

NG97-015

KC/MB/LS

1997-1998 Session

DOCKET NO.

NG97-015

In the Matter of

IN THE MATTER OF THE
APPLICATION OF ASSOCIATED MILK
PRODUCERS, INC. PIPELINE, INC. FOR
APPROVAL OF CHANGE IN AN
INTRASTATE NATURAL GAS
TRANSPORTATION RATE

full fee

Public Utilities Commission of the State of South Dakota

DATE	MEMORANDA
9/5/97	Filed and Docketed;
10/3/97	Assessment of Filing Fee, Notice of Opportunity to Intervene, ^{Subject to Report} to Intervene , rates
3/13/98	Testimony of Douglas A. Piskov;
3/13/98	Testimony of Harold A. Jacobson;
3/17/98	Order for and Notice of Hearing;
3/19/98	Agreed Order for and Notice of Hearing;
4/17/98	Response to Verbal Request No. 2;
4/20/98	Transcript of Hearing held on 3/30/98;
6/3/98	Order of Fact and Con. of Law, Notice of Entry of Order;
6/3/98	Docket Closed

0141
52
1
HARLAN MAMMEN
ASSOCIATED MILK PRODUCERS, INC.
315 NORTH BROADWAY
NEW ULM MN 56073

CLAIRE TAYLOR-SHERMAN
2800 MINN WORLD TRD CTR 30 E 7TH ST
ST. PAUL MN 55101-4999

JOHN D WINTER
NORTHERN STATES POWER COMPANY
414 NICOLLET MALL
MINNEAPOLIS MN 55401

DALE STRASSER
CITY ATTORNEY
PO BOX 428
FREEMAN SD 57029

NG97-015

RECEIVED

SEP 05 1997

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

September 5, 1997

William Bullard, Jr.
Executive Director
South Dakota Public Utilities Commission
500 East Capitol
Pierre, SD 57501

Re: AMPIP Intrastate Natural Gas Transportation Rate Filing

Dear Mr. Bullard:

Enclosed please find the original (loose-leaf) and fourteen copies (twelve bound and two loose-leaf) of a rate application to change the AMPIP intrastate natural gas transportation rate. If you need additional copies or have any questions on the filing, please contact me. My telephone number is 612-330-5785.

Sincerely,


John D. Winter, NSP Sr. Regulatory Consultant, on behalf of
AMPI Pipeline, Inc.

0141523

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

IN THE MATTER OF THE APPLICATION OF	)	ASSESSMENT OF FILING
ASSOCIATED MILK PRODUCERS, INC.	)	FEE; NOTICE OF
PIPELINE, INC. FOR APPROVAL OF CHANGE	)	OPPORTUNITY TO
IN AN INTRASTATE NATURAL GAS	)	INTERVENE; RATES
TRANSPORTATION RATE	)	SUBJECT TO REFUND
	)	NG97-015

On September 5, 1997, the Associated Milk Producers, Inc. Pipeline, Inc. (AMPIP), a subsidiary of Associated Milk Producers, Inc. (AMPI), filed with the Public Utilities Commission (Commission) an application requesting a revision to its natural gas transportation rate and tariff so it may serve both AMPI and a new municipal gas utility to be owned and operated by the City of Freeman, South Dakota. No other type of service or rate will be offered on the pipeline at this time. In the future, AMPIP may add additional farm tap customers along the line, at the same rate under Schedule FT.

The proposed tariff is a volumetric rate reflecting underlying cost data pertinent to the pipeline configured to serve Freeman and AMPI, instead of the AMPI plant alone. AMPIP requests waiver of ARSD rules 20:10.13.04 and 20:10.13.05. AMPIP is proposing an effective date of October 5, 1997.

SDCL 49-1A-8 authorizes the Commission to require a deposit of up to one hundred thousand dollars (\$100,000) in the South Dakota Public Utilities Commission's (SDPUC) regulatory assessment fee fund to defray Commission expenses incident to analyzing and ruling upon this type of filing. The Commission has jurisdiction in this matter pursuant to SDCL Chapters 1-26, 49-1A, 49-34A and ARSD 20:10.01.15.02 and 20:10.01.15.03.

At its regularly scheduled meeting of September 25, 1997, the Commission considered this matter. The Commission found that pursuant to SDCL 49-1A-8, AMPIP shall be assessed a filing fee as requested by the executive director up to the statutory limit of \$100,000. The Commission further directed the executive director to set a procedural schedule in this matter. Staff recommended that the transportation rate go into effect on October 5, 1997, subject to refund. AMPIP agreed to this. The Commission unanimously voted to allow the transportation rate to be effective on and after October 5, 1997, subject to refund. It is therefore

ORDERED, that AMPIP shall deposit a filing fee, to be established by the executive director, in the SDPUC regulatory assessment fee fund and it shall deposit any additional amounts as requested by the executive director, it is further

ORDERED, that any individual or entity may file with the Commission its petition to intervene no later than October 31, 1997, and it is further

ORDERED, that the proposed transportation rate shall be effective on and after October 5, 1997, subject to refund.

Dated at Pierre, South Dakota, this 3rd day of October, 1997.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon.

By

Date

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

James A. Burg
JAMES A. BURG, Chairman

Pam Nelson
PAM NELSON, Commissioner

Laska Schoenfelder
LASKA SCHOENFELDER, Commissioner



South Dakota Public Utilities Commission



State Capitol Building, 500 East Capitol Avenue, Pierre, South Dakota 57501-5070

March 13, 1998

Mr. Harlan Mammen
Associated Milk Producers, Inc.
315 North Broadway
New Ulm, MN 56073

Ms. Claire Taylor-Sherman
2800 Minnesota World Trade Center
30 East 7th Street
St. Paul, MN 55101-4999

Mr. John D. Winter
Northern States Power Company
414 Nicollet Mall
Minneapolis, MN 55401

Mr. Dale Strasser
City Attorney
P. O. Box 428
Freeman, SD 57029

Capitol Office
Telephone (605)773-3201
FAX (605)773-3809

Transportation
Warehouse Division
Telephone (605)773-5280
FAX (605)773-3225

Consumer Hotline
1-800-332-1782

TTY Through
Relay South Dakota
1-800-877-1113

Internet
bill@pac.state.sd.us

♦
Jim Burg
Chairman
Pam Nelson
Vice-Chairman
Laska Schwenfelder
Commissioner

William Dillard Jr.
Executive Director

Edward E. Anderson
Harlan Best
Martin C. Bettemann
Charlie Bolle
Sue Cichow
Karen E. Cremer
Marlette Fischbach
Sharon Fugitt
Loren Hammond
Katie Hartford
Lene Healy
Cameron Hoesek
Dave Jacobson
Bob Kneidel
DeLaine Kolbo
Jeffrey P. Looman
Terry Norum
Gregory A. Rislov
Tamara Stangor
Steven M. Wegman
B. Gene Allen Wood

Re In the Matter of the Application of Associated
Milk Producers, Inc. for Approval of Change in
an Intrastate Natural Gas Transportation Rate
Docket NG97-015

Dear Folks

Enclosed each of you will find a copy of Testimony of Gregory A. Rislov and David A. Jacobson with reference to the above captioned matter. This is intended as service upon you by mail.

Very truly yours,

Karen E. Cremer
Staff Attorney

KEC:dk
Enc.

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

IN THE MATTER OF THE APPLICATION OF) ASSOCIATED MILK PRODUCERS, INC.) PIPELINE, FOR APPROVAL OF CHANGE IN) AN INTRASTATE NATURAL GAS) TRANSPORTATION RATE)	ORDER FOR AND NOTICE OF HEARING NG97-015
---	--

On September 5, 1997, the Associated Milk Producers, Inc. Pipeline, Inc. (AMPIP), a subsidiary of Associated Milk Producers, Inc. (AMPI), filed with the Public Utilities Commission (Commission) an application requesting a revision to its natural gas transportation rate and tariff so it may serve both AMPI and a new municipal gas utility to be owned and operated by the City of Freeman, South Dakota (Freeman). No other type of service or rate will be offered on the pipeline at this time. In the future, AMPIP may add additional farm tap customers along the line, at the same rate under Schedule FT. AMPIP also requested a waiver of ARSD rules 20 10 13 04 and 20 10 13 05. AMPIP proposed an effective date of October 5, 1997.

According to its application, there are three major reasons for the rate change. First, the proposed rate is a volumetric rate per Mcf rather than the current monthly fixed charge. A volumetric rate allows more flexibility to both AMPIP and Freeman as customers are added within the municipality and volumes change over time. It also sends pricing signals to Freeman and AMPI related to their utilization of the pipeline facility. During periods of low use, customer bills will reflect that lower seasonal use, and vice versa. Second, a portion of the pipeline will be sold to the City of Freeman which changes the underlying cost data supporting the old rate. Third, after slightly more than a year of operation, more accurate cost data is now available. The proposed rate is \$0.99 per Mcf. Both AMPI and Freeman have agreed to the proposed volumetric rate.

The Commission has jurisdiction over this matter pursuant to SDCL Chapters 1-26 and 49-34A, specifically 1-26-17.1, 49-34A-4, 49-34A-6, 49-34A-8, 49-34A-10, 49-34A-11, 49-34A-12, 49-34A-13, 49-34A-13.1, 49-34A-17, 49-34A-19, 49-34A-21, and ARSD 20 10 01 15 02 and 03.

A hearing shall be held at 10:00 a.m., on Monday, March 30, 1998, in Room 412, State Capitol Building, 500 East Capitol, Pierre, South Dakota. The hearing is open to the public. All persons so testifying shall be subject to cross-examination.

The issues at the hearing are: whether the Commission shall grant AMPIP's request to switch to the volumetric rate of \$0.99 per Mcf and whether the Commission shall grant AMPIP's request for a waiver of ARSD rules 20 10 13 04 and 20 10 13 05.

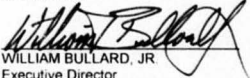
The hearing shall be an adversary proceeding conducted pursuant to SDCL Chapter 1-26. All parties have the right to be present and to be represented by an attorney. These rights and other due process rights shall be forfeited if not exercised at the hearing. If you or your representative fail to appear at the time and place set for the hearing, the Final Decision will be based solely on the testimony and evidence provided, if any, during the hearing or a Final Decision may be issued by default pursuant to SDCL 1-26-20. After the hearing the Commission will consider all evidence and testimony that was presented at the hearing. The Commission will then enter Findings of Fact, Conclusions of Law, and a Final Decision regarding this matter. As a result of this hearing, the Commission shall determine whether it shall grant AMPIP's request to switch to a volumetric rate and whether it shall grant AMPIP's request for a waiver of ARSD rules 20.10.13.04 and 20.10.13.05. The Commission's Final Decision may be appealed by the parties to the state Circuit Court and the state Supreme Court as provided by law. It is therefore

ORDERED that the hearing shall be held at 10:00 a.m. on Monday, March 30, 1998, in Room 412, State Capitol Building, 500 East Capitol, Pierre, South Dakota.

Dated at Pierre, South Dakota, this 14th day of March, 1998.

CERTIFICATE OF SERVICE	
The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail in properly addressed envelopes, with charges prepaid thereon.	
By	<u>William T. Bullard</u>
Date	<u>3/17/98</u>
(OFFICIAL SEAL)	

BY ORDER OF THE COMMISSION:
Commissioners Burg, Nelson and
Schoenfelder


WILLIAM BULLARD, JR.
Executive Director

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

IN THE MATTER OF THE APPLICATION OF	) AMENDED ORDER FOR
ASSOCIATED MILK PRODUCERS, INC.	) AND NOTICE OF HEARING
PIPELINE, FOR APPROVAL OF CHANGE IN	)
AN INTRASTATE NATURAL GAS	) NG97-015
TRANSPORTATION RATE	)

On September 5, 1997, the Associated Milk Producers, Inc. Pipeline, Inc. (AMPIP), a subsidiary of Associated Milk Producers, Inc. (AMPI), filed with the Public Utilities Commission (Commission) an application requesting a revision to its natural gas transportation rate and tariff so it may serve both AMPI and a new municipal gas utility to be owned and operated by the City of Freeman, South Dakota (Freeman). No other type of service or rate will be offered on the pipeline at this time. In the future, AMPIP may add additional farm tap customers along the line, at the same rate under Schedule FT. AMPIP also requested a waiver of ARSD rules 20.10.13.04 and 20.10.13.05. AMPIP proposed an effective date of October 5, 1997.

According to its application, there are three major reasons for the rate change. First, the proposed rate is a volumetric rate per Mcf rather than the current monthly fixed charge. A volumetric rate allows more flexibility to both AMPIP and Freeman as customers are added within the municipality and volumes change over time. It also sends pricing signals to Freeman and AMPI related to their utilization of the pipeline facility. During periods of low use, customer bills will reflect that lower seasonal use, and vice versa. Second, a portion of the pipeline will be sold to the City of Freeman which changes the underlying cost data supporting the old rate. Third, after slightly more than a year of operation, more accurate cost data is now available. The proposed rate is \$0.99 per Mcf. Both AMPI and Freeman have agreed to the proposed volumetric rate.

The Commission has jurisdiction over this matter pursuant to SDCL Chapters 1-26 and 49-34A, specifically 1-26-17.1, 49-34A-4, 49-34A-6, 49-34A-8, 49-34A-10, 49-34A-11, 49-34A-12, 49-34A-13, 49-34A-13.1, 49-34A-17, 49-34A-19, 49-34A-21, and ARSD 20.10.01.15.02 and .03.

A hearing shall be held at 9:00 a.m., on Monday, March 30, 1998, in the County Commissioners' Meeting Room, 2nd Floor, 415 North Dakota (Old Courthouse), Sioux Falls, South Dakota. The hearing is open to the public. All persons so testifying shall be subject to cross-examination.

The issues at the hearing are whether the Commission shall grant AMPIP's request to switch to the volumetric rate of \$0.99 per Mcf and whether the Commission shall grant AMPIP's request for a waiver of ARSD rules 20.10.13.04 and 20.10.13.05.

The hearing shall be an adversary proceeding conducted pursuant to SDCL Chapter 1-26. All parties have the right to be present and to be represented by an attorney. These rights and other due process rights shall be forfeited if not exercised at the hearing. If you or your representative fail to appear at the time and place set for the hearing, the Final Decision will be based solely on the testimony and evidence provided, if any, during the hearing or a Final Decision may be issued by default pursuant to SDCL 1-26-20. After the hearing the Commission will consider all evidence and testimony that was presented at the hearing. The Commission will then enter Findings of Fact, Conclusions of Law, and a Final Decision regarding this matter. As a result of this hearing, the Commission shall determine whether it shall grant AMPIP's request to switch to a volumetric rate and whether it shall grant AMPIP's request for a waiver of ARSD rules 20 10 13 04 and 20 10 13 05. The Commission's Final Decision may be appealed by the parties to the state Circuit Court and the state Supreme Court as provided by law. It is therefore

ORDERED that the hearing shall be held at 9:00 a.m., on Monday, March 30, 1998, in the County Commissioners' Meeting Room, 2nd Floor, 415 North Dakota (Old Courthouse, Sioux Falls, South Dakota.

Dated at Pierre, South Dakota, this 19th day of March, 1998.

CERTIFICATE OF SERVICE	
The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon.	
By	<u>Nelene Kabe</u>
Date	<u>3/19/98</u>
(OFFICIAL SEAL)	

BY ORDER OF THE COMMISSION
Commissioners Burg, Nelson and
Schoenfelder

William Bullard, Jr.
EXECUTIVE DIRECTOR

April 14, 1998

Karen E. Cremer
Staff Attorney
South Dakota Public Utilities Commission
500 East Capitol Avenue
Pierre, SD 57501-5070

RECEIVED

APR 17 1998

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

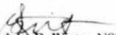
Re: SDPUC Docket NG97-015, AMPIP Application for a Change in Rates
Response to Technical Hearing Verbal Data Request

Dear Ms. Kremer:

Enclosed please find the response to the information requested by Bob Knadle at the Technical Hearing on March 30, 1998 in Sioux Falls. The information incorporates Staff's correction bringing the transportation unit price to \$0.945 per Mcf.

