

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE PUBLIC)
UTILITIES COMMISSION INVESTIGATION)
INTO THE EFFECTS OF THE 1986 TAX)
REFORM ACT ON SOUTH DAKOTA)
UTILITIES.)

INTERIM ORDER
(F-3647-1, -3, -4,
-6, -7, -8, -9)

On October 22, 1986, President Ronald Reagan signed into law the Tax Reform Act of 1986 (TRA). The TRA represents one of the most comprehensive changes in federal income tax legislation ever enacted. The regulatory implications of the TRA require the South Dakota Public Utilities Commission (Commission) to examine present utility and telecommunication rates to determine reasonable allowance for income tax expenses.

In October, 1986, Staff of the Commission began gathering information from regulated utility and telecommunication companies regarding the impact of the TRA on present rates. During the last seven months, regulated companies have filed extensive information regarding the TRA.

On June 18, 1987, Staff filed a motion requesting the Commission to require utility and telecommunication companies to file a formal position with the Commission which would reflect the effects of the TRA and associated adjustments. Staff also requested that the Commission set July 1, 1987 as the effective date for any rate changes due to the TRA if the Commission determines such changes are necessary after a review of the company's position.

On June 24, 1987, the Commission heard Staff's Motion at a public commission meeting at the State Capitol Building in Pierre, South Dakota. Mr. Warren May represented Montana-Dakota Utilities Company at the meeting and Mr. Larry Toll attended on behalf of Northwestern Bell Telephone Company. Staff was represented by Ms. Diane Patrick, Assistant Attorney General.

The Commission finds it has jurisdiction over this matter due to the Commission's statutory obligation to establish fair and reasonable rates to be charged to South Dakota utility and telecommunication customers. SDCL Chapters 49-31 and 49-34A.

The Commission also finds that the TRA which, among other things, reduces the corporate tax rate from 46% to 34% on July 1, 1987, will have an immediate, known and measurable impact on rates as of that date. Accordingly, any reduction in rates charged to South Dakota utility and telecommunication customers due to the TRA should have an effective date of July 1, 1987.

The Commission recognizes the difficulty utility and telecommunication companies would have in implementing the TRA rate changes by July 1, 1987. Accordingly the Commission finds that Companies should be given procedural alternatives to implement the TRA impact on rates. These alternatives include:

1. If a company plans to initiate a rate case in the near future, this investigation may be closed and the implications of the TRA will be considered as part of the rate proceeding. Provided, however, that any adjustments based solely on the TRA will be effective July 1, 1987.
2. If a company has only limited adjustments related to the TRA, the company will proceed within the present docket. The company and Staff will agree to a procedural schedule allowing for company to file its TRA position, Staff to file a responding evaluation, company to file rebuttal and a possible settlement conference and hearing. Any adjustments based upon the TRA will be effective July 1, 1987.
3. If a company accepts the provisional per books effect of the TRA, as set forth in Staff's motion, the company shall file tariffs reflecting the decrease subject to Commission review. The effective dates of the tariffs will be July 1, 1987.
4. If a company identifies special circumstances or determines that a particular procedure would facilitate analysis of the impact of TRA, the company should propose such other alternative to Staff and reach a stipulation regarding further proceeding.

The Commission finds that companies should notify the Commission by July 15, 1987 of which alternative it has elected. If required, stipulations with Staff should be reached by that date. Such stipulations are subject to approval by the Commission.

Accordingly, the Commission finds that the portion of the rates related to federal income tax expense which is collected at a rate in excess of the TRA after July 1, 1987, shall be collected subject to refund pending determination of a company's proposed offsetting adjustments to the TRA.

The Commission finds this procedure will benefit the public interest and assure ratepayers that fair and reasonable rates are being changed by reflecting the impact of the TRA on the effective date. The Commission further finds that this procedure will benefit companies by allowing companies to propose adjustments to the TRA impact prior to implementing a rate change. This will prevent ratepayer's confusion resulting from several rate changes occurring within a short period of time.

The present dockets assigned to each company are as follows: Minnegasco (F-3647-1); Northern States Power Company (F-3647-3); Black Hills Power & Light Company (F-3647-4); Montana-Dakota Utilities Company (F-3647-6); Iowa Public Service Company (F-3647-7); Northwestern Bell Telephone Company (F-3647-8); Northern States Power Company (F-3647-9).

The Commission therefore finds that Staff's Motion dated June 18, 1987 should be granted as clarified by the conditions set forth in this Order. It is therefore

ORDERED, that Staff's Motion is hereby granted on the conditions set forth in this Order; and it is

FURTHER ORDERED, that companies shall notify the Commission by July 15, 1987 of which alternative it has elected; if required stipulations with Staff shall be reached by July 15, 1987; such stipulations are subject to Commission approval; and it is

FURTHER ORDERED, that the portion of the rates related to federal income tax expenses which is collected at a rate in excess of the TRA after July 1, 1987 shall be collected subject to refund pending determination of a company's proposed offsetting adjustments to the TRA.

Dated at Pierre, South Dakota, this 26th day of June, 1987.

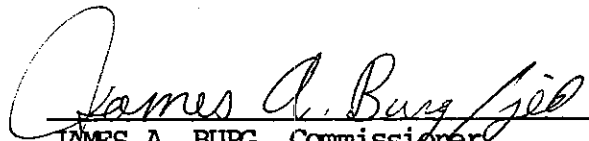
BY ORDER OF THE COMMISSION:



DENNIS EISNACH, Chairman



KENNETH STOFFERAHN, Commissioner



JAMES A. BURG, Commissioner

(OFFICIAL SEAL)