratio is thick. Moreover, Dr. Wilson's adjustments overall appear conservative because, as he stated, the book value of the Company's stock has now increased somewhat and it would be possible for them to retire even more stock than he assumed. Also, his increase in common equity for retained earnings to be accumulated during 1981 appears high by 50%, about $40,000,000. We would note that the adjustments to common equity result in a capital structure which is still more favorable to NSP than the industry norm. NSP's arguments regarding the dividend reinvestment plan are not compelling. The DRP does not bear on the basic question in this regard of whether NSP's common equity ratio is too thick for ratemaking purposes.

Finally, the adjustment which restates NSP's preferred stock balance to the level it would have been had NSP made only the mandatory sinking fund retirements is proper. NSP voluntarily retired preferred stock in excess of these requirements to the detriment of its ratepayers when it could have retired the more expensive common stock.

All of the aforementioned adjustments result in a capital structure which is reasonable.

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

XVII.

A return on equity of 14.0% for NSP is just and reasonable. The Commission finds that Staff Witness Dr. Wilson presented a comprehensive and credible analysis of the cost of common equity for NSP.

The Commission finds that the dcf model is a valid method to use in determining the cost of common equity. Mr. Kolkmann's criticisms of the traditional dcf analysis are without merit because he incorrectly objects to the use of a constant value for k and a constant infinite-horizon growth rate for g. As Staff Witness Wilson testified, the cost of equity, k, is, as a matter of fact, a single value at a particular time in relation to a particular market price and expected dividend level. Also, the infinite-horizon growth rate problem alluded to by Kolkmann can be eliminated, with no noticeable impact, by merely using a 100 year time horizon rather than infinity. Therefore, Kolkmann's method I is less desirable than Staff's dcf analysis.

The Commission also finds that Kolkmann's method II, an alternative dcf approach, is less valid than Staff's dcf. The Commission finds that Kolkmann's assumptions are not reasonable in that he assumes either past actual and hypothetical earnings (from dividends but not from capital gains) are equal to required earnings, or that actual short-term dividends and experienced inflation are equal to expected dividends and anticipated inflation. The returns calculated and utilized by Kolkmann in this approach cannot be viewed as experienced returns because they ignore the actual gains and losses attributable to changes in the price-book ratio, and as a result, Mr. Kolkmann's return overstates experienced return.

Mr. Kolkmann's method III, the analysis of market price to book value ratios, is of little use in evaluating investor expectations for the future. The Commission finds that the primary reason for the failure of method III to arrive at a reasonable result is that the equation does not specify the factors important to NSP's stock price, does not include an analysis of expectations of future returns relative to required returns, and rely on actual rather than expected returns as a relevant determinant of market prices.

The Commission finds that Dr. Wilson's use of the electric utility industry as a whole is valid. The Commission finds that Staff's approach does not ignore financial circumstances unique to NSP because it quantified capital cost differences among utilities in an analytically objective and explicit way.

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

The Commission finds that Dr. Wilson's use of mid-1980 pricing data in the dcf study is proper and necessary. As Dr. Wilson testified, when financial markets are disturbed, it is essential to find a period during which interest rates and electric utility risks were similar to historic conditions. Because present dividend yields, which recently have increased rapidly over a short period of time for utilities, do not match historical data and because the expected growth consistent with present yields is not yet ascertainable from available data, the best estimate of current money costs is one based upon the combination of expected growth and dividend yields taken from a time during which financial markets were reasonably normal.

The Commission finds that Dr. Wilson's comparable earnings analysis of companies of comparable risk is of use in determining a reasonable return for NSP, subject to the limitations of that approach outlined by Dr. Wilson. The Commission finds that Dr. Wilson established, on the basis of statistical conclusions and also on the basis of general observations, that risk differences exist between industries and that unregulated, non-utility industries are generally more risky than utilities. Hence, it would not be appropriate to allow utilities a return as high as that being experienced by these firms.

Mr. Kolkmann's method IV, a comparable return analysis, does not address risk comparability, and therefore is inferior to Dr. Wilson's study. Moreover, Kolkmann's study uses as a comparability standard, earned returns.

The Commission finds that long-term interest rate trends are not an appropriate basis for determining the extent of common equity cost changes because it requires the assumption that debt costs and equity costs parallel each other over time. As Dr. Wilson demonstrated, such an assumption is not valid.

The Commission finds that an additional return allowance for issuance and presumed market pressure is not warranted has not sold new equity capital at all in the past five or six years and has in fact undertaken various methods of reducing the equity ratio. Wilson therefore stated it is not reasonable to assume these costs will even be incurred. The Commission finds that even if new stock issuances were expected, presumed market pressure costs should not be recognized and flotation costs are small.

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

Upon the foregoing Findings of Fact, the Commission hereby enters the following

CONCLUSIONS OF LAW

I.

That the Commission has jurisdiction over the subject matter and the parties to this proceeding.

II.

That the Commission's decision entered herein establishes just and reasonable rates for Northern States Power Company and fully comports with all statutory and constitutional requirements.

III.

That the rate schedules and related tariff sheets filed in this case by NSP, proposed to become effective December 15, 1981, should be rejected in their entirety.

IV.

That all pending motions and objections not heretofore ruled upon should be by the terms of this Order overruled. It is therefore

ORDERED, that the proposed rate schedules and related tariff sheets filed in this case by Northern States Power Company proposed to become effective December 15, 1981 be, and the same hereby are, rejected; and it is

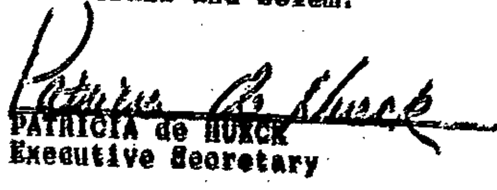
FURTHER ORDERED, that Northern States Power Company shall file with the Commission new proposed rate schedules and related tariff sheets in conformance with this Order; and it is

FURTHER ORDERED, that the rate schedules and related tariff sheets implementing the Commission's Decision and Order herein, when approved by the Commission, shall be effective for electric service rendered on or after the 15th day of December, 1981.

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146

Dated at Pierre, South Dakota, this 15th day of December, 1981.

BY ORDER OF THE COMMISSION,
Chairman Fischer, Commissioners
Stofferahn and Solem:



PATRICIA de HUECK
Executive Secretary

(OFFICIAL SEAL)

Filed: 10/2/2015 11:12:30 AM CST Hughes County, South Dakota 32CIV15-000146