If you have any questions on the enclosed, please contact me. My telephone number is 612-330-5785, and my Email address is wntj01@nspco.com.

Sincerely,



John D. Winter, NSP Sr. Regulatory Consultant, on behalf of
AMPI Pipeline, Inc.

cc: Distribution List Attached

**AMPIP Data Requests
Docket NG97-015
Discovery Response Distribution**

The following individuals will receive copies of the AMPIP Responses to Discovery Questions. Please note that these responses are being submitted to the South Dakota Public Utilities Commission (SDPUC) Staff under oath. While they are not immediately considered part of the record for this case, they could be introduced as such during the proceeding. Please retain a copy with the original filing.

The original is submitted to the SDPUC Staff with a notarized affidavit.

Jim Johnson
NSP-Law, Rice Street

Mary Lewis
NSP-Gas, Rice Street

Harlan Mammen
Associated Milk Producers, Inc.
315 North Broadway
New Ulm, MN 56073

Gary O'Hara
NSP-Gas NGS, Rice Street

Ken Spoon
Associated Milk Producers, Inc.
315 North Broadway
New Ulm, MN 56073

Dale Strasser, City Attorney
P. O. Box 428
Freeman, SD 57029

Karen Cremer, Staff Attorney
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol Avenue
Pierre, SD 57501-5070

Clare Taylor-Sherman
2800 Minnesota World Trade Center
30 E. 7th Street
St. Paul, MN 55101-4999

John Winter
NSP-Regulatory Services, G. O. - 4

Harvey Wallman
Associated Milk Producers, Inc.
136 East Railway
P. O. Box 430
Freeman, SD 57109

Jim Wilcox
NSP-South Dakota

NSP-Regulatory Services Central File (2)
G. O. - 4

Bob Knadle, Commission Advisor*
South Dakota Public Utilities Commission
State Capitol Building
500 East Capitol Avenue
Pierre, SD 57501-5070

For questions or further information regarding the responses, please contact John Winter at 612-330-5785 or wntj01@nspco.com.

* Added December 15, 1997

Associated Milk Producers, Inc. Pipeline, Inc. (AMPIP)

Before the South Dakota PUC

Docket NG97-015

SDPUC Staff Data Requests

Response to: Verbal Request No. 2

(Submitted at the March 30, 1998 Technical Hearing in Sioux Falls)

☐ Proprietary

☒ Non-Proprietary

Question:

Please provide the cost of service study supporting the \$0.945 per Mcf rate discussed at the Technical Hearing on March 30, 1998.

Response:

Schedules incorporating a correction proposed by Staff, resulting in a rate of \$0.945 per Mcf, are attached.

Response By:

John Winter

Title:

Sr. Regulatory Consultant

Company:

NSP for AMPIP

**AMPI Pipeline, Inc.
Freeman, South Dakota Rate
Pipeline Rate**

Schedule 2

INCLUDES CORRECTION PROPOSED BY STAFF

	<u>Volume / Amount</u> (A)	<u>Volumetric Rates</u> (B)
(1) Annual MCF	214,215	
(2) Annualized Revenue Requirements	\$202,351	
(3) Total Blended Volumetric Rate		<u>\$0.945</u>

Sources and Notes:

- Line 1: Sales volume estimates, first full year. Per Freeman, AMPIP
- Line 2: Schedule 3, Page 2 of 2. Referred to as "Annual Requirement".
- Line 3: Line 2 divided by Line 1 above.

Levelized Annual Revenue Requirement - See Page 3 of 3 for Sources and Notes

INCL DES CORRECTION PROPOSED BY STAFF

Capital Structure (C\$)			
	Cost	Weight	Weighted Cost
(C\$1) Equity	0.000%	0.000%	0.00000%
(C\$2) Preferred Stock	0.000%	0.000%	0.00000%
(C\$3) Long-term Debt	9.000%	100.000%	9.00000%
(C\$4) Short-term Debt	0.000%	0.000%	0.00000%
(C\$5)		100.000%	9.00000%

9.00000%

Present Value of

Revenue

Deficiency or

(Excess)

Time Period	Year	Service	Investment	Debt	Book	Operating	Property	Total Revenue	Deficiency or
(A)	(B)	Additions	Rate Base	Return	Dep'n	Expenses	Taxes	Requirement	(Excess)
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
(1)	1	1995	1,256,056	1,225,352	111,663	30,704	39,450	30,528	212,345
(2)	2	1996	0	1,194,648	108,900	30,704	40,045	31,368	211,017
(3)	3	1997	0	1,163,944	106,137	30,704	40,649	32,230	209,720
(4)	4	1998	0	1,133,240	103,373	30,704	41,263	33,116	208,457
(5)	5	1999	0	1,102,536	100,610	30,704	41,885	34,027	207,227
(6)	6	2000	0	1,071,832	97,847	30,704	42,517	34,963	206,031
(7)	7	2001	0	1,041,128	95,083	30,704	43,159	35,924	204,871
(8)	8	2002	0	1,010,424	92,320	30,704	43,810	36,912	203,746
(9)	9	2003	0	979,720	89,556	30,704	44,471	37,927	202,659
(10)	10	2004	0	949,016	86,793	30,704	45,142	38,970	201,610
(11)	11	2005	0	918,312	84,030	30,704	45,823	40,042	200,599
(12)	12	2006	0	887,608	81,266	30,704	46,515	41,143	199,628
(13)	13	2007	0	856,904	78,503	30,704	47,217	42,275	198,698
(14)	14	2008	0	826,200	75,740	30,704	47,929	43,437	197,810
(15)	15	2009	0	795,496	72,976	30,704	48,652	44,632	196,964
(16)	16	2010	0	764,792	70,213	30,704	49,386	45,859	196,162
(17)	17	2011	0	734,088	67,450	30,704	50,132	47,120	195,405
(18)	18	2012	0	703,384	64,686	30,704	50,888	48,416	194,694
(19)	19	2013	0	672,680	61,923	30,704	51,656	49,748	194,030
(20)	20	2014	0	641,976	59,160	30,704	52,435	51,116	193,414
(21)	21	2015	0	611,272	56,396	30,704	53,226	52,521	192,848
(22)	22	2016	0	580,568	53,633	30,704	54,030	53,966	192,332
(23)	23	2017	0	549,864	50,869	30,704	54,845	55,450	191,868
(24)	24	2018	0	519,160	48,106	30,704	55,672	56,974	191,457
(25)	25	2019	0	488,456	45,343	30,704	56,512	58,541	191,100
(26)	26	2020	0	457,752	42,579	30,704	57,365	60,151	190,800
(27)	27	2021	0	427,048	39,816	30,704	58,231	61,805	190,556
(28)	28	2022	0	396,344	37,053	30,704	59,109	63,505	190,371
(29)	29	2023	0	365,640	34,289	30,704	60,001	65,251	190,246
(30)	30	2024	0	334,936	31,526	30,704	60,906	67,046	190,182
(31)	31	2025	0	304,232	28,763	30,704	61,825	68,890	190,182
(32)	32	2026	0	273,528	25,999	30,704	62,758	70,784	190,245
(33)	33	2027	0	242,824	23,236	30,704	63,705	72,731	190,376
(34)	34	2028	0	212,120	20,472	30,704	64,666	74,731	190,574
(35)	35	2029	0	181,416	17,709	30,704	65,642	76,786	190,841
(36)	36	2030	0	150,712	14,946	30,704	66,633	78,897	191,180
(37)	37	2031	0	120,008	12,182	30,704	67,638	81,067	191,591
(38)	38	2032	0	89,304	9,419	30,704	68,659	83,296	192,078
(39)	39	2033	0	58,600	6,656	30,704	69,695	85,587	192,641
(40)	40	2034	0	27,896	3,892	30,704	70,746	87,941	193,283
(41)	41	2035	0	(2,808)	1,129	30,704	71,814	90,359	194,006
(42)	42	2036	0	(15,352)	(817)	12,544	72,897	92,844	177,468
(43)	43	2037	0	(15,352)	(1,382)	0	73,997	95,397	168,013
(44)	44	2038	0	(15,352)	(1,382)	0	75,114	98,021	171,753
(45)	45	2039	0	(15,352)	(1,382)	0	76,247	100,716	175,581
(46)	Project Totals		1,256,056	2,367,280	1,271,408	2,514,960	2,653,011	8,746,659	2,200,885

Levelized Annual Revenue Requirement - LARR				
(RR1)	\$83,624	\$30,468	\$46,435	\$41,740
				\$202,265

LARR - As a % of Original Cost				
(RR2)	6.66%	2.43%	3.70%	3.32%

	9.0000%	9.0000%	9.0000%	9.0000%	Present Value of Revenue Requirements or (Losses)	Summary - LARR	Amounts
	Present Value of Debt Return	Present Value of Book Depreciation	Present Value of Operating Expenses	Present Value of Current Property Taxes	(E)	(F)	(G)
(1)	102,443	28,169	36,193	28,007	194,812	Return	6.66%
(2)	91,659	25,843	33,705	26,401	177,609	Depreciation	2.43%
(3)	81,957	23,709	31,389	24,888	161,943	O&M and Prop Taxes	7.02%
(4)	73,232	21,751	29,232	23,461	147,676		
(5)	65,390	19,955	27,223	22,115	134,683	Total LARR	16.11%
(6)	58,343	18,308	25,352	20,847	122,849		
(7)	52,014	16,796	23,609	19,652	112,071		
(8)	46,332	15,409	21,987	18,525	102,253	Plant In Service	\$1,256,056
(9)	41,234	14,137	20,476	17,463	93,310		
(10)	36,662	12,970	19,069	16,462	85,162	Annual Requirement	\$202,351
(11)	32,564	11,899	17,758	15,518	77,739		
(12)	28,893	10,916	16,538	14,628	70,975		
(13)	25,606	10,015	15,401	13,789	64,811		
(14)	22,665	9,188	14,343	12,998	59,194		
(15)	20,035	8,429	13,357	12,253	54,074		
(16)	17,685	7,733	12,439	11,551	49,407		
(17)	15,586	7,095	11,584	10,888	45,153		
(18)	13,713	6,509	10,788	10,264	41,274		
(19)	12,043	5,972	10,047	9,675	37,737		
(20)	10,556	5,479	9,356	9,121	34,511		
(21)	9,232	5,026	8,713	8,598	31,569		
(22)	8,055	4,611	8,114	8,105	28,885		
(23)	7,009	4,230	7,557	7,640	26,436		
(24)	6,081	3,881	7,037	7,202	24,201		
(25)	5,258	3,561	6,554	6,789	22,161		
(26)	4,530	3,267	6,103	6,400	20,300		
(27)	3,886	2,997	5,684	6,033	18,600		
(28)	3,318	2,749	5,293	5,687	17,047		
(29)	2,817	2,522	4,929	5,361	15,630		
(30)	2,376	2,314	4,591	5,053	14,334		
(31)	1,989	2,123	4,275	4,764	13,151		
(32)	1,649	1,948	3,981	4,490	12,069		
(33)	1,352	1,787	3,708	4,233	11,080		
(34)	1,093	1,639	3,453	3,990	10,176		
(35)	868	1,504	3,216	3,761	9,349		
(36)	672	1,380	2,995	3,546	8,592		
(37)	502	1,266	2,789	3,342	7,899		
(38)	356	1,161	2,597	3,151	7,266		
(39)	231	1,066	2,419	2,970	6,685		
(40)	124	978	2,252	2,800	6,154		
(41)	33	897	2,098	2,639	5,667		
(42)	(22)	336	1,953	2,488	4,756		
(43)	(34)	0	1,819	2,345	4,130		
(44)	(31)	0	1,694	2,211	3,874		
(45)	(29)	0	1,578	2,084	3,633		
(46)	909,928	331,527	505,244	454,186	2,200,885		

AMPI Pipeline, Inc.
Statement M - Cost of Service
Levelized Annual Revenue Requirement
Sources and Notes

Schedule 3
Page 3 of 3

Schedule 3, Page 1 of 3:

Lines CS1 - CS5: AMPIP Cost of Capital. Debt only at 9% Interest Rate
Line 1, Column A: Time Period for present value calculation
Line 1, Column B: Year in service. Present value is life cycle beginning in 1995.
Line 1, Column C: Net pipeline expenditures. Reduced for sale of 7,675' to City of Freeman for \$111,600.
Lines 1 - 45, Column D: Net investment reduced for accumulated depreciation for each year.
Line 1, Column E: One-half of end of first year investment (\$1,240,704/2) applied to debt cost (9%).
Line 1, Column F: Book depreciation per AMPIP adjusted for sale of 7,675' to Freeman (half year). See Schedule 4.
Line 1, Column G: See Schedule 5.
Line 1, Column H: Actual Property Taxes per AMPIP for first year.
Lines 1 - 45, Column I: Sum of Columns E - H for corresponding lines.
Lines 1 - 45, Column j: Present Value of Column I at Overall Cost of Capital (9%).
Lines 2 - 45, Column E: Average net investment applied to debt cost (9%).
Lines 2 - 45, Column F: Book depreciation per AMPIP adjusted for sale of 7,675' to Freeman. See Schedule 4.
Lines 2 - 45, Column G: Operating expenses per Schedule 5, escalated at rate determined on Schedule 5.
Lines 2 - 45, Column H: Property taxes per AMPIP adjusted for sale of 7,675' to Freeman. See Schedule 4. Escalated at 2.5% annually.
Line 46: Check totals.

Schedule 3, Page 2 of 3:

Line RR1: The levelized annual revenue requirements of the items reflected in the columns below.
Line RR2: The percent of original cost (\$1,256,056) for the levelized revenue requirements shown on RR1.
Lines 1 - 46, Columns A - D: Annual present value of each revenue requirement component shown. The nominal amounts are from Schedule 3, Page 2 of 3, Columns E - H.
Lines 1 - 46, Column E: Annual present value of total revenue requirements. Matches Column J on Schedule 3, Page 1 of 3.
Line 47, Columns A - E: Total of annual present value amounts for each column. These amounts are then discounted to arrive at the amounts shown on Line RR1.
Columns F and G: Summary of Levelized Annual Revenue Requirements. Column F describes each component. Column G shows the LARR rate by component and the total. The LARR rate of 16.79% on Line 5, Column G is applied to the original cost of the pipeline shown on Line 8. Column G to arrive at the levelized annual revenue requirements shown on Line 10, Column G of \$210,892. This amount is carried forward to Schedule 2 to determine the pipeline rate.

AMPI Pipeline, Inc.
 Freeman, South Dakota Pipeline Rate
 Plant Investment and Related Costs

Schedule 4

Pipeline Sold to Freeman, SD		AMPIP Amounts (C)
(1) Pipeline Original Cost	\$1,367,656	
(2) less: Portion Sold to City	<u>111,600</u>	
(3) Net Pipeline Original Cost		\$1,256,056

Adjustments to Cost Items for Sold Portion

	Original Amount (A)	Percent Reduced (B)	
(4) Annual Book Depreciation	\$33,432	8.16%	\$30,704
(5) Annual Property Taxes	33,240	8.16%	\$30,528

Sources and Notes:

- Line 1 Pipeline original cost per AMPIP books and records.
 Line 2 7,675 Feet of 6" Steel to be sold to the City of Freeman, SD. This portion is within the city limits and thus on the City's side of the town border station.
 Line 3 Net AMPIP original cost of the pipeline.
 Line 4 Book depreciation per AMPIP's books and records shown in Column A. Percent reduced is determined above on Lines 1 - 3. Net AMPIP portion is shown in Column C.
 Line 5 Property Taxes per AMPIP's books and records shown in Column A. Percent reduced is determined above on Lines 1 - 3. Net AMPIP portion is shown in Column C.

