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## SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

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October 9, 2009

Ms. Patricia Van Gerpen  
SD Public Utilities Commission  
500 E. Capitol Ave  
Pierre, SD 57501

Re: Pipeline Safety Declaratory Ruling

Dear Ms. Van Gerpen,

Please file the enclosed Petition as a new pipeline safety docket. Contact me with any questions. Thank you.

Sincerely,

Kara Semmler

Enc.

cc. Rick Ramstad - [rick@crewandcrew.com](mailto:rick@crewandcrew.com)  
Meredith More - [meredithm@cutlerlawfirm.com](mailto:meredithm@cutlerlawfirm.com)

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF SOUTH DAKOTA**

PETITION OF THE COMMISSION	)	
PIPELINE SAFETY PROGRAM	)	PS09-
MANAGER FOR DECLARATORY	)	
RULING REGARDING WHETHER	)	
THE CROOKS MUNICIPAL UTILITIES		
GAS LINE SHOULD BE CLASSIFIED		
AS A TRANSMISSION OR		
DISTRIBUTION LINE FOR PIPELINE		
SAFETY PURPOSES		

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COMES NOW, the Pipeline Safety Program Manager by and through undersigned counsel, and files this Petition for Declaratory Ruling.

**I. APPLICABLE FACTS AND LAW**

A multifunction odorized gas line that operates under 20% of SMYS as both a transmission and a distribution line is the cause for this request to the commission. The line at issue is owned and operated by the city of Crooks. Although the line was classified with PHMSA as a transmission line since its construction, the city of Crooks now believes it is a distribution line and desires to change the line's classification. The line originates at an interstate transmission pipeline tapping station and travels eastward for 14 Miles. The line feeds the distribution center of Crooks and the city of Garretson for resale in their distribution centers.

During a regular inspection, a PUC pipeline inspector questioned why the city had not developed an Integrity Management Program for this high pressure transmission line as required for transmission lines by Subpart O of 49 CFR Part 192. The municipality reports the line as a transmission line within the federal reporting requirements on Form RSPA 7100.2-1. Although it conducts leak surveys and patrols on the line as a transmission line, Crooks does not, otherwise in practice, view this line as transmission and now desires to change the line's classification to a distribution line. PUC pipeline safety staff (Staff) believes, however, based on the facts now known that the line is properly classified as a transmission line and should not be reclassified as distribution.

If the commission rules the line should remain classified as transmission, potentially expensive and time consuming operator requirements may result to achieve compliance. For example a written Integrity Management Program (IMP) for the line may be required. Preliminary surveys indicate the line may be located in a high consequence area. Therefore, the IMP may require either smart pigging the line or ECDA and ICDA assessments to determine the condition of the line. Smart pigging,

External Corrosion Direct Assessments (ECDA) and Internal Corrosion Direct Assessments (ICDA), are rigorous and costly. The procedures are particularly burdensome for a small municipality. Additionally, the procedures must be repeated at intervals from 7 years to 20 years depending on a number of factors.

South Dakota created a pipeline safety inspection program and adopted federal safety standards from the Code of Federal Regulations, title 49 parts 191, 192, 193 and 199. All safety standards in said parts are within the jurisdiction of South Dakota and shall be properly enforced through federally qualified pipeline inspectors. Specifically, Part 192 specifies the minimum federal safety standards. Transmission lines<sup>1</sup> have increased safety obligations over distribution lines including Integrity Management. CFR 192 Subpart O – Gas Transmission Pipeline Integrity Management starting at 192.901 prescribes the minimum requirements for an integrity management program on any gas transmission pipeline.

This request is based on the definition of a transmission line. PHMSA holds the line's primary function is key when a line serves both distribution and transmission functions as the line at issue does. See attached Exhibit A. PHMSA also indicates the classification of a transmission line is dependent on the downstream use and delivery of the gas. See attached Exhibit A. If gas is delivered to a distribution center without resale, the upstream line is distribution. If on the other hand, gas is resold downstream the upstream line is considered transmission. In this case, the line arguably serves both purposes: distribution and transmission. Crooks purchases gas for its own distribution but also charges Garretson a transportation fee to transport gas to Garretson for its ultimate distribution. "As we apply the term, it is the point where gas enters piping used primarily to deliver gas to customers who purchase it for consumption as opposed to customers who purchase it for resale." Exhibit A. Thus, the first question is, does resale to Garretson occur? If yes, the question follows whether the line is primarily feeding a distribution center or primarily feeding for resale.

