

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE PUBLIC UTILITIES )  
COMMISSION INVESTIGATION INTO THE ) STIPULATION AND  
EFFECTS OF THE 1986 TAX REFORM ACT ) SETTLEMENT AGREEMENT  
ON SOUTH DAKOTA UTILITIES. ) (F-3647-3)

This Stipulation is made and entered into by Northern States Power Company (Company) and the Public Utilities Commission Staff (Staff).

I.

Background

On October 22, 1986, President Reagan signed into law the Tax Reform Act of 1986 (TRA-86). Subsequently, on October 29, 1986, the Staff requested information from Company concerning the cost of service effects of the Tax Reform Act of 1986 on Company's jurisdictional utility operations. On December 31, 1986, Company made its initial filing in this docket. Subsequently, Company filed revisions on May 18, 1987, based on the twelve months ending December 31, 1986.

On June 18, 1987, Staff filed a motion requesting the Public Utilities Commission (Commission) to require Company to make a formal filing with the Commission which would reflect the effects of the Tax Reform Act of 1986 and TRA-86 associated adjustments. The Commission granted this motion in its Interim Order issued June 26, 1986. Accordingly, Company filed its position on July 15, 1987.

The Interim Order presented four TRA-86 options for South Dakota regulated utilities. The Company selected the second alternative, which allowed it to file limited adjustments related to TRA-86. The Company adjustments are increases in property taxes, insurance, Nuclear Regulatory Commission fees and rate base additions, including its new Sherco III generating plant. According to Company, a \$4,150,000 revenue deficiency exists after adjusting for the TRA-86.

As a result of informal negotiations between Company and Staff, the two parties have reached a settlement in this docket as set forth below.

II.

Moratorium

A. The company agrees, subject to the conditions set forth in Section III of this document, that it will not put into effect any rate changes which increase the current base rate level prior to July 1, 1988.

This moratorium provision does not apply to such changes in charges to customers as are provided for by the operation of Fuel Clause Rider No. 1 approved by the Public Utilities Commission in Docket F-3422. The Company may submit for filing a proposed rate increase with a proposed effective date prior to July 1, 1988, provided that the Company will request and support a suspension of any such proposed rate increase until July 1, 1988. It is the intent and purpose of the parties that in no event will such rates become effective prior to July 1, 1988, and the Company waives any claim that suspension of such a proposed increase to the July 1, 1988 date might exceed the statutory authority of the Commission.

B. Staff agrees, subject to the conditions set forth in Section III of this document, that it will end its investigation in Docket F-3647-3 and will not initiate further proceedings in this matter.

III.

Sherco III

It is agreed that if the Commission approves this Settlement Agreement:

A. Company will file within 60 days after the date that it indicates commercial operation of its Sherco III generating facility, a report setting forth the day on which the operation began and the total amount of Sherco related costs.

B. If the report supplied pursuant to A. above reveals that the Company's actual Sherco related costs are more than 10% below the costs provided by Company in this docket or if Sherco related transactions materially decrease the rate base, this docket may be reopened and further TRA-86 proceedings may be initiated by Staff.

C. If the report supplied pursuant to A. above reveals that the in-service date of the Sherco generating plant is later than November 1, 1987, the moratorium described in II (A.) above shall be extended from July 1, 1988, until such time that Sherco will have been in-service for a minimum period of eight months before revised rates incorporating Sherco shall become effective.

D. Rates resulting from any further proceedings initiated as a result of decreased or overestimated costs (A. above) or a postponed in-service date (B. above) will be subject to refund as of July 1, 1987.

#### IV.

#### General Conditions

A. The making of this Settlement Agreement establishes no principles and shall not be deemed to foreclose the Company, Staff or any other person from making any contention in any proceeding or investigation.

B. Approval of this Settlement Agreement by the Commission shall not in any respect constitute a determination by the Commission as to the merits of any allegations or contentions made in this proceeding.

C. The Settlement Agreement is expressly conditioned upon the Commission's acceptance of all the provisions thereof, without change or condition which is unacceptable to any party.

D. The discussions between Staff and Company which produced this Settlement Agreement have been conducted with the customary understanding that all offers of settlement and discussions relating thereto are not to be used in any manner in connection with this proceeding or otherwise except as required by law.

E. This Settlement Agreement includes all terms of settlement and is submitted on the condition that in the event the Commission imposes any change or condition which is unacceptable to any party, this settlement shall be deemed withdrawn and shall not constitute any part of the record in this proceeding or any other proceeding or be used for any other purpose.

F. This Settlement Agreement shall be binding upon the parties hereto, and upon their successors, assigns, agents and representatives.

G. It is understood that Staff enters into this Settlement Agreement for the benefit of the Company's electric customers which are located in the State of South Dakota.

H. This Settlement Agreement is entered into between Staff and Company by their respective agents who represent that they are fully authorized to do so on behalf of their principals.

STAFF OF THE SOUTH DAKOTA  
PUBLIC UTILITIES COMMISSION

By: Diane M. Patrick  
Diane M. Patrick

Its: Attorney

Date: August 18, 1987

NORTHERN STATES POWER COMPANY

By: David M. Sparby  
David M. Sparby

Its: Attorney

Date: August 17, 1987