AMPI Pipeline, Inc.
Freeman, South Dakota Rate
Operating Expenses (O&M)

Schedule 5

	Amount	Annual Escalator	1 Year Escalated Amount
	(A)	(B)	(C)
(1) Contracted - Operating and Maintenance Day to day operations and maintenance of pipeline facility	\$12,000	2.0%	\$12,240
(2) AMPIP - Operating and Maintenance Costs Training, readings, patrolling of line by local AMPI personnel	\$1,740	3.5%	\$1,801
(3) Corporate Services Management, clerical, accounting and tax work	\$6,710	3.5%	\$6,945
(4) Audit and Legal Fees Outside legal and audit fees	\$1,700	3.5%	\$1,760
(5) Insurance Annual Fee	\$15,000	0.0%	\$15,000
(6) OPS Assessment Office of Pipeline Safety	\$1,500	0.0%	\$1,500
(7) Regulatory Fees Gross Receipts tax and DOT Pipeline Safety Assessment	<u>\$800</u>	0.0%	<u>\$800</u>
(8) Total:	<u>\$39,450</u>	1.5%	<u>\$40,045</u>

Sources and Notes:

- Line 1, Column A: Per AMPIP contract with NSP/NGS for pipeline operations and maintenance services.
- Line 1, Column B: Contract escalator.
- Lines 1 - 7, Column C: Year 2 level of cost with escalator applied to year 1 historical-based amounts.
- Line 2, Column A: AMPIP direct costs of employee pipeline maintenance activities.
- Lines 2, 3, and 4, Column B: Annual escalator based on anticipated inflation.
- Line 3, Column A: Portion of AMPI corporate costs associated with the pipeline.
- Line 4, Column A: Audit and legal fees based on actual results.
- Line 5, Column A: Insurance costs based on actual results.
- Line 6, Column A: OPS assessment based on actual results.
- Line 7, Column A: Regulatory fees based on actual results.
- Line 8, Columns A and C: Sum of year 1 and year 2, respectively, O&M costs from Lines 1 - 7.
- Line 8, Column B: Weighted annual O&M escalator based on expenses and individual escalators shown on Lines 1 - 7.

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION)
OF ASSOCIATED MILK PRODUCERS, INC.) NG97-015
PIPELINE, FOR APPROVAL OF CHANGE IN)
AN INTRASTATE NATURAL GAS)
TRANSPORTATION RATE)

RECEIVED
APR 20 1998
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

County Commissioners Room
Old Courthouse
Sioux Falls, SD
March 30, 1998
9:00 o'clock a.m.

HEARING

ORIGINAL

BEFORE: Jim Burg, Chairman
Pam Nelson, Vice-Chairman
Laska Schoenfelder, Commissioner

Ms. Rolayne Ailts Wiest
Public Utilities Commission
500 East Capitol Avenue
Pierre, SD 57501-5070
appearing as Commission counsel

APPEARANCES:

Karen Cremer, Esquire
Public Utilities Commission
500 East Capitol Avenue
Pierre, SD 57501-5070
for PUC staff

Glenn Roth, Esquire
P. O. Box C
Freeman, SD 57029
for Associated Milk Producers, Inc. Pipeline;

Dale L. Strasser, Esquire
P. O. Box 428
Freeman, SD 57029
for the City of Freeman.

Advanced Reporting
P. O. Box 510
Sioux Falls, South Dakota 57101
(605) 332-9050

	INDEX TO WITNESS	
	Witness	Examination
1	HARLAN MAMMEN	
2	Statement by Mr. Mammen.....	5
3	Direct by Mr. Roth.....	7
	Cross by Ms. Cremer.....	10
4	By Chairman Burg.....	11
5	JOHN WINTER	
	Statement by Mr. Winter.....	12
6	Direct by Mr. Roth.....	16
	Cross by Ms. Cremer.....	19
7	By Chairman Burg.....	21, 25
	By Commissioner Nelson.....	21
8	By Commissioner Schoenfelder.....	22
	By Ms. Wiest.....	24
9	By Mr. Knadle.....	26
10	GARY OHARA	
	Statement by Mr. Ohara.....	27
11	Direct by Mr. Roth.....	27, 30
	By Chairman Burg.....	30, 32
12	GREGORY RISLOV	
13	Direct by Ms. Cremer.....	32
	Cross by Mr. Roth.....	36
14	By Chairman Burg.....	38, 40, 44, 48
	By Commissioner Nelson.....	39
15	By Commissioner Schoenfelder.....	40, 48
	By Ms. Wiest.....	42, 47
16	DAVID JACOBSON	
17	Direct by Ms. Cremer.....	50
	Cross by Mr. Roth.....	52
18	By Chairman Burg.....	53
19	Rebuttal:	
	HARLAN MAMMEN	
20	Direct by Mr. Roth.....	55
	By Chairman Burg.....	57
21	By Ms. Wiest.....	58
22	MICHAEL SCHULTZ	
	Direct by Mr. Roth.....	58
23	Cross by Ms. Cremer.....	62
	By Commissioner Schoenfelder.....	62
24	By Commissioner Nelson.....	63
	By Chairman Burg.....	64
25	The original transcript of this proceeding was given to the Public Utilities Commission.	

1 CHAIRMAN BURG: We'll call the meeting to order. I'll
2 begin the hearings for docket NG 97-015 in the matter of
3 the Application of Associated Milk Producers, Incorporated
4 Pipeline, for approval of change in the interstate -- in
5 the intrastate national gas transportation rate.

6 The time is approximately 9:10, and the day is
7 March 30, 1998, and the location of the hearing is the
8 County Commissioners' Meeting Room, second floor, 415
9 North Dakota, Courthouse, Sioux Falls, South Dakota.

10 I am Jim Burg, Commission Chairman. Commissioners
11 Laska Schoenfelder and Pam Nelson are also present. I am
12 presiding over this hearing. The hearing was noticed
13 pursuant to Commission's order for and notice of hearing
14 issued March 17, 1998, and the amended order for and
15 notice of hearing issued March 19, 1998.

16 The issues at this hearing are whether the
17 Commission shall grant AMPIP's request to switch a
18 volumetric rate of .99 cents per the -- let's see, per Mcf
19 and whether the commission shall grant AMPIP's request for
20 waiver of ARSD Rules 20:10:13:04 and 20:10:13:05.

21 All parties have the right to be present and to be
22 represented by an attorney. All persons so testifying
23 shall be sworn in and subject to cross-examination by the
24 parties. The Commission's final decision may be appealed
25 by the parties to the State Circuit Court and the State

1 Supreme Court. Rolayne Wiest will act as commission
2 counsel. She may provide recommended rulings on
3 procedural and evidentiary matters. The Commission may
4 overrule its counsel's preliminary rulings throughout the
5 hearing. If not overruled, the preliminary rulings will
6 become final rulings.

7 At this time I will take the appearances of the
8 parties. I'll turn it over to Rolayne Wiest to conduct
9 the hearing.

10 MS. WIEST: I'll take appearance of the parties. Who is
11 appearing on behalf of the Associated Milk Producers?

12 MR. ROTH: I am. My name is Glenn Roth, attorney from
13 Freeman.

14 MS. WIEST: Thank you. Commission staff?

15 MS. CREMER: Karen Cremer for commission's staff.

16 MS. WIEST: Do any of the parties wish to make an opening
17 statement? Mr. Roth?

18 MR. ROTH: Just briefly. I am going to have two witnesses
19 here today. The first one is going to be Harlan Mammen.
20 He is an assistant manager with AMPI. AMPI Pipeline
21 Company is a subsidiary of AMPI, and he will be giving us
22 testimony first.

23 Then I'm going to have John Winter who is a senior
24 regulatory consultant with Northern States Power out of
25 Minneapolis. He will also be testifying, and their

1 testimony is going to be to inform the commission why the
2 rate should remain at 99 cents per unit.

3 And in a nutshell, ladies and gentlemen, we're
4 proposing that the 99 cent rate be left as is until
5 September 1 of the year 2000 subject to a refund, and
6 that's going to be explained by Mr. Mammen and also
7 Mr. Winter.

8 With that we can begin with our testimony.

9 MS. WIEST: Did you have any opening?

10 MS. CREMER: No, I didn't. Thank you.

11 MR. STRASSER: I would like to note the appearance of Dale
12 Strasser on behalf of the City of Freeman.

13 MS. WIEST: Thank you. You may call your first witness.

14 MR. ROTH: Harlan Mammen.

15 HARLAN MAMMEN,
16 being first duly sworn, was examined and
17 testified as follows:

18 MR. MAMMEN: I am also the president of AMPI Pipeline,
19 Incorporated. AMPI is a dairy cooperative with members in
20 the Midwest in five states. We have 5,000 members in this
21 upper Midwest. AMPI has a predominant share of the milk
22 that is marketed in the state of South Dakota. Our member
23 owners produce over 40 percent of the milk that is
24 produced in the state of South Dakota, and it is marketed
25 through AMPI.

1 AMPI really had no intentions of getting into the
2 gas transportation business. After several years of
3 attempting to get someone to bring gas to our Freeman
4 facility, we decided to pursue bringing the pipeline in
5 ourselves, the 20 miles of pipeline. We believe we had an
6 option to bring in a much smaller line building it out of
7 plastic rather than the four inch steel line. That would
8 have served only our plants, and this would have left the
9 City of Freeman probably without the access to natural gas
10 for any foreseeable time in the future.

11 AMPI went ahead and built the pipelines capable of
12 handling both AMPI's plant in Freeman and the city. It is
13 still our preference that we not be in the natural gas
14 transportation business. Some day it still is our hope
15 that the City takes over the line and operates it. The
16 City would have substantial savings and interest, property
17 taxes and insurance over AMPI's operation.

18 AMPI's interest in this matter is to make sure that
19 we have a rate that's high enough to cover our costs.
20 Most of our members in the state of South Dakota do not
21 have access to natural gas and the savings of natural gas
22 over the options of propane. It is important that we are
23 not subsidizing the businesses and residences of the City
24 of Freeman, and our only interest is to be treated
25 fairly. Thank you.

DIRECT EXAMINATION

BY MR. ROTH:

Q. Mr. Mammen, I have a couple of questions for you. Is this the only pipeline that AMPI owns?

A. This is the only pipeline that AMPI has any ownership in. All of our other plants had access to natural gas in the cities in which we operated prior to the pipeline being built in 1995.

Q. And can you tell us how many dollars are cost savings that you've had with having AMPI hooked up in Freeman with natural gas?

A. In 1996 -- we began operations on the line in late March of 1996 and were able to transport gas across this line during the time which propane was extremely high priced. And in 1996 we had a savings of over \$200,000 in the gas costs.

In 1997 it's been a little bit the other way. Actually, at times we probably could have bought propane this past fall for less money than natural gas. This doesn't happen generally for very long periods of time, and I'm not quite sure exactly what our savings were in 1997.

Q. Can you tell the commission briefly how the pipeline company is doing at the present time? Are more residences and businesses signing up for natural gas in Freeman?

1 A. My actual numbers are through February. I don't
2 have -- through February, the volumes are substantially
3 less flowing across the line than some of the projections
4 that we had made by John Winter. Since that time, I'm
5 not -- have no real knowledge of what it is, but the
6 heating season is practically over.

7 It looks like for 1998 we're going to end up with
8 less volume because the residents haven't been able to
9 hook up as fast as some of the projections that were
10 made.

11 Q. And, Mr. Mammen, could you tell the commission what
12 your proposal is regarding -- maybe I should address this
13 question to Mr. Winter, but you were talking about a
14 refund, refund program in the event that the commission
15 decides to allow us to have the rate at 99 cents to
16 September 1, the year 2000. Could you expand on that,
17 please?

18 A. Mr. Winter will be giving some testimony because he
19 has done the calculations and worked with the state of
20 South Dakota. I'm not that familiar with those
21 calculations.

22 I guess what I am requesting is that there may be
23 some adjustments as far as the calculations. On the other
24 hand, I think there is some less volume that we're going
25 to see, especially in 1998, and what we're requesting is

1 that the 99 cent rate be left in place for the two-year
2 period, and that if the actual costs and actual volumes
3 represent a refund, the refund would be given, and then
4 the new rate would be set starting at September 1, 2000.

5 And AMPI pays at least half of the rate, so half of
6 the difference in the dollar amounts are AMPI's funds in
7 the first place.

8 Q. And you had mentioned in your opening statement or
9 your statement that you would like to sell this pipeline
10 some day eventually to the City of Freeman or someone
11 else?

12 A. That's always been our thoughts is that we're a dairy
13 cooperative. We're not in the gas transportation or gas
14 business, and I think someone else is in a much better
15 position to operate. AMPI Pipeline runs a 20 mile steel
16 pipeline, and that's our only business. I think someone
17 else would be better running that at some point in the
18 future.

19 MR. ROTH: Thank you.

20 MS. WIEST: We have more questions. Ms. Cremer?

21 MR. ROTH: At this time we would offer Mr. Harlan Mammen's
22 testimony into evidence.

23 MS. WIEST: Any objection?

24 MS. CREMER: No.

25 MS. WIEST: If not, it's been admitted. Do you want to

1 offer Exhibit 1 at this time?

2 MR. ROTH: Yes.

3 MS. WIEST: Any objection?

4 MS. CREMER: No objection.

5 MS. WIEST: It's admitted. Ms. Cremer, do you have
6 questions?

7 MS. CREMER: Yes.

8 CROSS-EXAMINATION

9 BY MS. CREMER:

10 Q. In your attorney's opening statement, he had said that
11 the position of AMPI was to leave the rate at 99 cents
12 until September 1, the year 2000, and then you would
13 explain the reasons for that. Do I understand less volume
14 is one reason that you want it left at 99 cents?

15 A. Yes.

16 Q. And is the second reason most of the refund would be
17 AMPI's anyway?

18 A. Probably half of the refund. It's extremely important
19 to us that our members -- it doesn't appear like our
20 members are subsidizing this pipeline.

21 Q. Okay. And are those all of the reasons for leaving it
22 at 99 cents? I just wanted to make sure I had it all.

23 A. That's the main thing, yes.

24 Q. The other question I would have is this 99 cent rate
25 has been in effect subject to refund since October 5 of

1 '97. If the Commission were to order a rate less than
2 that, do you have any idea how that refund would be given
3 back? Would it be credited, or have you thought about
4 that at all, how that would be done?

5 A. Well, I guess we have two customers, our owners, our
6 owning corporation, and the city. And the city would have
7 to decide.

8 Q. That would be up to them to figure out?

9 A. That would be up to them. We only have two customers,
10 basically. It would be rather easy to make a refund.

11 MS. CREMER: All right. That's all of the questions I
12 have.

13 MS. WIEST: Commissioners, any questions?

14 BY CHAIRMAN BURG:

15 Q. I guess the one that occurred to me was you said your
16 interest was that the city buy that. Have you
17 negotiated -- was that part of the discussion up until
18 now, them buying it at this time, and what was the nature?

19 A. We've had those discussions going back to the
20 beginning of the pipeline even before we built it that we
21 had preference that the city own the pipeline. We have
22 sold the portion of the pipeline that comes in from the
23 border station to the city already so that they could use
24 that line and develop their pipeline within the city
25 limits themselves. And the offer, basically, has been on

1 the table all along for them to buy the line.

2 Q. So far they've not been interested in moving in that
3 direction yet?

4 A. That's my understanding.

5 CHAIRMAN BURG: Okay. Nothing else.

6 MS. WIEST: Any other questions? Do you have any
7 redirect?

8 MR. ROTH: No.

9 MS. WIEST: Thank you, Mr. Mammen. You can call your next
10 witness.

11 MR. ROTH: John Winter.

12 JOHN WINTER,
13 being first duly sworn, was examined and
14 testified as follows:

15 MR. WINTER: I have written up a statement here that I
16 will --

17 MS. WIEST: Could you just state your name?

18 MR. WINTER: Yes. I'm sorry. I'm John Winter, employed
19 by Northern States Power Company. And as a service to
20 NSP's Natural Gas Services Division, I'm assisting AMPI
21 with their application for transportation and rate.