## **II. ISSUE**

Should the line at issue be reclassified as a distribution or remain classified as a transmission line?

## **III. ARGUMENT TO RE-CLASSIFY THE LINE AS A DISTRIBUTION LINE**

In September 1996, before the city of Crooks constructed its pipeline, it entered into a joint venture with the city of Garretson wherein the two municipalities agreed to share their resources for the construction of a natural gas system to serve their respective communities as well as customers which may be acquired along the pipeline route. See

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<sup>1</sup> 49 CFR 192.3 Transmission line means a pipeline other than a gathering line that: (i) Transports gas from a gathering line or storage facility to a distribution center, storage facility, or large volume customer that is not down-stream from a distribution center; (ii) operates at a hoop stress of 20 percent or more of SMYS; or (iii) transports gas within a storage field.

Attached Exhibit B. Therefore, whether it is the city of Crooks or the city of Garretson, all of the gas is delivered to customers who purchase it for consumption. The city of Crooks does not believe, however, the line serves a transmission purpose for the city of Garretson. Additionally, to classify the line as distribution does not impair the safety of the line. The line is relatively new (1992) and does not create risks that can be eliminated by IMP regulations.

#### **IV. ARGUMENT THAT THE LINE IS PROPERLY CLASSIFIED AS A TRANSMISSION LINE**

This line serves a dual purpose. While the line may provide distribution services for the city of Crooks, it operates as a transmission line for the city of Garretson. The most conservative safety approach then, is to classify it transmission and thus require additional IMP safety measures. Transmission lines have increased safety obligations. Regardless of whether the pipeline has a secondary use, the increased safety obligations should be enforced. The added operational costs are unfortunately a reality. Regardless of *when* the costs should have been incurred, the real question is *if* the costs should be incurred. Transmission lines simply must undertake the added safety responsibilities required by the Federal Code.

#### **V. CONCLUSION**

Both the pipeline safety program manager and Crooks Municipal Utilities request a Commission decision regarding whether the pipeline at issue is to remain classified transmission and reported as such or whether it is to be reclassified and reported as distribution.

Signed and dated this 9<sup>th</sup> day of October, 2009



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Kara Semmler, Staff Attorney  
South Dakota Public Utilities Commission  
500 E. Capitol Ave  
Pierre, SD 57501  
(605)773-3201

# Exhibit A

Mr. Dan H. Weaklend  
Chief, Pipeline Safety  
Arizona Corporation Commission  
1200 W. Washington

Phoenix, AZ 85007

Dear Mr. Weaklend:

I am responding to your letter of March 4, 1991, concerning the classification of pipelines under 49 CFR 192 as transmission lines or mains. You asked about four pipelines shown as #1, #2, #5, and #6 on enclosures. You also asked if pressure reduction points shown as #3 and #4 on the enclosures are pressure limiting or regulating stations.

The Part 192 regulations contain the following definitions that are relevant to this discussion:

Distribution line means a pipeline other than a gathering or transmission line.

Main means a distribution line that serves as a common source of supply for more than one service line.

Transmission line means a pipeline, other than a gathering line, that:

- (a) Transports gas from a gathering line or storage facility to a distribution center or storage facility;
- (b) Operates at a hoop stress of 20 percent or more SMYS; or
- (c) Transports gas within a storage field.

Comprehension of the term, "distribution center," is essential to use of the transmission line definition. As we apply the term, it is the point where gas enters piping used primarily to deliver gas to customers who purchase it for consumption as opposed to customers who purchase it for resale.

Line #1, which operates at less than 20 percent of SMYS, begins at a pressure limiting and metering station on an interstate natural gas transmission pipeline. From there the

line extends to a series of pressure reduction points, beyond which the gas is distributed to consumers. Because there does not appear to be any transfer of gas to customers for resale beyond the pressure limiting and metering station, this station marks a distribution center under the above description. Line #1 is, therefore, a distribution line, or main, as it is a common source of supply for more than one service line.

