

P. O. Box 280  
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April 3, 2006

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SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION

Ms. Karen E. Cremer  
Staff Attorney  
South Dakota Public Utilities Commission  
500 East Capitol Avenue  
Pierre, SD 57501

Re: In the Matter of the Filing for Approval of a Territorial  
Agreement Regarding Electric Service between the  
City of Pierre, South Dakota, and Oahe Electric Cooperative,  
Inc.  
Docket EL 06-004

Dear Ms. Cremer:

The Pierre Oahe agreement advances the interests of both systems in the same basic way that the territorial act itself seeks to advance those interests.

As the Commission is aware the electrical utility business is capital intensive, requiring major commitment of capital to establish an integrated electrical system which can only be paid for over extended periods of time. The type of investment required, coupled with the extended period needed for recoupment of the necessary investment requires that utilities be provided a significant degree of stability in both their service area and consumer base.

As one of the few major exceptions to the concept of permanently assigned service areas, the provisions for municipal annexation of service areas of other utilities and acquisition of the facilities of those utilities poses a number of issues sought to be avoided by the present agreement.

1. Duplication of Facilities. Although the law requires the annexing municipality to acquire the facilities of the displaced utility, because of differences and incompatibilities between the electrical systems of the municipality and the displaced utility, this often results in forcing the

municipality to acquire and pay for facilities it will not actually use – an unnecessary and costly duplication. For example, the city of Pierre operates a total underground distribution system. Oahe operates an overhead system at a different voltage level. ~~In an annexation, the City would be forced to acquire and pay for Oahe facilities but would not actually use the acquired facilities. Instead, the City would retire the acquired facilities, then construct new facilities compatible with its own system.~~

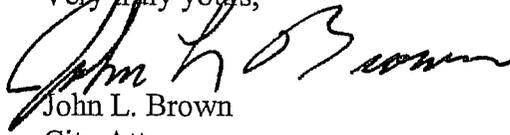
2. Improvement / Discouragement of Service. By eliminating the risk that system improvements and customers will be lost through annexation, ~~the agreement will encourage decisions to make such improvements.~~ As examples, decisions ranging from whether or not to establish underground lines, or to locate substations all need to be made in light of potential annexation, and a loss of these facilities. For a specific example in the present situation, Oahe Electric serves a number of housing developments or housing clusters within what are considered potential annexation areas for the city. While some of these areas have reached a density level that would justify facility upgrades to raise the level of service above what is typical for remote rural locations, ~~the potential of making the upgrades only to have the area annexed discourages that type of development.~~ Uncertainty over whether an area will be annexed may put decisions about potential system improvements in limbo for years. ~~The agreement also provides transparency for electric customers within the City through requiring uniform specifications, including underground lines and uniformity of rates. These provisions avoid unequal treatment of residents within the City and preserve the benefits of standardized service to those residents.~~
3. Efficient and Economical Use of Facilities. ~~The proposed agreement is intended to allow both parties reasonable opportunities for growth while protecting past and future investments. In doing so it encourages the parties to make those investments. It avoids duplication and expenditures for facilities that will not be fully utilized. It avoids exposing both parties to the costs of reintegrating their systems either through the acquisition of the other party's facilities or the loss of existing facilities. It short, it gives both parties the necessary certainty to make the most efficient and economical use of their system.~~

Finally, in avoiding the necessity of the parties dealing with each other as potential adversaries, in a system neither is completely happy with, ~~the agreement is expected to foster a greater opportunity for cooperation and collaboration in ways that will benefit the consumers of both utilities.~~ Fortunately, the parties do have a good history of working together; however, at the same time, both often find themselves in situations in which they are forced to assume an adversarial stance to protect their own

operations. By giving both parties the potential for predictability and stability, the agreement will encourage continued cooperation.

This response to your request for information has been prepared jointly by the parties and is submitted on behalf of the City of Pierre and Oahe Electric Cooperative, Inc. I am authorized to state that David J. Larson joins in this response and will so advise you by mail.

Very truly yours,

A handwritten signature in black ink, appearing to read "John L. Brown". The signature is fluid and cursive, with the first name "John" being the most prominent.

John L. Brown  
City Attorney

cc: Rod Liesinger  
Todd Chambers