22 My exhibits and testimony were prefiled in
23 September of 1997, and those exhibits and testimony
24 support the cost of service that's been submitted in this
25 application in the initial filing, the AMPI Pipeline for

1 deliveries of natural gas to the City of Freeman and to
2 the AMPI processing plant.

3 In the past six months, the City of Freeman has
4 formed a municipal gas utility, and they are presently in
5 the process of converting customers to natural gas as they
6 are agreeing to do that.

7 The City of Freeman has agreed to the proposed
8 rate, and Mayor Michael Schultz filed a statement of
9 concurrence as part of the proposed application in this
10 proceeding.

11 The purpose of my statement today is to address the
12 commission's staff's filed positions in this case. On
13 March 13, staff witnesses Greg Rislov and Dave Jacobson
14 submitted testimony regarding cost of service and the
15 projected sales volumes. And based on Mr. Rislov's
16 analysis, he recommended a rate of 92.9 percent for
17 deliveries.

18 AMPI Pipeline disagrees with part of Mr. Rislov's
19 adjustment; however, we concur with the majority of the
20 adjustments that were proposed in Mr. Rislov's analysis
21 and in Mr. Jacobson's analysis of the estimated sales
22 volume.

23 Regarding the cost of service, Mr. Rislov concluded
24 that the information submitted was reasonable in its
25 entirety with the exception of one modification. He made

1 an adjustment to reset the start period out about 18
2 months recognizing that the plant was placed into service
3 in 1996 and didn't begin delivering gas to the City of
4 Freeman until early 1997. So roughly 18 months set back
5 of the start date, and in doing so he also incorporated a
6 correction to my prefile cost of service which reset the
7 period of time to 45 years which was initially filed as 46
8 years, and that effectively is an adjustment we accept.

9 Mr. Rislov determined the cost of materials at
10 199,112 as opposed to the filed or requested amount of
11 211,897. That information is in prefiled testimony and in
12 staff's submittals.

13 As I mentioned, I disagree with Mr. Rislov's
14 adjustment to begin the calculation 18 months out in time
15 especially with -- the pipeline serving the City of
16 Freeman is for all intents and purposes a new facility,
17 and there really hasn't been any appreciable decline in
18 its ability to provide service to the City of Freeman.
19 It's essentially an investment. We disagree with that
20 portion of his recommendation.

21 However, we accept that portion of his
22 recommendation which does correct the prefiled information
23 that I submitted. Essentially, with the correction in
24 place, the rate would have been 94.5 cents instead of 99
25 cents, and that compares with like 2.9 the staff

1 recommended based upon Mr. Rislov's calculations and
2 Mr. Jacobson's analysis of the sale of volumes.

3 Regarding Mr. Jacobson's analysis of the sales
4 volumes, we did an extensive review, met with the City of
5 Freeman, the officials of the City of Freeman, and
6 concluded that the initial estimates were reasonable
7 although there had been several shifts in hookups between
8 various customers and the timing involved. However, that
9 the 214,000 -- and he made a minor adjustment to 215,000
10 Mcf was reasonable, and that's consistent with AMPI
11 Pipeline's initial volume estimate of 214,000 even.

12 In conclusion, as I said, AMPI Pipeline concurs
13 with most of staff's recommendations. However, we
14 disagree with the portion that sets the date back 18
15 months approximately. We accept the correction that
16 Mr. Rislov proposed in his adjustment, and we accept
17 Mr. Jacobson's recommended sales volumes.

18 Now, the issue we really have is that the sales
19 volumes simply haven't materialized in the short run and
20 hence the justification for AMPI Pipeline's request to
21 leave the rate at 99 cents per Mcf for the time being
22 subject to refund and review of the two years 1998, 1999
23 based on actual data which would be submitted by about mid
24 year of 2000. And any adjustments, refunds and rate
25 corrections going forward would be made by September 1 of

1 the year 2000.

2 This would keep AMPI whole and at the same time
3 treat the City of Freeman and its customers fairly by
4 promising to make any adjustments necessary at that time.

5 I'll conclude by saying AMPI Pipeline is a cost
6 only business. There is no equity in its investment.
7 It's all debt. There is no margin, per se, only the
8 amount of margin that's there to cover debt service.
9 There is no -- it's essentially a non-profit organization,
10 and thus it's further justification for being treated
11 fairly and being treated fairly in the sense that debt
12 service does need to be covered and not have other
13 customers of AMPI, its milk producers, subsidizing gas to
14 the City of Freeman. That's all I have.

15 DIRECT EXAMINATION

16 BY MR. ROTH:

17 Q. Mr. Winter, could you give us -- based on your
18 knowledge and experience, is it a common practice for a
19 refund to occur after there has been established costs
20 over a period of time?

21 A. Yes, it is quite commonplace especially in the natural
22 gas business where there are PGA trueups, purchased gas
23 adjustment trueups, and mechanisms to allow for changes in
24 sales volumes and the gas cost itself.

25 In this case we would not be dealing with gas

1 costs, just dealing with the volumes being transmitted
2 over the pipeline. But it's very commonplace in this
3 industry, yes.

4 Q. And do you have a proposal of how the rate or refund
5 is given back to the customer? Is there any guideline on
6 that?

7 A. I would have to -- two parts of this to answer this
8 question.

9 First of all, Mr. Mammen is correct in that a
10 refund, if any, given to the City of Freeman would be
11 redistributed by its municipal gas utilities. So there is
12 no direct implication for AMPI Pipeline in the way that
13 refunds might be handled should there be one justified.

14 Going back to the process to arrive at that, what
15 we're proposing is consistent with Mr. Rislov's
16 recommendation. We would propose a come back with two
17 years of actual data by about mid year 2000 and present
18 this actual data.

19 My recommendation is for two years because I think
20 the first year of 1998 would simply be -- well, it's
21 behind us. Mr. Mammen indicated and we know that volumes
22 weren't there in '98, and we would be providing
23 insufficient data. I think I'm just using the one year.
24 By going out another year, we would be more likely to pick
25 up a more normalized situation in terms of sales volumes

1 and costs.

2 So if we could provide two years of actual data and
3 demonstrate whether or not the pipeline earned its full
4 debt service cost of 9 percent or whether they didn't, and
5 then any difference in terms of an overearning would be
6 refunded, and the rate would be adjusted on a perspective
7 basis going forward. Any undercollections would be at the
8 risk of the pipeline company.

9 Q. And the 99 cent rate proposed in your opinion -- and
10 could you give us more detail as to why you think it's a
11 fair and reasonable rate based on your experience?

12 A. I have acknowledged the fact that purely based on the
13 cost dollars and the sales volume dollars that are
14 estimated, that rate is not justified as I've indicated
15 earlier and should be 94.5 cents.

16 However, going forward, the realities are that the
17 sales volumes simply haven't materialized, aren't there,
18 and therefore, there is a shortfall in earnings. I can't
19 give you the amount of that shortfall as I stand here
20 today, but I can certainly intuitively say to you -- and I
21 think we can support it with facts, if necessary -- that
22 there has been a shortfall in the revenues because the
23 volumes simply haven't been there.

24 There has been several services run within the City
25 of Freeman. However, actual conversions of the customers'

1 appliances to natural gas have lagged behind the
2 projections. And, of course, there has been the element
3 of weather. It's been a mild winter throughout the upper
4 Midwest, and there is no doubt weather has made a major
5 impact on sales volume as well.

6 However, we do recognize weather is a risk that any
7 utility company, gas or electric, incurs on an operating
8 basis.

9 MR. ROTH: At this time I would offer Mr. Winter's
10 testimony.

11 MS. WIEST: Any objection to Exhibit 3?

12 MS. CREMER: No, there isn't.

13 MS. WIEST: If not, it's been admitted. Ms. Cremer?

14 CROSS-EXAMINATION

15 BY MS. CREMER:

16 Q. Mr. Winter, then if I understand the difference
17 between your levelized cost of service and staff's would
18 be the adjustment of the start date?

19 A. That's correct. That and the fact that Mr. Rislov did
20 pinpoint a correction that was inquired of on my original
21 prefile by resetting the original start date to Period 1
22 versus Period 0, which I agreed is a correction that
23 should have been done, made in the front end and was made
24 within his adjustment. And I concur with that.

25 Q. Between the 94.5, though, and the 92 -- well, the 93

1 cent rate?

2 A. Correct.

3 Q. Penny and a half we're talking here, that would be
4 that 18-month start date; is that right?

5 A. Yes, that's correct.

6 Q. Do you know the date that the pipeline began flowing
7 gas?

8 A. I don't have the exact date. I know that during the
9 fall of last year, '97, they were rushing to get the
10 pipeline in place and get the -- some of the metering in
11 and the other equipment in place so they could begin
12 serving gas.

13 There were customers in Freeman who, as I
14 understand it, were not -- were without heat for a short
15 period of time there in the fall during the more milder
16 months, and I know there was a big rush to get it into
17 place. I don't know the exact date that it began flowing
18 gas to the City of Freeman.

19 To the AMPI plant, it was back in, I believe, early
20 '96, if I'm not mistaken. February 14, 1996.

21 MR. MAMMEN: We didn't burn gas until March.

22 MS. WIEST: I'm sorry. He can only --

23 Q. (BY MS. CREMER) So approximately February or March of
24 '96?

25 A. That's correct.

1 Q. Was when it began flowing?

2 A. That's my understanding, yes.

3 MS. CREMER: That's all of the questions I have.

4 MS. WIEST: Commission?

5 BY CHAIRMAN BURG:

6 Q. The one I have is, is this rate that's being proposed
7 intended to be cost only indefinitely? In other words,
8 frankly that the transportation they're going to offer to
9 the City of Freeman will be at cost and will not be a
10 profit making enterprise for AMPI?

11 A. That's my understanding. Certainly on an annual basis
12 there are changes in sales volumes and other effects, but
13 there is no expense in this particular on the cost based.
14 Because it is a fully dead funded organization, it's
15 simply all cost. There is no margin included in that
16 calculation.

17 BY COMMISSIONER NELSON:

18 Q. What was your rationale again for not adjusting the
19 date 18 months back like Mr. Rislov wanted?

20 A. My suggestion there is that the pipeline, although,
21 yes, there was a period of time when the pipeline just
22 served the AMPI plant, essentially it's a brand new
23 facility. There has been no wear and tear, no real
24 degradation in the ability of that facility to provide
25 service over that period of time. It's essentially a

1 brand new facility serving the City of Freeman.

2 COMMISSIONER NELSON: Thank you.

3 BY COMMISSIONER SCHOENFELDER:

4 Q. I believe that you said that the sales volumes have
5 not occurred as projected. Who made those projections?

6 A. Actually, the projections were done on a collaborative
7 basis between the City of Freeman and Natural Gas
8 Services, a division of NSP Natural Gas.

9 Q. So whose expertise was used? Someone must have some
10 background and expertise in doing projections. Who was
11 that?

12 A. I'm not certain who the individual was specifically,
13 but it would have been people involved in the gas
14 utilities for NSP and the City of Freeman.

15 Q. Why were not the projections met, or what was faulty
16 in the projection of volumes?

17 A. Well, my understanding is that you make assumptions
18 and estimates based on history of conversions in other
19 towns and other situations that are consistent with this,
20 and you do your best job of estimating how many people
21 will convert, how many appliances will be converted, the
22 use per customer, the number of months, and so forth
23 involved in the process, and you try to come up with a
24 number that's both -- especially in a startup organization
25 like this that is both cognizant that it is a ramping up

1 of volumes and cognizant of the fact you reach that
2 saturation level that will be fairly stable based upon
3 customer use and number of customers that may be added to
4 the system over time.

5 So it's a -- there is no question there is a fair
6 amount of judgment involved in making those estimates, and
7 it's based largely on historical experience. The facts
8 are, though, that folks make decisions based on their own
9 values and their own interests and their own calculations,
10 and they may or may not choose to convert to natural gas
11 at the same rate that we would hope they would.

12 Q. Was part of that -- if I understood you correctly,
13 part of that might have been based on the cost of propane?

14 A. Certainly there is an element of cost. Alternative
15 fuel has definitely had an impact. A customer may see a
16 price of propane dropping as Mr. Mammen indicated it did
17 in '97 and choose to delay converting. They may have the
18 service run to their home -- and many customers have had
19 that done -- but then just not choose to spend the extra
20 money to have their appliances converted over to natural
21 gas or delay it a year or two or whatever would make sense
22 for that personal experience.

23 Q. Would you say the evaluation process, though, was more
24 scientific than driving up and down and figuring out how
25 many propane tanks there were?

1 A. It was far more scientific than that. There is a
2 substantial amount of quantitative information supporting
3 those volumes. Mr. Jacobson's was also a quite detailed
4 and involved approach.

5 COMMISSIONER SCHOENFELDER: Thank you.

6 MS. WIEST: Any other questions from the commissioners?

7 BY MS. WIEST:

8 Q. If a refund is necessary, do you propose charging or
9 paying interest on that refund?

10 A. We haven't specifically proposed that. I guess I
11 would have to turn that over to Mr. Mammen and have him
12 address that particular question. We haven't addressed
13 whether or not we would pay interest on that.

14 In light of the fact this is essentially a non-
15 profit organization, i.e., a subsidiary cooperative, I
16 would propose, in my opinion anyway, that the interest not
17 be paid. However, that is something that we could discuss
18 further.

19 Q. And on Mr. Jacobson's testimony, he made reference to
20 recommended changes to the tariff and said that you had
21 said that there was no major problems with the adjustment
22 changes. Have you agreed to all of the recommended
23 tariffs?

24 A. Yes, we have, and based on the Commission's final
25 order, we will submit a compliance filing that will have

1 an amended tariff incorporating Mr. Jacobson's changes and
2 also any changes in the rate and supported calculations
3 that are ordered by the Commission's order.

4 MS. WIEST: Thank you. Any other questions?

5 BY CHAIRMAN BURG:

6 Q. Yes, another one occurred to me. Am I recollecting
7 right that NSP actually built the pipeline?

8 A. That's correct.

9 Q. They were contracted to do the construction?

10 A. Yes.

11 Q. What will be NSP's ongoing involvement?

12 A. My understanding is there is an operating agreement in
13 place that NSP has to operate and maintain the pipeline.

14 Operating and maintenance includes monitoring, checking
15 readings, doing maintenance on the line from time to time
16 and other activities that perhaps Mr. Ohara could address
17 further as a representative of NSP.

18 CHAIRMAN BURG: Is Mr. Ohara going to be a witness?

19 MR. ROTH: I think maybe he will.

20 BY COMMISSIONER BURG:

21 Q. The other questioning on that, does NSP have any
22 function in the gas purchase or marketing in any way?

23 A. A subsidiary of NSP, I believe, is involved in the
24 procurement of the gas itself. I'm not familiar with that
25 arrangement or how that is actually done. The City of

1 Freeman is free to choose any supplier or broker to
2 purchase its natural gas supplies. However, it's a
3 competitive market, and I believe at this time we are
4 involved in that, a subsidiary of NSP is. However, I'm
5 not familiar with the details.

6 Q. But AMPI could also purchase its gas, and they could
7 use a different purchase method than the City of Freeman?

8 A. That's my understanding, yes.

9 CHAIRMAN BURG: That answers what I have.

10 MS. WIEST: Any redirect?

11 MR. ROTH: No.

12 BY MR. KNADLE:

13 Q. Are you going to provide a revised exhibit for the
14 expansion in your rebuttal testimony?

15 A. I could certainly do that. I would prefer to provide
16 any additional supporting calculations or revised
17 calculations per the Commission's final order in the case,
18 but I can certainly provide that additional calculation.