Line #2 runs between the last pressure reduction point on Line #1 and another pressure reduction point. It is an extension of Line #1 and is, thus, a main.

Lines #5 and #6 are like Line #1, except they extend to fewer pressure reduction points than Line #1, and, on Line #6, two of these points are on connecting laterals. Since these dissimilarities to Line #1 are not relevant for the purpose of classification, Lines #5 and #6 are mains.

As for pressure reduction points #3 and #4, Part 192 does not define pressure limiting or regulating stations, though we have a rulemaking project to create a Part 192 definition for these terms. Terms used in Part 192 that are not defined in Part 192 have the ordinary meaning in the industry. We rely on the definitions in the B31.8 Code as indicative of the ordinary meaning of such terms in the industry. Based on the B31.8 definitions of pressure limiting or regulating station and of service regulator, point #3 is a pressure limiting or regulating station and point #4 is a service regulator.

Please call me if you need any further help in this matter.

Sincerely,

/signed/

Cesar DeLeon  
Director for Pipeline Safety  
Regulatory Programs

# Exhibit B



## AGREEMENT

This Agreement made and entered into this 24th day of September, 1996, by and between the CITY OF CROOKS, a municipal corporation, of P.O. Box 744, Crooks, Minnehaha County, South Dakota, 57020, hereinafter referred to as "CROOKS", and the CITY OF GARRETSON, a municipal corporation, of P.O. Box 370, Garretson, Minnehaha County, South Dakota, 57030, hereinafter referred to as "GARRETSON", WITNESSETH:

### RECITALS

Each municipality desires to construct and own a municipal natural gas utility system. For that purpose, the municipalities have previously entered into discussions, individually and together, with Northern States Power Company (NSP), which has been retained to assist with the general and technical matters and details of developing such a system or systems.

The municipalities have been informed by NSP that the closest natural gas pipeline that can be tapped for the municipalities' purposes is located near Hartford, South Dakota. The proposed pipeline would first serve Crooks and then Garretson and would run East from Hartford along a route that the municipalities hereinafter agree upon.

Under applicable South Dakota law, the municipalities were required to bid the construction of each system including the line from Hartford that would serve both municipalities.

The municipalities are in need of a master agreement that would set forth the rights and responsibilities of each municipality, in such issues as the separate ownership of each municipality in the portion of the line from Hartford to Garretson, the service area of each municipality outside the municipal boundary of each, the proportionate rights of each municipality to the present and future full capacity of the line from Hartford specifically with regard to future development or increased usage, the bidding procedures and requirements that the municipalities combined, and any other matter that the municipalities may mutually agree on pertaining to a system or systems of natural gas utility distribution that may affect both municipalities.

### AGREEMENT

NOW THEREFORE, in consideration of the terms, conditions and covenants contained herein, the Cities of Crooks and Garretson hereby agree as follows:

1. The Cities agree that the natural gas pipeline shall run from the City of Hartford, South Dakota, to Garretson, along the following route:

Commencing at a point North of Hartford near the intersection of 258th Street and 463rd Avenue; then east along the 258th Street right of way to Renner Corner at the intersection of 258th Street and 475th Avenue; then North along the 475th Avenue right of way to Midway corner at the intersection of 475th Avenue and 254th Street; then east along the 254th Street right of way to the intersection of 254th Street and 478th Avenue; then north along the 478th Avenue right of way to the intersection of 478th Avenue and 253rd Street; then east along the 253rd Street right of way to the City of Garretson.

2. The pipeline and related apparatus along the above described route shall be constructed according to the bid specifications or better. The pipe itself shall be 4-inch steel pipe from Hartford to Interstate 29 and 3-inch steel pipe thereafter.
3. The cost, ownership, operation and maintenance of the pipeline and related apparatus shall be as follows:

Crooks shall pay for, own, operate and maintain the pipeline and related apparatus from Hartford to Renner Corner and then north approximately two (2) miles to 256th Street;

Provided, however, the initial cost of said pipeline and installation thereof shall be allocated so that:

- A. Crooks shall pay the cost of a 3-inch steel pipeline from Hartford to Interstate 29 and Garretson shall pay the upgrade cost to a 4-inch steel pipeline for that length of the line;
- B. Crooks shall pay the cost of a 4-inch polyethylene pipeline from Interstate 29, past Renner Corner, to 256th Street, and Garretson shall pay the upgrade cost to a 3-inch steel pipeline for that length of the line;
- C. Garretson shall pay for, own, operate and maintain the remainder of the line and related apparatus from 256th Street north to Midway and then east to Garretson.

The differential in the cost from a 3-inch steel pipeline to a 4-inch steel pipeline and from a 4-inch polyethylene pipeline to a 3-inch steel pipeline that Garretson shall owe to Crooks shall be due and payable to Crooks following completed construction at the time NSP provides the differential calculation to the two municipalities.

4. Each of the municipalities shall own and maintain its share of the line and related apparatus as described above, with 256th Street being the dividing line between the two systems.
5. Each of the municipalities shall exercise due diligence, reasonable prudence and foresight in the maintenance of its portion of the pipeline and apparatus and in attempting to maintain a constant flow of gas without unnecessary interruption or reduction of service. In the event of an occurrence beyond the control of either municipality that results in interruption or reduction of service, the municipality in control of that portion of the line that gives rise to the occurrence shall take immediate action in accord with recognized accepted safety procedures to remove the interruption or reduction in natural gas service with due diligence.

Examples of occurrences beyond the control of either municipality include: flood, earthquake, storm, fire, lightning, tornado, or other sudden and severe act of nature, war, riot or similar civil disturbance, sabotage, labor dispute or strike, or any other cause beyond the control of the municipality affected. The obligation to use due diligence to remove the interruption or reduction shall not include the speedy forced resolution of

any labor dispute by giving into opposing demands when the affected municipality deems such action ill-advised.

6. Garretson agrees to pay a "transportation fee" to Crooks for natural gas provided to Garretson by way of the pipeline and related apparatus from Hartford to 2 miles north of Renner Corner, metered at or about the 256th Street dividing line hereinbefore set forth. The "transportation fee" shall be payable to Crooks at or about the same time each month as the parties shall agree upon, commencing approximately one (1) month after the system is in operation. The cost of the meter used to determine the "transportation fee" shall be divided equally between the municipalities. The City of Crooks shall pay for any cost of the maintenance of the said meter.

The parties acknowledge that the amount of the "transportation fee" was fairly negotiated and based upon many factors, including Garretson's use of a portion of Crooks' pipeline, Garretson's payment of one-half (½) the cost of the pipeline and related apparatus from Hartford to 2 miles north of Renner Corner, including the "up front" contribution and debt service, operation and maintenance expenses of Crooks along that portion of the pipeline, industry standards, NSP's recommendation, and to make both systems financially sound and feasible for financing and debt service purposes.

The initial "transportation fee" shall be Thirty-six Thousand and No/100 Dollars (\$36,000.00) per calendar year payable at a rate of \$0.25 per one thousand cubic feet of natural gas provided to Garretson metered at 256th Street, as described above. The monthly payments, as described above, shall continue each calendar year until the \$36,000.00 annual fee is paid as set forth in the attached Exhibit A - Amortization of Garretson's Share of the Crook's Pipeline by Transportation Fee incorporated by this reference as if fully set forth herein. If the twelve monthly payments do not reach \$36,000.00 in any calendar year, Garretson shall pay the remaining difference prior to December 31st of that year. The "transportation fee" shall be prorated in 1997 based upon the months of operation.

This initial annual "transportation fee" shall continue for the term of this Agreement unless Garretson's share of the bonds for Crook's pipeline are redeemed early. Early redemption of the bonds may occur either as a result of the profitability of Crooks' Natural Gas Utility Operation, or as a result of Garretson "prepaying" on its "Remaining Principal" balance which it shall herewith have the right to do, or both. If Garretson prepays on the "Remaining Principal", such prepayment shall not be in lieu of subsequent regular monthly payments and the calendar year remaining difference payment prior to December 31st of the \$36,000.00 "transportation fee". However, Crooks shall be obligated to use any Garretson prepayment for early bond redemption to the extent of the prepayment amount. Garretson's "deduct" amount shall be calculated as follows:

Of the total amount of Crooks Series 1996 Bonds sold for the project, a portion thereof is attributable to the cost of the pipeline

and related apparatus from Hartford to 2 miles north of Renner Corner; and NSP shall also calculate, on an annual basis, that portion of each \$36,000.00 annual "transportation fee" amount attributable to operation and maintenance, debt service (bond redemptions and interest), and other costs, all of which shall be itemized so that the Cities will know, year to year, the status of the "Remaining Principal" in the event of early bond redemptions.