19 MR. KNADLE: Thank you.

20 MS. WIEST: Anything further from this witness? If not,
21 thank you. You can call your next witness.

22 MR. ROTH: Gary Ohara.
23
24
25

1 GARY OHARA,
2 being first duly sworn, was examined and
3 testified as follows:
4 MR. OHARA: My name is Gary Ohara, and I'm manager of the
5 new business development for Northern States Power Gas and
6 general manager of Natural Gas Services, a division of
7 NSP, and have been working with the Associated Milk
8 Producers and the City of Freeman.
9 MS. WIEST: Do you have any questions?
10 DIRECT EXAMINATION
11 BY MR. ROTH:
12 Q. I think the Commission had some questions about your
13 involvement and your calculations that you have come up
14 with. Can you give the Commission a synopsis of the
15 concerns, some of the questions they had raised? And just
16 go ahead.
17 A. Our sales projections and usage projections were based
18 on actually presales of the community. We conducted
19 door-to-door presales and actually had contracts in hand
20 as we developed those projections. And we have met -- on
21 behalf of the City, we have met those sales projections,
22 although John mentioned there are a number of customers --
23 I think somewhere around 90 customers who have signed up
24 for gas and service has been run to their homes or
25 businesses and they just haven't converted yet. And

1 that's a function of a couple things.

2 John mentioned the economics that each individual
3 faces when making those economic decisions in doing the
4 conversions as well as the folks -- the businesses in town
5 that have been actually doing physical conversions have
6 had all they can do to keep up with getting the work
7 done. And that's not untypical of what you might
8 experience.

9 Although, I can say that the conversions have gone
10 slower in Freeman than we would have projected, as well as
11 the fact that there are a couple big users that haven't
12 converted yet. They fully intend to and have stated their
13 interest, but they haven't come on line yet. We expect
14 them to come on line in 1998. The weather, of course, is
15 a factor. The winter has been warmer than normal, and the
16 drying season in the calculations, the dryer operations in
17 the community were factored into the projections, and
18 those were very low last fall.

19 The amount of revenue generated from last year's
20 drying season was less than projected, but again we
21 believe that if you look at a two year representative
22 sampling of usage, that our projections will be there
23 within the time frame of the two years that they're asking
24 for.

25 MS. WIEST: Any other questions?

- 1 Q. (BY MR. ROTH) Yes. Who are those big users you
2 anticipate coming on?
- 3 A. The high school and the hospital.
- 4 Q. And they are still on propane; is that my
5 understanding?
- 6 A. Yes, that's correct.
- 7 Q. Have they gave any indication -- are they hooked up
8 to -- with the gas hookups?
- 9 A. I can't recall whether the services have been run yet,
10 but yes, they have agreed to take service. And it's just
11 a -- in the case of the high school, it's a function of
12 budgeting for the conversion, and they are scheduled to
13 come on line in 1998.
- 14 Q. And, Mr. Ohara, could you just give your opinion as to
15 why you believe the 99 cent rate per unit is reasonable?
- 16 A. Well, again, the fact that the sales projections are
17 less than anticipated in the near term and the fact that
18 the pipeline has been operated to just recover costs, we
19 believe that the 99 cents would help them make it through
20 this near term period where customers are just coming on
21 line.
- 22 MR. ROTH: No further questions.
- 23 MS. WIEST: Ms. Cremer?
- 24 MS. CREMER: I have none. Thank you.
- 25 MS. WIEST: Commissioners?

1 BY CHAIRMAN BURG:

2 Q. What would be your recommendation since it is just --
3 it was calculated just to recover costs? And let's just
4 say over a long term period it's not doing that. What
5 would be your recommendation as an advisor to AMPI? Would
6 they come in for a rate adjustment based on that?

7 A. We would recommend that, although I really truly
8 believe that the sales projections are going to be there.
9 Freeman is a progressive community. There are a fair
10 amount of furnaces left in that community that are very,
11 very old. As those furnaces need to be replaced, folks
12 will go to natural gas. We believe that the projections
13 are realistic and over time that the pipeline will be
14 funded through this rate.

15 But to answer your question, if it did fall short,
16 they should bring that to the Commission.

17 MS. WIEST: Any other questions from the commissioners?
18 Any redirect?

19 REDIRECT EXAMINATION

20 BY MR. ROTH:

21 Q. That just prompts a question. After the pipeline
22 people started putting in the pipeline in the City of
23 Freeman, was there a considerable amount of signups after
24 people saw that the pipeline was coming in?

25 A. Yes, there was. That's typical, and we had forecasted

1 that in our projections that you always -- there is a
2 certain amount of sales that you get when you take your
3 first cast through the community. But as the project
4 begins and as pipelines are installed within the
5 community, folks do -- once they think about it and see
6 it's reality, they do sign up. But again, those were in
7 our projections. Based on our experience, we fully
8 expected that to happen, and that, in fact, is what
9 happened.

10 MR. ROTH: Thank you.

11 A. If you wouldn't mind, I would like to clarify a
12 previously asked question in regard to the supply.

13 MS. WIEST: Go ahead.

14 A. Northern States Power -- Natural Gas Services, a
15 division of Northern States Power, in their agreement with
16 the City is to arrange for the -- arrange for supply on
17 their behalf. We do not -- we are not in the business of
18 conducting supply transactions with the city. So our job
19 is to go out and work with our marketers and suppliers and
20 find the best possible deal we can for the community. And
21 that's our interest.

22 We also have a contract with the community to do
23 annual operations and maintenance and the supply and
24 management, the control side of the business for them.
25 And we have been working with them to train local

1 technicians in the community to do the day-to-day
2 operations.

3 We are paid an annual fee for these services, and
4 there is no mechanism for us to make profit on the supply
5 transactions. So our interest is to find the best
6 possible supply deal for the city.

7 BY CHAIRMAN BURG:

8 Q. You're doing that for the city. Are you also doing
9 that for AMPI?

10 A. No, we are not doing it for AMPI.

11 MS. WIEST: Any other questions of this witness? Thank
12 you. Do you have any other witnesses?

13 MR. ROTH: No.

14 MS. WIEST: Ms. Cremer?

15 MS. CREMER: Thank you. Staff would call Greg Rislov.

16 GREGORY RISLOV,
17 being first duly sworn, was examined and
18 testified as follows:

19 DIRECT EXAMINATION

20 BY MS. CREMER:

21 Q. Would you state your name for the record, please?

22 A. My name is Gregory A. Rislov.

23 Q. And could you give your business address?

24 A. My business address is Public Utilities Commission,
25 500 East Capitol, Pierre, South Dakota 57051.

1 Q. Are you familiar -- or could you explain to us who you
2 work for and what your job entails?

3 A. I'm employed by the Public Utilities Commission of the
4 State of South Dakota. My duties entail reviewing cost of
5 service for various utility companies as well as other
6 work related to cost of service for public utilities
7 regulated by the commission.

8 Q. And are you familiar with the PUC docket NG 97-015?

9 A. Yes. The docket we have before us.

10 Q. Right. Before you is what's been marked as
11 Exhibit 4. Can you identify that, please?

12 A. Yes, that's my testimony and related exhibits which
13 were filed in this docket.

14 Q. Do you have any changes, corrections, or modifications
15 to that testimony?

16 A. No, I don't.

17 Q. Would you summarize your testimony, please?

18 A. My testimony was designed to review the cost of
19 service portion of the filing made by AMPI for
20 transportation rate. And what I have done is gone through
21 their filed cost of service as well as their computation
22 of the 45-year levelized rate, and I have developed a
23 recommendation on behalf of staff.

24 Q. And what is your recommendation to the Commission?

25 A. I have two recommendations. The first is that the

1 levelized cost of service should be \$199,112.

2 The second is that in a period of time, whether it
3 be one year or two years down the road, we should again
4 review this cost of service filing simply because we are
5 dealing with -- well, on an entire basis estimate of the
6 cost of service at this point.

7 Q. The \$199,112, is that a rate Mr. Winter agreed with?

8 A. No, he has not. That was a change from his filed
9 rate, and this morning he has suggested a cost of service
10 which would yield a higher levelized rate than mine. I
11 know his levelized cost of service yielded, I believe, a
12 94.5 percent rate. Mine would be less than that.

13 Q. You haven't seen any work papers from Mr. Winter on
14 the 94.5 rate; is that correct?

15 A. No.

16 Q. How does the public interest factor into your
17 recommendation?

18 A. I'm trying to develop a cost of service that fairly
19 depicts on an economical basis what rate the City of
20 Freeman should pay AMPI for transportation services for
21 natural gas. I believe my cost of service represents a
22 good faith attempt to do that and an accurate attempt.

23 Q. Do you believe that the public will see an energy cost
24 savings? Would that be a part of the public factor?

25 A. Well, Freeman residents have been using fuel other

1 than natural gas for as long as they've been heating their
2 homes up until this period of time. So there is a
3 competitive element to it.

4 But none the less, there is a cost of providing
5 that service, and I believe the cost of service fairly
6 depicts that. They have to make a choice whether or not
7 they choose to use natural gas or continue to use propane
8 and fuel oil or electricity, whatever the case may be.

9 Q. Do you have an opinion as to whether or not interest
10 should be paid if a refund is ordered by the Commission?
11 If the rate that went in in October was subject to refund,
12 do you have an opinion as to whether or not interest
13 should be paid, keeping in mind, as Mr. Winter pointed
14 out, they are basically a not-for-profit organization?

15 A. I believe we heard from Mr. Mammen and Mr. Winter on
16 behalf of AMPI this morning that the deal was for AMPI to
17 recover its costs, not necessarily to make a profit. To
18 the extent that there is perhaps more money generated than
19 what this proceeding would develop, I think the whole idea
20 should be that interest should be paid.

21 MS. CREMER: That's all of the questions I would have.

22 MS. WIEST: Any cross?

23 MS. CREMER: Oh, excuse me. I would offer Mr. Rislov's
24 testimony.

25 MS. WIEST: Any objection to Exhibit 4?

1 MR. ROTH: No, Your Honor.

2 MS. WIEST: If not, it's admitted.

3 CROSS-EXAMINATION

4 BY MR. ROTH:

5 Q. Mr. Rislov, the proposal that AMPI has given to the
6 Commission here at 99 cents per unit, do you find that to
7 be a reasonable proposal assuming that they're going to
8 give a refund with interest after -- up until or past
9 September 1, the year 2000?

10 A. I've not had a lot of time, obviously, to dwell on
11 this proposal. What we're trying to do here is I think
12 develop a rate that fairly compensates AMPI and the other
13 time represents a fair rate for Freeman to pay for that
14 transportation.

15 Now, my cost of service based on staff witness
16 Jacobson's recommended sales estimate yields a 92.95 rate,
17 I believe. So while there may be an element of fairness
18 to looking at a trueup down the road on a 99-cent rate, I
19 believe our rate is perhaps the more -- or excuse me, the
20 better alternative, the fairer rate at this point,
21 although Mr. Jacobson gets into sales. I think really
22 that's what we're talking about rather than cost of
23 service.

24 Q. Would you feel that the difference in the rate between
25 yours and the 99 cents -- let's call it a cushion, so to

1 speak, again, assume that there is going to be a rate
2 adjustment after September 1, 2000 -- is reasonable? Do
3 you think that would be -- would that be a fair statement?
4 A. Again, I've not had time to look at it in any detail.
5 I believe what you would need to look at is the revenue
6 generated between the 99 and the 92.95 that Mr. Jacobson
7 developed and what dollar amount that would represent.

8 I forget. I believe there was some preliminary
9 calculations done last week, but subject to check, I
10 believe the dollar amount was roughly around \$6,000, and I
11 believe AMPI sales were over 60 percent of the total
12 throughput -- or excuse me, AMPI's throughput is over 60
13 percent of the total throughput. I don't know what we're
14 talking about in dollars here exactly until I've had time
15 to look at Mr. Winter's cost of service recommendation.

16 My point is, is that I don't know how material
17 these dollars are going to be. If they're going to be
18 2,000 or 3,000 when it's all said and done, the difference
19 between the two rates.

20 Q. Mr. Rislov, AS AMPI's proposal for filing accurate
21 numbers in the year 2000, would you feel that that --
22 would you go along with the recommendation to do that?

23 A. Yes. I've made a recommendation myself for a trueup.
24 I again point out, though, my recommendation would go
25 toward cost of service, the expense side, the investment

1 side. There is also a sales element related to the rate
2 that my recommendation would capture somewhat, but that's
3 really not what I am trying to do. I'm trying to look at
4 the cost side.

5 MR. ROTH: I have no further questions.

6 MS. WIEST: Commission?

7 BY CHAIRMAN BURG:

8 Q. Would it be accurate to say what they're requesting
9 today as somewhat of a change would be a historical test
10 year as opposed to what has been proposed as a test year?

11 A. That's accurate.

12 Q. And if their concerns materialize and there were a
13 loss here, would it be fair to allow the recovery of that
14 loss if we did not accept the 99 cents they're requesting
15 and basically using a historical test year?

16 A. I may be getting into witness Jacobson's territory,
17 but I'll attempt to make an answer. Because we're talking
18 about such a short period of time with no experience and
19 because sales are so dependent on weather patterns, I
20 think the whole idea behind this is to develop a fair
21 rate, but we're not sure even in the next two years if the
22 weather is going to be colder than normal or warmer than
23 normal.

24 So as far as the total effect, I would have a
25 better idea as far as cost, but the sales themselves may

1 still not be perfect after one or two years.
2 Q. I guess what I'm more looking at, given the nature of
3 this whole operation, is it essential that they recover
4 their costs, or should the company be required to eat some
5 costs if they haven't calculated accurately? That's more
6 of a philosophical policy.

7 A. AMPI is asking for a 9 percent return on debt costs.
8 They are getting no equity return on this entire
9 operation. So while normally we look at a certain amount
10 of risk for a utility company, in this case I think the
11 circumstances are somewhat different than they are in the
12 normal utility case simply because there is almost a --
13 one could term a cap on the high end as far as how well
14 they could do. And because of that I believe the risks
15 dictate that maybe we could take a more conservative
16 approach to developing this rate than we would perhaps
17 with another utility rate case.

18 MS. WIEST: Any other questions?

19 BY COMMISSIONER NELSON:

20 Q. I have a question. Is your idea of a more
21 conservative approach that maybe you would be more
22 flexible in the 99?

23 A. I think there would be good reason to look at what
24 they've suggested as far as capping in 99 and possibly
25 refunding. Two reasons again. They're really not

1 providing themselves any equity return in the first case.
2 And the second, we're developing this on the basis of
3 estimates and almost in the entirety. So there is more
4 than a little bit of uncertainty at this point.

5 COMMISSIONER NELSON: Thanks, Greg. I wanted to make sure
6 I was thinking like you were.

7 BY COMMISSIONER SCHOENFELDER:

8 Q. The 9 percent on the debt service, it's an absolute
9 rate, not a variable rate, if I remember right? Is that
10 right?

11 A. It's absolute. It's been plugged in for the entire
12 45-year levelized cost of service.

13 COMMISSIONER SCHOENFELDER: Thank you.

14 BY CHAIRMAN BURG:

15 Q. What does the 9 percent constitute? Could that be
16 considered a profit if the usages were where they
17 anticipated?

18 A. I'll try to explain maybe a little better on what I
19 have. The company is not inputting any equity into the
20 cap structure. It's all debt return. However, if sales
21 are greater than what we input into the rate, they will
22 make money because they will exceed the recovery built in
23 on a per rate basis.

24 In other words, if we forecast 214,000 Mcf sales,
25 which we have, and sales eventuate to 240,000, they will

1 make money on the difference between the 214,000 and the
2 240,000 assuming cost of service remains the same. If it
3 falls below 214, at that point they would lose money if we
4 based sales on 214,000 and the cost of service remains the
5 same.

6 But nothing is going to remain static. The cost of
7 service will be different from the input, and the sales
8 won't fall right on 214. So depending on the interplay of
9 sales and cost of service, yes, they could make money.
10 But in most cases it's built into the rate right at the
11 outset where in this case it's not. So there is a
12 difference. There is still an opportunity for them to
13 make money, but it's not as large an opportunity as we
14 normally see.