If the Crooks' bonds are fully redeemed prior to the expiration of this Agreement, or if Garretson is otherwise deemed to have fully paid for its share of the indebtedness associated with the pipeline and related apparatus from Hartford to 2 miles north of Renner Corner, the transportation fee shall be revised at that time. The new "transportation fee" shall be reasonable in amount and be based upon what would be deemed to be Garretson's share of the actual cost of the operation and maintenance, including repairs and replacements, of the pipeline and related apparatus from Hartford to 2 miles north of Renner Corner, according to prevailing natural gas industry standards in effect at the time of renewal in the geographic area of the two municipalities.

In the event either municipality experiences a material change in the financial condition of its system caused by actual operation of its natural gas distribution system being materially different than projected or represented, both municipalities agree to engage in good faith, reasonable bona fide discussions concerning the "transportation fee" to see if any accommodating adjustment, either higher or lower could be made to alleviate the unexpected financial shortcoming. Nothing herein shall require a revision of the fee amount. However, the municipalities hereby pledge their full cooperation in listening, discussing and possibly negotiating to assist each other in the financial stability of both systems.

The Parties acknowledge the authority of the South Dakota Public Utilities Commission to set and revise "transportation fees".

7. Crooks shall pay for and own a line from 258th Street north along the 470th Avenue right of way to and including within its own City limits.
8. Each municipality shall construct, at its own cost, and own its own distribution system within its own City limits.
9. In addition each municipality shall have and retain the right to own, and construct at its own cost, distribution systems within ten (10) miles of each municipality's corporate limits, subject to the following:

The dividing line between the two municipalities' extraterritorial distribution areas shall be described as follows:

Beginning at the Northern Boundary of Sverdrup  
Township in Minnehaha County, South Dakota, Highway  
115 (475th Avenue) shall be the beginning dividing line,

and related apparatus from Hartford to 2 miles north of Renner Corner. This portion of the pipeline and related apparatus is, in essence, being paid for by both Cities, half and half. Garretson is making an "up front" contribution toward the cost of the pipeline as set forth in Paragraph 3 above, leaving the balance of its half of the financing being covered by the Crooks' bonds. A portion of the "transportation fee" pays for Garretson's remaining "principal" balance on the Crooks' bond indebtedness relating to this portion of the pipeline and related apparatus, plus interest. As Garretson makes any prepayment of "principal", the corresponding Crooks' bond redemption shall be deemed to all apply to that portion of the Crooks' bonds relating to the remainder of Garretson's obligation associated with its portion of the pipeline and related apparatus from Hartford to 2 miles north of Renner Corner.

If Crooks makes an early bond redemption out of its own utility funds, the amount of the redemption shall be deemed to be prorated in the same proportion as the cost of the pipeline and related apparatus from Hartford to 2 miles north of Renner Corner relates to Crooks total bond issue, not counting the reserve requirements.

*Example: If the cost of the pipeline and related apparatus from Hartford to 2 miles north of Renner Corner totals \$800,000.00, and Crooks total bond issue was \$1,200,000.00 not counting the reserve requirement, the proportion would be two-thirds. If the early redemption by Crooks is in the amount of \$60,000.00, then two-thirds or \$40,000.00 would be deemed to be applied to the cost of the pipeline and related apparatus from Hartford to 2 miles north of Renner Corner.*

Of the amount deemed allocated to the cost of the pipeline and related apparatus from Hartford to 2 miles north of Renner Corner, Garretson shall be deemed to have paid half thereof. The "deduct" amount shall be the interest savings as a result of early bond redemptions. The interest savings shall not reduce the \$36,000.00 annual "transportation fee" amount until the end of the term of this Agreement or Garretson is otherwise deemed to have fully paid for its share of the pipeline and related apparatus from Hartford to 2 miles north of the Renner Corner.

As bonds are redeemed early, NSP and Dougherty Dawkins, Inc. shall keep a running total of the interest savings and, hence, the proper total "deduct" amount to come off the last \$36,000.00 payment or payments, until the "transportation fee" is revised. Also, NSP shall calculate the portion of the project cost associated with the pipeline

with Crooks' distribution area being the area to the west and Garretson's area being everything to the east. However, as Highway 115 jogs east in Section 27 in Sverdrup Township, Garretson shall retain all of Sections 27 and 34 in Sverdrup Township and all areas east thereof. Crooks shall retain all areas west thereof but not including Sections 27 and 34. In Mapleton Township south of 256th Street, Crooks shall retain all of Sections 2, 3, 10, 11, 14, 15, 22, 23, 26, 27, 34 and 35 outside the City limits of Sioux Falls, and all area west. Garretson shall retain all area east thereof but not including said Sections.

For the purpose of future development, and subject to capacity limitations, in the event there are customers in the extraterritorial service area of one municipality that could be more easily, practically or economically serviced by the other municipality, the municipalities agree to engage in discussions similar to those described in paragraph 6 hereof to see if those customers can be accommodated. The municipalities shall have the right to mutually agree, in writing, to revised boundaries, or to allow an outside tap into one of their lines, such that one municipality could, with the consent of the other, service customers in the other's service area, with or without compensation, as the municipalities may, from time to time, agree upon. Nothing herein shall require a revision of boundary or extension of service into the service area of the other municipality.

10. In the construction of the pipeline from Hartford to Garretson, and in the construction of the distribution systems for each municipality, the municipalities have coordinated the timing of bids on the projects, under South Dakota law, so that the systems are completed approximately at the same time, and as such, the municipalities agreed to enter into contracts with NSP to engineer and draft specifications and oversee the bidding and construction of the projects and systems, through completion.

In the bidding process, each municipality bid its own portion of the line as described in Paragraph 3 hereof and shall pay the contractor for the same. Garretson shall reimburse Crooks for the upgrade differential as described in paragraph 3 hereof.

In the bidding process, Crooks also bid the meter referred to in Paragraph 6 hereof. Garretson shall reimburse Crooks for one-half (1/2) of the cost thereof upon presentation of a bill showing completed installation therefore.

11. The municipalities have been informed that the recommended pipeline from Hartford is of such a size and type that there will be, at inception, extra capacity for future additional usage, development and expansion. NSP has informed the Municipalities that the pipeline design is for an initial total pipeline capacity connecting from Hartford of 170,000 metered cubic feet per hour at 525 pounds of pressure per square inch, not including interruptible service, with future increased capacity possible at increased pressure. The Cities agree to the following allocation of total pipeline capacity, at whatever pressure, from the meter at Hartford:

Crooks shall have 50% of the total pipeline capacity; and

Garretson shall have 50% of the total pipeline capacity.

The percentages stated may be revised by mutual written consent of both municipalities, from time to time.

12. The municipalities agree to a periodic review of this Agreement to ensure, to the extent possible, a continuing harmonious relationship between the municipalities and efficient smooth operation of their respective systems. For this purpose, the municipalities shall create a review committee comprised of the following persons: at least one representative from each governing body (the mayor or a council member) with an equal number of members from Crooks and Garretson, the municipal finance officer of each municipality, and an NSP representative or other person knowledgeable about gas distribution systems or who has the technical knowledge necessary to assist the review committee. Each municipality's respective city attorney shall sit in on review committee meetings if requested. The municipalities shall have the right to mutually, from time to time, reconstitute the number of committee members and who those persons shall be.

It shall be the duty of the review committee to meet at least annually and more often, if needed or if directed by the municipalities. It shall be the function of the review committee to discuss and work out any problems, concerns or potential disputes to the extent it can. The municipalities shall make available their "financial books" pertaining to their natural gas utility operations, if a financial dispute arises to encourage an amicable solution by the respective municipalities. The review committee shall also have authority to recommend to the municipalities revisions in this Agreement.