15 Q. And I believe in your recommendation there is a
16 recommendation for a trueup in two years or review in two
17 years or whatever. How would that affect everything we've
18 been talking about?

19 A. My recommendation for review in two years would not --
20 or did not entail a trueup. It's just that it recognizes
21 what we're doing now is estimated with regard to the sales
22 and cost of service, and because this is a 45-year rate, I
23 think it's necessary we do our best to try to perfect this
24 if possible.

25 Q. Would it be accurate then to say you're asking for a

1 review in two years. They're asking for allowing the rate
2 to continue for two years and then do an adjustment based
3 on what happened then. Are we talking about close to the
4 same thing?

5 A. I believe the September 1, 2000 date would fit with
6 what I've requested, you're right, but I have not
7 recommended going back and refunding if the cost of
8 service was less than the 99 cents as I believe they have
9 this morning.

10 Q. Yes. But of course you're also recommending that it
11 be at the 92.95?

12 A. Approximately 93 cents, yes.

13 CHAIRMAN BURG: Thank you.

14 BY MS. WIEST:

15 Q. What would that review involve, and what could be a
16 possible outcome of that review?

17 A. It would involve looking at the actual cost of
18 service. I believe at that point it would be for calendar
19 year 1999.

20 Q. And you actually said two different years, either 1999
21 or 2000. Do you have a preference?

22 A. If the Commission decides to go with a 99 cent rate
23 and refund, I believe that it changes my date somewhat.

24 But again, because the recommendation was made this
25 morning -- I'm not going to state this for sure, but the

1 whole concern over one year is that calendar year 1998,
2 which would be the review year after one year, still will
3 not be an ongoing, normal year. 1999, I think, will more
4 closely reflect ongoing operation.

5 The reason I recommended potentially after one year
6 is that things could change enough from the estimates
7 through 1998 that we would want to make that adjustment
8 sooner rather than wait for two years.

9 Q. So would the review be more of an informal review to
10 look over the numbers and then recommend to the Commission
11 whether it should be docketed, or would it be a normal
12 docket within the two years?

13 A. My original thought was more of an informal review,
14 and then if it showed the deviation was wide enough that
15 we should proceed to a docket to establish a more accurate
16 rate.

17 Q. And you have recommended that any refund be with
18 interest; is that correct?

19 A. Yes.

20 Q. Do you have a rate for that interest?

21 A. No. The idea was just brought up this morning, so
22 I've not --

23 Q. Well, even when the rate went into effect in October,
24 it did say that it would be subject to a refund, and so
25 you don't have any idea as to what an interest rate should

- 1 be on any type?
- 2 A. I have an opinion. The 9 percent reflected in the
- 3 company's debt cost would be to me an obvious rate.
- 4 Q. And do you have any objection to their requesting
- 5 waiver of certain rules 20:10:13:04 and 20:10:13:05?
- 6 A. Those relate to the filed rates, and because whatever
- 7 we do at this hearing will not result in filed rates, they
- 8 will have to be filed after the hearing and subsequently
- 9 approved by the Commission. I would recommend we wait
- 10 until that point, but I'm really stepping out of my area
- 11 because Mr. Jacobson is testifying on tariff matters.
- 12 MS. WIEST: I'll ask him. Any other questions?
- 13 BY CHAIRMAN BURG:
- 14 Q. This generates one more. If I understand right, the
- 15 pipeline was built for the service of AMPI's plant in
- 16 Freeman?
- 17 A. Initially, that's correct.
- 18 Q. They're now offering to allow transport of gas through
- 19 that pipeline to serve the City of Freeman?
- 20 A. Correct.
- 21 Q. If they were losing money on this process, is there
- 22 anything to prevent them from discontinuing that
- 23 allowance?
- 24 A. Discontinuing?
- 25 Q. Of the service to Freeman. Or is there anyway they

1 actually lose money on the transport?

2 A. Well, Mr. Mammen testified, I believe, if I heard
3 correctly this morning, that they may have saved
4 approximately 200,000 in 1996 even without the City of
5 Freeman.

6 Q. Right.

7 A. Certainly if the City of Freeman left the system, that
8 would result in more cost be borne by AMPI. So it would
9 make to me no sense for them to -- even if the City of
10 Freeman is not paying what they would like on a
11 proportionate basis, it would make no sense for them to
12 stop deliveries to the City of Freeman. They would have
13 to bear the entire cost of the pipeline.

14 I think I mentioned before that the difference
15 between the 99 and the 93 is, I believe, only around
16 \$6,000 to \$7,000 a year total. Again, because I just
17 heard it this morning, these are all subject to further
18 check. But AMPI uses over 60 percent of the throughput of
19 that line. So if it's \$6,000, they use over 60 percent,
20 we may be only talking about \$2,000 or \$3,000 a year that
21 would be payable by the City of Freeman for the difference
22 between 93 cents and 99 cents. Am I clear? I don't think
23 there is a lot of money at stake.

24 Q. Yes, and then Mr. Mammen also indicated he thought it
25 was very important that AMPI customers, consumers or co-op

1 members, not subsidize Freeman. Would you classify this
2 as a subsidy or just less recovery of some of their
3 costs? I guess your reaction to that statement?

4 A. Based on the way this was financed, it would be a
5 little of both, I would say, because there is not the same
6 profit built into the rates initially. But because they
7 can, indeed, profit if sales are greater than what are
8 forecast, I think it would work a little of both. I think
9 there would be an element of subsidy as well as profit or
10 loss of profit.

11 Q. But if the additional gas being put through reduces
12 the cost to AMPI regardless of how small that is, is there
13 any real way they could be subsidizing?

14 A. If more gas was put through the line than what's
15 forecast, no, no one would be subsidizing.

16 Q. But if there is more gas put through the line than
17 what the AMPI plant uses, anything they get out of that
18 gas is a reduction of cost for their gas; would that be
19 accurate?

20 A. Yes.

21 Q. Is there any way there could be a subsidy to Freeman?

22 A. In that sense, no. I would like to correct one
23 thing. We are talking about a 99-cent rate, if I could go
24 back, and the throughput is 200,000, so we should be
25 talking roughly 6,000 per -- let me correct this. I

1 believe theirs would be about 12,000 a year rather than
2 6,000.

3 Q. Dollars?

4 A. Rule of thumb, it's 99 cents based on their filed rate
5 per Mcf. Our case came in at 93. We're talking 214,000
6 Mcf. The difference between 99 and 93 is 6 cents. The
7 difference would be about \$6,000 per every 100,000 of
8 throughput. Or the total difference between the 99 and
9 93 -- and again, this is off the cuff -- I believe it
10 would be closer to 12,000, little over that. Double all
11 of those numbers I gave you before.

12 Q. Excuse me. From what we've heard so far, 60 percent
13 of that would be AMPI's usage anyway?

14 A. That's right.

15 BY MS. WIEST:

16 Q. Could you explain further your adjustment concerning
17 the start time at 18 months that I believe Mr. Winter
18 disagrees with?

19 A. Pardon?

20 Q. The 18 months that Mr. Winter apparently disagrees
21 with with respect to a start time --

22 A. Our standard for determining a rate base is original
23 cost less depreciation. Because the startup date, I
24 believe they testified this morning, was March of 1996, I
25 believe that's the date where they would have begun using

1 and depreciating that plant. I believe it's a standard I
2 have to go by.

3 Q. So you don't see how you could treat this as a new
4 facility as Mr. Winter, I believe, suggested?

5 A. Well, I believe Mr. Winter was looking at the date
6 Freeman began using gas where I looked at the date gas
7 began flowing to a customer through that pipeline.

8 MS. WIEST: Thank you. Any other questions?

9 BY CHAIRMAN BURG:

10 Q. Would it be presumed on your part that they took
11 depreciation for that year of 1996, '97?

12 A. I would think so.

13 Q. So you're saying since they took the depreciation, it
14 should show up in the figures for depreciation?

15 A. I guess my point of view, I really didn't care if they
16 took it or not. Once the plant began being used,
17 depreciation should have begun for that facility.

18 BY COMMISSIONER SCHOENFELDER:

19 Q. Just clarify one thing for me, if you would,
20 Mr. Rislov. I believe Mr. Mammen testified that in '96
21 that AMPI realized a savings of around \$200,000 in gas
22 costs. Now, that would be the product alone, or would
23 that include the transportation cost?

24 A. I assume it's a difference between what the delivered
25 cost of natural gas was and the delivered cost of propane

1 or fuel oil or whatever they used. I don't know that, but
2 that's what I presume.

3 Q. But when you're talking about the gains they could
4 make as the volume increased, that the City would take
5 more volumes, then we're talking not just in the
6 transportation costs but also in the cost of gas, right?

7 A. For AMPI I believe that would be correct, but that's
8 really beyond the scope of what we looked at today.

9 Q. I know that, but I just want to make sure we're not
10 talking about the cost of gas here. We're talking about
11 the delivery cost and the transportation cost.

12 A. The transport cost, right.

13 COMMISSIONER SCHOENFELDER: Thank you.

14 MS. WIEST: Any other questions from the commissioners?
15 Any redirect, Ms. Cremer?

16 MS. CREMER: No.

17 MS. WIEST: Any other questions?

18 MR. ROTH: No. Thank you.

19 MS. WIEST: Thank you, Mr. Rislov. You can call your next
20 witness.

21 MS. CREMER: Yes, I would call Dave Jacobson, please.

22 DAVID JACOBSON,

23 being first duly sworn, was examined and
24 testified as follows:
25

DIRECT EXAMINATION

- 1
2 BY MS. CREMER:
3 Q. Would you state your name and business address for the
4 record, please?
5 A. Yes. My name is David Jacobson. My business address
6 is South Dakota Public Utilities Commission, 500 East
7 Capitol Avenue, Pierre, South Dakota.
8 Q. And could you give us a brief summary of what your job
9 entails with the PUC?
10 A. Basically I review and analyze tariff and rate filings
11 for the Commission and make recommendations to the
12 Commission regarding those filings.
13 Q. Are you familiar with Docket '97 -- or NG97-015?
14 A. Yes.
15 Q. Before you is what's been marked as Exhibit 5. Can
16 you identify that, please?
17 A. Yes. This is my prefiled testimony and exhibit.
18 Q. Do you have any changes or modifications or
19 corrections to that?
20 A. No, I do not.
21 MS. CREMER: I would move to admit Exhibit 5.
22 MS. WIEST: Any objections?
23 MR. ROTH: No objection.
24 MS. WIEST: If not, it's been admitted.
25 Q. (BY MS. CREMER) Dave, could you summarize your

1 testimony for us, please?

2 A. Yes. The purpose of my testimony was to make a
3 determination of the transportation volumes using actual
4 and expected volumes that we had obtained both from the
5 information that NSP had filed and from contacts with the
6 City of Freeman.

7 And also I reviewed the tariff to make sure that it
8 was complete and in compliance with the applicable rules.

9 Q. What is the rate that you're recommending to the
10 Commission?

11 A. 92.95 cents per Dkt.

12 Q. Mr. Winter said today that he agreed with the tariff
13 changes you had recommended; is that right?

14 A. I believe I heard that.

15 Q. Okay. Are those -- were there any major changes in
16 that that we should know about, or were they --

17 A. There were no major changes. There was a question
18 regarding the filing of tariffs in the case where the
19 pipeline would make sales of excess gas used to balance
20 system operations. And I think that they stated they are
21 in agreement with the assumption that I made in my data
22 request, and so I assume there is no conflict there.

23 Q. Okay. Then the question came up as to a waiver of the
24 tariffs, and I believe it's ARSD 20:10:13:04 and
25 20:10:13:05. And do you have an opinion or recommendation

1 to the Commission as to that?

2 A. Well, we have not seen any of the revised tariffs yet,
3 and so we don't have a comprehensive determination of
4 whether they're acceptable or not yet. They proposed to
5 do that at a later time. So we would reserve a decision
6 on that at the time that we get to see the tariffs that
7 would actually be proposed.

8 Q. So if I understand your recommendation, it would be
9 you would wait until the Commission actually -- whatever
10 they order in this case, they would then file the tariffs
11 to match that, and at that point you could make a
12 recommendation?

13 A. We would see how the waivers apply to the tariff
14 sheets we see before us.

15 MS. CREMER: That's all I would have.

16 MS. WIEST: Any cross?

17 CROSS-EXAMINATION

18 BY MR. ROTH:

19 Q. Mr. Jacobson, at this point we don't have any concrete
20 sales volume, but yet in the year 2000 in September we
21 would. Would it be fair to say that if we would have
22 those figures now today, the increase would probably
23 justify 99 cents per unit?

24 A. I'm reluctant to say what the actual volumes would be
25 in the year 2000.

- 1 Q. It's all speculation right now?
- 2 A. Yes.
- 3 Q. Do you think the 99 cents per unit that AMPI is
4 requesting is unreasonable?
- 5 A. It doesn't tie up with what our calculation was
6 listed. What is reasonable and what is not, I guess
7 that -- there is a material difference in the rate. I
8 guess in my opinion whether it's reasonable or not, it
9 could be.
- 10 Q. And is it fair to say to have a cushion there,
11 especially with a new pipeline coming in and customers
12 still being signed up and the weather that we have being
13 uncertain as it is, is it fair to say that 99 cents is a
14 reasonable cushion?
- 15 A. Well, I don't know. In my opinion, 99 cents may be a
16 reasonable cushion. Less than 93 cents may be a
17 reasonable cushion depending on how you expect the
18 volumes.
- 19 MR. ROTH: I have no further questions, ma'am.
- 20 MS. WIEST: Commissioners?
- 21 BY CHAIRMAN BURG:
- 22 Q. Dave, could there be a situation where the proposal
23 that is offering to give a refund with interest -- or at
24 least recommended with interest, even though that didn't
25 come from the company, could there be a situation where

1 the -- where Freeman would be ahead with that than with
2 the 92 cents?

3 Because suppose that if the actual costs ended up
4 less than 93 cents or what we're talking about, the refund
5 would still cover any of that; would that be correct?

6 A. I guess at that point you would be comparing what the
7 comparable interest rate -- if there was an overrecovery
8 to be refunded by the company, you would have to look at
9 the comparable interest rate that the City of Freeman
10 resident could get as compared to what they would earn on
11 what's being overcollected by the pipeline.

12 Q. What I'm basically saying is they're going to have to
13 refund everything they overcollect, right?

14 A. Yes. There isn't a firm commitment in writing yet,
15 but I assume that's how it would work, yes.

16 Q. So if everything should turn out and the volumes were
17 up and the costs were down, for example, would there be a
18 situation where they could actually recover?

19 A. As somebody stated earlier, I assume it would work
20 under -- like the over- and underrecovery of the PGA
21 mechanism works now.

22 MS. WIEST: Any other questions?

23 MS. CREMER: No, I have nothing further.

24 MS. WIEST: Do you have any other witnesses?

25 MS. CREMER: That would be staff's case.

1 MR. ROTH: Do you have any rebuttal witnesses?

2 MR. ROTH: Short rebuttal, yes. I call Mr. Mammen

3 DIRECT EXAMINATION

4 BY MR. ROTH:

5 Q. There was a point being raised concerning the cost
6 savings that AMPI had since natural gas had been brought
7 in to service the AMPI. Could you explain to the
8 Commission what actual cost savings you have, and is
9 there -- just go ahead and explain the situation.

10 A. That was my best estimate, and obviously we didn't bid
11 propane every day. It was generally based on what propane
12 was selling for, finding out what propane rates were
13 several times during the year compared to the
14 transportation rate that was approved by the Commission,
15 plus the natural gas cost. And the net then was
16 \$200,000.

17 In 1997 that was substantially less because propane
18 was cheaper -- not cheaper than natural gas for the year
19 but closer to natural gas rates, and the savings were not
20 as high.