13. In the event of a dispute that is not resolved by the review committee nor by the municipalities themselves, the municipalities agree to submit the matter for mediation to a single mediator appointed by mutual agreement of both sides. The mediation shall take place on one (1) business day unless the municipalities agree to extend the session, and shall be attended by at least one member of each governing body (mayor or council member) with authority to settle the issue. Each municipality shall pay one-half of the mediator's fees and costs. The mediator shall not have the power to bind the municipalities to a solution.
14. If mediation is not successful, either municipality shall have the right to pursue the matter in Court, the proper forum being the Second Judicial Circuit Court in Minnehaha County, South Dakota. Any dispute with regard to the "transportation fee" shall first be submitted to the South Dakota Public Utilities Commission for resolution.
15. Neither municipality shall assign this Agreement nor any provision herein without the prior written consent of the other municipality, which shall not be unreasonably withheld. Any such assignment shall bind the assignee to the terms and provisions herein.
16. The term of this Agreement shall be from and after the date hereof and terminate at midnight, December 31, 2021. This Agreement is founded upon and anticipates the

subsequent renewal and continued access of the natural gas distribution system between the two municipalities and the respective gas distribution capacities beyond the term of this Agreement. The transportation fee in any subsequent agreement shall be reasonable in amount and be based upon what would be deemed to be Garretson's share of the actual cost of the operation and maintenance, including repairs and replacements of the pipeline and related apparatus from Hartford to 2 miles north of the Renner Corner, according to prevailing natural gas industry standards in effect at the time of renewal in the geographic area of the two municipalities. The municipalities shall have the right to renew or extend this Agreement, in writing, at any time, on the same terms and conditions, or with written modifications as the municipalities may from time to time agree upon.

17. This Agreement is the entire agreement between the municipalities as to the matters herein dealt with. Any modifications, additions or deletions shall be in writing, dated and executed by the municipalities.
18. This Agreement and all provisions herein shall bind upon the municipalities, their elected officials, appointed officers, employees, agents, successors and assigns.

Executed as of the date first written at the outset herein.

CITY OF CROOKS

CITY OF GARRETSON

By \_\_\_\_\_  
R. E. "BARNEY" BERNARDS, Mayor

By \_\_\_\_\_  
RAYMOND E. LARSON, Mayor

Attest: \_\_\_\_\_  
VICKIE BRIGHT  
Municipal Finance Officer

Attest: \_\_\_\_\_  
JANET C. SURDEZ  
Municipal Finance Officer

(MUNICIPAL SEAL)

(MUNICIPAL SEAL)



EXHIBIT "A"

AMORTIZATION OF GARRETSON'S SHARE OF THE CROOKS' PIPELINE BY  
TRANSPORTATION FEE

- Step 1. City's consultant determines the portion of the installed cost of that portion of the pipeline and related apparatus from Hartford to 2 miles north of the Renner Corner which is responsible for delivery of natural gas to the City of Garretson metered at 256th Street.
- Step 2. From the amount in Step 1 there is subtracted the amount of up-front payment from Garretson to Crooks for the differential in cost of pipe as set forth in Paragraph 3 of the Agreement.
- Step 3. The result in Step 2 is deemed to be the initial "Remaining Principal" owed by the City of Garretson to the City of Crooks.
- Step 4. From the Annual Transportation Fee of \$36,000.00 owed by Garretson to Crooks there would be the following adjustment:
- A subtraction of that amount that would be deemed to be Garretson's share of the actual cost of the operation and maintenance, including repairs and replacements, of the pipeline and related apparatus from Hartford to 2 miles north of Renner Corner.
- Step 5. The remaining balance would be debt service (interest and principal) on Garretson's share of the pipeline. As prepayments and corresponding bonds are early redeemed by Crooks, more of each debt service payment is being applied to principal and less to interest, and hence an interest savings. Garretson's "Remaining Principal" is being paid in larger amounts on each payment than originally scheduled and will be paid off sooner. The net result is a total interest savings to Garretson, which interest savings equals the "deduct" amount.
- Step 6. Any pre-payment of principal bond indebtedness made by Garretson to Crooks shall reduce the "Remaining Principal" by the amount of such pre-payment.
- Step 7. When the Remaining Principal is reduced to zero, the transportation fee shall be revised and submitted to the SDPUC for approval or revision. The new "transportation fee" shall be reasonable in amount and be based upon what would be deemed to be Garretson's share of the actual cost of the operation and maintenance, including repairs and replacements, of the pipeline and related apparatus from Hartford to 2 miles north of Renner Corner.