21 Q. And does the pipeline pay AMPI, or how does that
22 work? Explain that.

23 A. The way it's set up, AMPI Pipeline Incorporated is a
24 separate corporation. The rates would generate revenue
25 for that corporation both from the City and the -- and

1 from the Associated Milk producers Incorporated, and the
2 cost, the interest and the other cost-related interest
3 being -- interest and depreciation being the two biggest
4 would generate then a net margin or loss.

5 And any changes in these rates is not just to
6 AMPI. AMPI is going to have the same rate as the City.
7 It would generate -- to the extent it doesn't generate
8 enough revenue, it will be a net loss for this
9 corporation, which is very visible to the members.

10 Q. All said and done, Mr. Mammen, are those cost savings
11 in any way passed on to the customers, the dairy farmers,
12 that you have?

13 A. The rates are passed directly to the dairy farmers.
14 Any loss would be a taxable loss that folds in at 100
15 percent owned by AMPI.

16 When the rate is looked at, I think it's also
17 important to understand that we burn 60 percent of the
18 fuel on a 12-month basis. We're usually substantially
19 less than 50 percent of the capacity of that line because
20 we burn almost identical amounts of gas every month. And
21 the City has a very peak energy use in December and
22 January on average, and the capacity of the line is based
23 on how much gas you can flow on any one day.

24 So we're paying for over 60 percent of the line,
25 and now in any one day, we're using substantially less of

- 1 that line. And I guess that's why I probably disagree
2 with both calculations on cost. But I'm not in that
3 business, so I don't know how that works.
- 4 MR. ROTH: Thank you.
- 5 MS. CREMER: I have no questions.
- 6 MS. WIEST: Commissioners?
- 7 BY CHAIRMAN BURG:
- 8 Q. I'm interested in how you price the propane. Has the
9 plant been using propane up until 1997 or '96?
- 10 A. It was using predominantly propane, but we also had
11 the availability of fuel oil, which most times was more
12 expensive. A lot of times during the winter it was more
13 efficient.
- 14 Q. Did you get your propane at a better price than what
15 the average person in Freeman could get it because of the
16 volume?
- 17 A. Obviously we bought semiloads of propane directly.
- 18 Q. Just for my information, when you were calculating
19 what your savings were, were you using what you were able
20 to get it at because of volumes, or were you just pricing
21 what propane was?
- 22 A. That was based on the volumes that we had used in the
23 past and the same supplier.
- 24 CHAIRMAN BURG: Okay.
- 25 MS. WIEST: Any other questions?

1 BY MS. WIEST:

2 Q. Do you have any opinion as to any interest that should
3 be paid on the possible refund?

4 A. The way the loan is structured, we have a 15-year loan
5 at 9 percent, and if we generated some additional revenue,
6 I guess we could use it to pay down the debt. That would
7 be our maximum return. Our alternative is probably 5 or 6
8 percent CD rates or something like that. That's probably
9 the rate the City or someone else could get on the small
10 amount of money is a pretty small rate.

11 Q. So are you recommending no interest be paid?

12 A. I guess we're -- that's not a big issue because it's
13 not a great deal of money, nor is the rate as long as it
14 doesn't exceed our ability to capture.

15 MS. WIEST: Any other questions of this witness? Thank
16 you. Any other rebuttal witnesses?

17 MR. ROTH: Yes, I do, ma'am. I would like to call
18 Mr. Schultz.

19 MICHAEL SCHULTZ,
20 being first duly sworn, was examined and
21 testified as follows:

22 DIRECT EXAMINATION

23 BY MR. ROTH:

24 Q. State your full name, please.

25 A. Michael Schultz.

1 Q. And what is your position in the City of Freeman?

2 A. The position with the City of Freeman would be I am
3 the mayor.

4 Q. And, Mayor Schultz, is it fair to say that you've been
5 involved in the setting up of this natural gas facility in
6 conjunction with the City and AMPI since the very
7 beginning?

8 A. Yes.

9 Q. How long have you been mayor?

10 A. Almost four years.

11 Q. And during that period of time, you've been in contact
12 with AMPI officials and NSP officials?

13 A. Correct.

14 Q. And have you reviewed the rate proposals of AMPI?

15 A. I am aware of the numbers that they are proposing. I
16 haven't seen how the rate proposal was originally derived
17 or how those numbers were evaluated.

18 Q. And have you had discussions with AMPI officials and
19 NSP officials before this meeting concerning the rate that
20 they are proposing?

21 A. I had a phone conversation with a representative of
22 Northern States Power.

23 Q. And he explained --

24 A. Natural Gas Services, excuse me.

25 Q. And the 99 cent rate that's being proposed here, has

1 this been discussed with the city council?

2 A. Yes.

3 Q. And could you tell the Commission the opinion of the
4 position of the city council and yourself as mayor
5 concerning the rate being proposed?

6 A. Okay. First off, as Harlan Mammen said, he did not
7 want to be in the natural gas pipeline business. Neither
8 did the City desire to be in the natural gas
9 distribution. It came about because of a public vote,
10 consensus of the city. It went to a public vote, and they
11 basically told the city council to go ahead and form a gas
12 utility.

13 The price of gas that we are paying now according
14 to my last bill was .527, I believe, give or take a point
15 on the decimal. Real comparable to propane. Most of the
16 customers in town that have hooked up to it are happy with
17 the service that is being provided and the cost of the
18 service provided to them.

19 Originally when the City was entertaining the
20 notion of forming a gas utility, the surveys, as Gary
21 Ohara has suggested, came through and suggested we get 23
22 percent of the town to hook up. It settled out on the
23 very end of 59 percent, more than double the projection.

24 Those projections from the beginning, the 23
25 percent, were based on total sales on 100 Mcf per home. I

1 think to achieve 110 Mcf per home, you have to have the
2 furnace, water heater, and dryer, whatever appliances you
3 wish to convert. Many of the 60 percent -- I'm not sure
4 how many of those -- are converting and just hooking up a
5 water heater for now. They will never achieve the 110 Mcf
6 to justify the 99 cents to AMPI on the water heater.

7 Eventually as the home appliances wear out or are
8 converted with the 59 percent we have and hoping that
9 we'll have more people hook up as years go on, I think the
10 sales volumes to, what, 214 Mcf will be reached, will be
11 way higher.

12 It is the City's -- it is my opinion -- we would
13 agree to leave the 99 cent transportation consideration
14 for review in the year 2000. That is based upon
15 transportation, the amount of fuel that we as a city are
16 using.

17 I would disagree with leaving the 99 cents as it is
18 based upon the fact that we would also be returning the
19 first 18 months of depreciation. Essentially it is a new
20 service, although it is not a brand new service, and an
21 adjustment to the 99 cents might be considered just with
22 the depreciation that AMPI has already been able to
23 enjoy.

24 Q. Does the city council share your views?

25 A. I haven't had the chance to talk with the entire city

1 council on this. I do have a gas committee which consists
2 of myself and two other persons. It is also their
3 concurrence.

4 MR. ROTH: Thank you. I have no further questions.

5 MS. WIEST: Ms. Cremer?

6 CROSS-EXAMINATION

7 BY MS. CREMER:

8 Q. If I understand right, are you not going to be mayor
9 much longer, or are you the new mayor? No, you said you
10 had been mayor four years.

11 A. My term expires the first Monday in May.

12 Q. Will you be mayor after that? Well, I didn't know if
13 no one was running yet.

14 A. Only time will tell whether or not I go run for mayor
15 again or get off it completely.

16 Q. And so the opinion that you've been giving us, is that
17 as part of that gas committee, or is that as mayor or as a
18 citizen of Freeman?

19 A. All three.

20 MS. CREMER: If I may have just a minute. That's all I
21 would have.

22 BY COMMISSIONER SCHOENFELDER:

23 Q. I have one. This is kind of an unfair question, and I
24 don't expect you to give sworn testimony on this. But is
25 there a reason why the schools haven't hooked up as to

1 date, or is it just a delay? Or is there something you
2 can tell us about that? They seem to be some larger
3 users.

4 A. There is part of a delay. They made a substantial
5 investment in the school system, especially in the junior
6 high, two years ago on some thermostats and some equipment
7 they had invested in.

8 In reading in the paper -- I haven't had the chance
9 to discuss it with any individuals, school board
10 members -- they desire to recover some of those expenses
11 before adding additional expenses and converting to
12 natural gas.

13 They also -- the hospital, which is a big user,
14 received an extremely cheap rate for propane last fall.
15 We couldn't touch it on natural gas, and we understand
16 that business is business. Again, with the winter that's
17 been talked about, the warm winter, prices are down for
18 whatever source of heat there is.

19 COMMISSIONER SCHOENFELDER: Thank you.

20 BY COMMISSIONER NELSON:

21 Q. Just so I'm sure that I understood what you said, are
22 you saying that you agreed with Mr. Rislov's
23 recommendation on the depreciation over the 18 months
24 versus the company's position on when that should start?

25 A. My opinion on the depreciation is that if -- I don't

1 think the City should be penalized or added to an
2 additional expense in figuring one formula or another over
3 the depreciation. We do not -- we are not enjoying a
4 brand new utility.

5 Q. Okay.

6 A. It's a new utility. I understand that. I could go
7 down and buy a car that's new now and in a year it's not a
8 brand new car. I've incurred depreciation.

9 Q. That's what I thought you meant. And then my other
10 question is: Did I also understand that you think,
11 though, that the 99 cent rate with the possible refund
12 would be something that would be okay with you?

13 A. I understand that the consideration of a refund has to
14 be considered. There is no way -- we have no history.
15 The seasons are inconsistent enough as they are.

16 COMMISSIONER NELSON: Thank you.

17 BY CHAIRMAN BURG:

18 Q. Is it your anticipation that when -- if propane rates
19 change or something that the hospital would probably hook
20 up if that was a business decision that was beneficial?

21 A. I can't speak for the hospital on that. They have a
22 meter that is sited on their building. Because they are
23 going to be a big user, that meter was a considerable
24 investment on the part of the city. Their monthly meter
25 charge reflects that. I believe it's 100 and some dollars

1 a month meter charge. That starts April 1.

2 Additionally, we had agreed to give everyone three
3 months to convert. Those that didn't at the end of that
4 three-month period, whether they're using gas or not, will
5 start paying a meter charge.

6 Q. So they'll have to add that to the price of the
7 propane and see if they break even. But you do anticipate
8 that the school will as soon as they see they have a
9 budget to do it with?

10 A. Yes, I expect the school to make their conversions and
11 be on line for fall services.

12 Q. And if I can state it probably a little differently
13 because you probably already answered it, you feel that
14 the calculation of what the rate should be should probably
15 be according to the way the staff has recommended with one
16 year depreciation; however, you don't object to the 99
17 cents with the refund?

18 A. Right, because the history is so short.

19 CHAIRMAN BURG: Right. Okay.

20 MS. WIEST: Any other questions? Thank you. Do you have
21 any further rebuttal witnesses?

22 MR. ROTH: No, ma'am.

23 MS. WIEST: Any rebuttal?

24 MS. CREMER: No.

25 MS. WIEST: Do either of the parties wish to make any

1 closing statements?

2 MS. CREMER: Staff does not.

3 MR. ROTH: I would like to just say briefly I think what
4 my clients are asking is -- we have this cushion at 99
5 cents. It's already agreed that there will be a refund
6 when it's based on actual figures. I think interest is --
7 there is no question about paying the interest. I think
8 the rate would probably be based on the federal reserve
9 rate or six month CD rate, whatever is fair.

10 I think with a new business venture such as this
11 and with AMPI Pipeline Company not making any money on
12 this, I think that they're trying to be able build in a
13 cushion there, which any reasonable person in a startup
14 business would want to do. And, of course, once the
15 figures do come in, the actual figures do come in, and we
16 have established a history -- and, of course, we all agree
17 with the weather pattern the way it's been, it's been
18 untypical to make a judgment at this point what the rate
19 is actually going to be.

20 With that, folks, I would recommend that you
21 approve the 99 cents per unit rate. Thank you.

22 MR. STRASSER: The only comment I would make --

23 MS. WIEST: Could you identify yourself?

24 MR. STRASSER: Dale Strasser, city attorney. The only
25 comment I would make is in any resolution, I think the

1 depreciation issue, if it goes for the 99 cents with the
2 refund, I would ask the Commission to resolve the
3 depreciation start date.

4 MS. WIEST: I believe the only information that
5 the Commission has requested during the hearing is
6 Mr. Winter's work papers on the 93.5 percent rate.

7 Okay. Thank you. The Commission will take it
8 under advisement, and that will close the hearing.

9 (The hearing was concluded at 10:50 a.m., March 30,
10 1998.)

11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

1 STATE OF SOUTH DAKOTA)

2 :SS

CERTIFICATE

3 COUNTY OF MINNEHAHA)

4

5

6 I, Angela Weller, Court Reporter in
7 the above-named County and State, certify that the
8 above-entitled proceedings were reported by me, and the
9 foregoing pages 1 - 67, inclusive, are a true and correct
10 transcript of my stenotype notes.

11 Dated at Sioux Falls, South Dakota, this 20th
12 day of April, 1998.

13

14

15

16

17

18

19

20

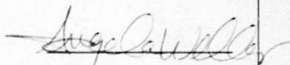
21

22

23

24

25


Angela Weller

RECEIVED
SEP 03 1997
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

The Original



NG97-015

RECEIVED

SEP 05 1997

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

Associated Milk Producers, Inc. Pipeline, Inc.

**Before the
South Dakota Public Utilities Commission**

**Application for Change in an Intrastate Natural
Gas Transportation Rate**

Docket _____

September, 1997

September 5, 1997

William Bullard, Jr.
Executive Director
South Dakota Public Utilities Commission
500 East Capitol
Pierre, SD 57501

Re: Application to Establish a Revised Transportation Rate for Associated Milk Producers,
Inc. Pipeline

Dear Mr. Bullard:

Pursuant to South Dakota Statute 49-34A-10 and the Rules and Regulations of the South Dakota Public Utilities Commission ("SDPUC" or "Commission"), Chapter 20:10:13, Public Utility Rate Filing Rules, Associated Milk Producers, Incorporated, Pipeline Incorporated. ("AMPIP"), a subsidiary of Associated Milk Producers, Inc. ("AMPI"), hereby submits for filing this application to revise its natural gas transportation services rate and tariff subject to the Commission's jurisdiction. The revised rate will allow AMPIP to serve both AMPI and the new municipal gas utility to be owned and operated by the City of Freeman, South Dakota ("Freeman"). The Commission was granted jurisdiction over AMPIP's rates and tariffs pursuant to SDCL 49-34A-1, Subd. 9A.

Pursuant to South Dakota Administrative Rules Section 20:10:13:26, AMPIP provides the following information:

(1) Name, Address, and Telephone Number of Pipeline

Associated Milk Producers, Incorporated, Pipeline, Incorporated
136 East Railway
P. O. Box 430
Freeman, South Dakota 57109
(605) 925-4234

(2) Tariff or Tariff Sheets Affected

The Commission approved AMPIP's initial Intrastate Natural Gas Transportation Service Tariff, SDPLC No. 1, in Docket NG95-017. Within the approved tariff, the rate sheet affected is known as Schedule FT (Firm Transportation Service). A copy of the revised Tariff, Schedule FT and form of Service Agreement are included herein as Exhibit 4. The Tariff conforms with the Commission Rules 20:10:13:02 through 20:10:13:14, with the exception of Rules 20:10:13:04 and 20:10:13:05, and provides for a volumetric transportation service rate. AMPIP respectfully seeks waiver of Rules 20:10:13:04 and 20:10:13:05. This request is addressed more fully in Section 12 of this document.

No other type of service or rate will be offered on the pipeline at this time. In the future, AMPIP may add additional farm tap customers along the line, at the same rate under Schedule FT. If needed, AMPIP will file additional rates and tariffs at a later time to meet the needs of additional customers.

(3) Description of Change

Background

AMPI is a national milk producing cooperative operating in twenty states. AMPI's corporate headquarters are located in Arlington, Texas. AMPI has one facility located in the State of South Dakota, in Freeman. Prior to the installation of AMPIP, production costs at this Freeman facility were substantially higher than at any other AMPI plant. This was due in large part to the fact that the Freeman AMPI plant was the only AMPI site without natural gas service. Two years ago, AMPI studied the feasibility of providing natural gas to the plant located in Freeman. The most economical way to do this was to establish a direct connection to the Northern Natural Gas Company interstate pipeline system near Marion, SD. However, because of certain FERC regulatory requirements, and to provide future flexibility, AMPI created AMPIP as a subsidiary of AMPI to own and operate the intrastate natural gas pipeline subject to the Commission's rate and tariff jurisdiction. In November 1995, AMPIP filed an application with the Commission to establish initial transportation rates for the pipeline. That application was in Docket NG95-017.

Early in 1997, the City of Freeman elected to create a municipal gas distribution utility. The pipeline will now serve Freeman in addition to the AMPI plant. This operational change presents a need to modify the approved fixed monthly transportation rate of \$14,724. At this time, transportation service on the pipeline is firm in character.

Change in the Approved Rate

The rate proposed herein is a volumetric rate reflecting underlying cost data pertinent to the pipeline configured to serve Freeman, instead of the AMPI plant alone. Freeman will purchase a segment of 6" polyethylene pipeline from AMPIP within the city limits. That segment is 7,675 feet in length and also includes the service line and materials to the AMPI plant. This segment is

0141.52.31
valued at \$111,600. The proposed transportation rate reflects this reduction in plant investment and reductions in associated costs. Pursuant to SDPUC 49-34A-35, this sale of utility plant does not require Commission approval as it is less than \$200,000.

After over a year of operation, AMPIP now has an historical base of cost data to rely upon in setting its transportation rate. The proposed rate reflects that historical information. The attached testimony and schedules of Mr. John Winter, Exhibit 2, explain the cost data more completely.

(4) Reason for the Change

There are three major reasons for the rate change. First, the proposed rate is a volumetric rate per Mcf rather than the current monthly fixed charge. A volumetric rate allows more flexibility to both AMPIP and Freeman as customers are added within the municipality and volumes change over time. It also sends pricing signals to Freeman and AMPI related to their utilization of the pipeline facility. During periods of low use, customer bills will reflect that lower seasonal use, and vice versa. Second, a portion of the pipeline will be sold to the City of Freeman which changes the underlying cost data supporting the rate. Third, after slightly more than a year of operation, more accurate cost data is now available.

(5) Present Rate

The present rate is charged between AMPIP and its parent company, AMPI, for deliveries to the Freeman AMPI facility alone. The rate is a fixed fee of \$14,724 per month.

(6) Proposed Rate

The Proposed rate is \$0.99 per Mcf. That rate is developed by Mr. John Winter in Exhibit 2.

The proposed volumetric rate is accepted and agreed to by AMPIP's parent company, AMPI, and the City of Freeman, South Dakota. Freeman's Mayor Michael Schultz has submitted a statement of concurrence, Exhibit 3, indicating Freeman's acceptance of the proposed rate.

(7) Proposed Effective Date of the Rate

AMPIP requests the Commission allow the rate to be effective no later than thirty (30) days following the date of the filing, or October 5, 1997, in time for the 1997 - 1998 heating season for the City of Freeman Municipal Gas Utility. Deliveries to Freeman from the pipeline are expected to begin shortly after that date.

AMPIP further requests that, on a temporary basis, the Freeman AMPI plant remain on the present monthly fixed charge of \$14,724 through December 31, 1997, allowing a transition period for residences and businesses within Freeman to complete conversion to natural gas. The plant will switch to the volumetric rate of \$0.99 per Mcf on January 1, 1998. This will allow AMPIP to recover its costs during the transition period.

014115292

(8) Approximation of the Annual Revenue Effect

The proposed volumetric gas transportation rate, \$0.99/Mcf, applied to the estimated Mcf volume of 214,000 yields revenues of \$211,860. This amount is essentially the same as the leveled annual revenue requirement determined by Mr. Winter on his Schedule 3, Page 2 of 3, Exhibit 2.

(9) Points Affected

Pipeline deliveries will be made to the Freeman town border station ("TBS"). It is the only delivery point affected.

(10) Estimated Number of Customers Affected

Two customers, the City of Freeman, SD, and AMPIP's parent company AMPI are affected by the proposed rate change. AMPI remains a customer of the AMPIP pipeline at the same rate, terms, and conditions as Freeman. The AMPI plant will also be a transport customer for the City utility. Previously, AMPI paid 100% of AMPIP's cost of service. Following approval, AMPI and the City will share the cost based on their respective annual usage levels.

(11) Statement of Facts, Opinions, Documents and Exhibits to Support the Rate

Pursuant to Rule 20:10:13:39 (Subp. 1), AMPIP submits the following exhibits in support of this filing:

Exhibit 1	Testimony of Mr. Harlan Mammen, President of AMPIP
Exhibit 2	Testimony of Mr. John Winter, Cost of Service and Pipeline Rate (Pursuant to Rule 20:10:13:96)
Exhibit 3	Statement of Concurrence, Hon. Michael Schultz, Mayor of Freeman, SD
Exhibit 4	First Revised Transportation Service Tariff
Exhibit 5	Statements Required by Chapter 20:10:13

(12) Request Waiver of Rules 20:10:13:04 and 20:10:13:05 - Arrangement of Tariff Schedules and Form of Tariff Schedules Rules, Respectively

Pursuant to Rule 20:10:13:08, AMPIP respectfully requests waiver of the Commission's tariff schedule arrangement and form of tariff rules (20:10:13:04 and 20:10:13:05) to the extent necessary to accept the proposed tariff and rates on the date proposed. The rules require various detailed administrative requirements for tariff changes which are burdensome for AMPIP since it will serve only two customers. Mr. Mammen's testimony lists the significant changes, which have been accepted by AMPIP's two customers. Thus, the public interest will not be adversely affected by granting such a waiver. Also, for simplicity of administration, the attached tariff is the First Revised Tariff.

AMPIP requests waiver of any other Commission rules necessary to allow the tariff and rate to be effective on the date requested.

(13) Listing of Parties, Contacts, Legal Representatives, etc.

Mr. Harlan Mammen
Associated Milk Producers, Inc.
315 North Broadway
New Ulm, MN 56073

Ms. Claire Taylor-Sherman
2800 Minnesota World Trade Center
30 E. 7th Street
St. Paul, MN 55101-4999

Mr. John D. Winter
Northern States Power Company
414 Nicollet Mall
Minneapolis, MN 55401

Mr. Dale Strasser, City Attorney
P. O. Box 428
Freeman, SD 57029

(14) Notice; Posting; Public Inspection

Pursuant to rule 20:10:13:17, a copy of this filing is available for public inspection at the AMPIP office located at 136 East Railway, Freeman, SD 57039. Also, pursuant to rule 20:10:13:17, AMPIP is providing written notice of this filing to the City of Freeman, SD. Pursuant to Rule 20:10:13:18, a copy of the written notice is posted at AMPIP's offices at 136 East Railway, Freeman, SD.

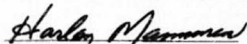
(15) Conclusion

AMPIP respectfully requests that the Commission accept and approve the proposed intrastate transportation rate effective thirty (30) days after filing, or October 5, 1997. This will allow the tariff to be in effect in time for initial services to the Freeman utility and without suspension or change. AMPIP makes this request with full concurrence from the customers affected, the City of Freeman, SD and AMPI.

Dated: September 5, 1997

ASSOCIATED MILK PRODUCERS, INC. PIPELINE, INC.

By:



Harlan Mammen
President
(507) 354-8295

Exhibit No. 3

Letter of Concurrence

Honorable Mayor Michael Schultz
Freeman, SD

**Michael Schultz, Mayor
City of Freeman, South Dakota
P. O. Box 178
Freeman, South Dakota 57029-0178**

September 3, 1997

Mr. Harlan Mammen, President
AMPI Pipeline, Inc.
315 North Broadway
New Ulm, MN 56073

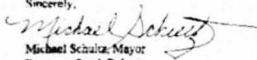
Re: Proposed AMPIP Transportation Rate

Dear Harlan:

On behalf of the City of Freeman, South Dakota, and its newly-formed municipal gas distribution utility, I concur with the AMPIP pipeline rate of \$0.99 per Mcf proposed in your recent filing with the South Dakota Public Utilities Commission. I have conferred with the Freeman Utility Board, and we support the proposed rate as just and reasonable.

We look forward to the availability of natural gas in Freeman beginning this fall. This is a positive step forward for the city's residents and businesses.

Sincerely,



Michael Schultz, Mayor
Freeman, South Dakota

Exhibit No. 4

Transportation Service Tariff

SEP- 3-97 WED 10:32

SEP-03-97 WED 10:24 NSF

FAX NO. 612 330 7601

P. 08
P. 09

TARIFF SCHEDULES
APPLICABLE TO
INTRASTATE NATURAL GAS TRANSPORTATION SERVICE
OF

AMPI PIPELINE, INC.

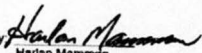
General Office
315 North Broadway
New Ulm, MN 56073

South Dakota Office
136 East Railway
P.O. Box 430
Freeman, SD 57109

Filed with the South Dakota Public Utilities Commission
as SDPUC No. 1

Date Filed: September 5, 1997

Issued by


Harlan Mammen
President

AMPI PIPELINE, INC.
NEW ULM, MINNESOTA
GAS TRANSPORTATION SERVICE TARIFF SDPUC NO. 1

FIRST REVISED SHEET NO. 1

AMPI PIPELINE, INC.
GAS TRANSPORTATION SERVICE TARIFF
ORIGINAL VOLUME NO. 1

Issued on: 09/05/97
SDPUC Docket No.:

Issued by: Harlan Mammen
President

Effective: 09/08/97
Order Date:

TABLE OF CONTENTS

Preliminary Statement	3
General Terms and Conditions	4
Rate Schedules:	
Firm Transportation Service (FT)	16
Agreement Forms	
Firm Transportation Service (FT)	21
Index of Shippers	22

PRELIMINARY STATEMENT

AMPI Pipeline, Inc. (hereafter "AMPIP" or "Transporter") is an intrastate natural gas pipeline company engaged in the business of transporting natural gas in intrastate commerce to end users and municipal gas systems in the State of South Dakota. AMPIP's System consists of approximately 20 miles of distribution pipeline located McCook, Turner and Hutchinson Counties, South Dakota. AMPIP takes delivery of natural gas from Northern Natural Gas Company near Marion, South Dakota, and redelivers it to shippers at delivery points along or at the terminus of AMPIP in Freeman, South Dakota.

GENERAL TERMS AND CONDITIONS

ARTICLE I DEFINITIONS

1.1 "Btu" shall mean one British Thermal Unit.

1.2 "Contract Demand" shall mean the aggregate of the maximum daily quantities of gas, expressed in dkt per day, which Transporter is obligated to accept for transportation for the account of Shipper from the points of receipt as set forth in the Transportation Service Agreement ("TSA") between Transporter and Shipper.

1.3 "Contract Year" shall mean the twelve month period commencing November 1 and terminating on October 31 of each year, until this Agreement shall have expired or otherwise been terminated in accordance with its terms.

1.4 "Day" shall mean a period of 24 consecutive hours, starting at 9:00 a.m. Central Clock Time, or such other 24 hour gas day period as established in Northern's Tariff.

1.5 "Dkt" shall mean the quantity of heat energy which is equivalent to 1,000,000 British Thermal Units (BTU). One "dkt" of gas means the quantity of gas which contains one dekatherm of heat energy. The total dekatherms are calculated by multiplying the gas volume in Mcf by its total gross heating value, divided by 1,000.

1.6 "Equivalent Quantities" shall mean the sum of the quantities of gas measured in dkt received by Transporter and delivered for the account of Shipper at the points of receipt and delivery during any given period of time reduced by the sum of Shipper's Pro Rata Share of Lost and Unaccounted For Gas resulting from the operations of the System during the same period of time. In the event the ownership of gas lost as a result of an event of force majeure can be reasonably identified, the quantity thereof shall be charged to the Shipper or Shippers so identified.

1.7 "Gas" shall mean natural gas, unmixed or any mixture of natural and artificial gas.

1.8 "Gross Heating Value" shall mean the number of BTUs produced by the complete combustion, at a constant pressure, of the amount of gas which would occupy a volume of one (1) cubic foot at a temperature of 60 degrees Fahrenheit on a dry basis and at a pressure of 14.73 psia with air of the same temperature and pressure as the gas, when the products of combustion are cooled to the initial temperature of the gas

and air, and when the water formed by combustion has been condensed to the liquid state.

1.9 "Maximum Daily Quantity" shall mean the maximum quantity expressed in dkt per day that the Transporter is obligated to receive for the account of Shipper at the point of receipt, as established in Exhibit A to Shipper's TSA.

1.10 "Mcf" shall mean 1,000 cubic feet of gas determined in accordance with the measurement base described in Paragraph 3. 1 hereof.

1.11 "Month" shall mean the period beginning at 9:00 a.m. Central Clock Time on the first day of a calendar month and ending at the same hour on the first day of the next succeeding month.

1.12 "Northern" shall mean Northern Natural Gas Company, its successors and assigns.

1.13 "Northern's Tariff" shall mean the Northern's FERC Gas Tariff as it may be in effect from time to time.

1.14 "Pro Rata Share" shall mean the ratio that the quantity of gas delivered to Transporter by or for the account of Shipper bears to the total quantity of gas delivered to Transporter by all shippers for transportation in the System during any given period of time.

1.15 "SDPUC" shall mean the South Dakota Public Utilities Commission or any commission, agency or other state governmental body succeeding to the powers of such commission.

1.16 "Shipper" shall mean any party to a TSA providing for transportation of natural gas on Transporter's System. For purposes of Articles V and VI, "Shipper" shall also mean Shipper's Agent designated to provide day-to-day transportation management for Shipper. Shipper may change such designation from time to time upon written notice to Transporter.

1.17 "System" shall mean the pipeline and related pipeline facilities at the time owned by Transporter.

1.18 "TSA" shall mean the Transportation Service Agreement between Transporter and Shipper in the form set forth in this Tariff.

1.19 "Unaccounted For Gas" shall mean the difference between the sum of all input quantities of gas to the System and the sum of all output quantities of gas from the System, which difference shall include but shall not be limited to gas used and accounted for in System operations, meter errors (subject to Section 3.8) and gas lost as a result of an event of force majeure, the ownership of which cannot be reasonably identified.

ARTICLE II QUALITY

2.1 Quality Standards of Gas Received by Transporter. The gas to be delivered by Transporter shall be of merchantable quality and shall meet the minimum quality standards of Northern, as may be established or revised from time to time in Northern's Tariff.

2.2 Quality Tests. At the point of receipt, Transporter may cause tests to be made, by approved standard methods in general use in the gas industry, to determine whether the gas conforms to the quality specifications set out in Paragraph 2.1 hereof. Such tests shall be made at such intervals as Transporter may deem reasonable, and at other times, but not more often than once per day, or at the request of Shipper.

2.3 Failure to Conform. If gas delivered by Shipper does not comply with the quality specifications set out in Paragraph 2.1 hereof, Transporter shall have the right, in addition to all other remedies available to it by law, to refuse to accept any such gas. Transporter may, at its option and upon notice to Shipper, accept receipt of gas not complying with the quality specifications set out in Paragraph 2.1 herein provided. Transporter, at the expense of Shipper, may make all changes necessary to bring such gas into compliance with such specifications.

2.4 Quality Standards of Gas Transported By Transporter. Transporter shall use reasonable diligence to deliver gas for Shipper which shall meet the quality specifications set out in Paragraph 2.1 hereof, but shall only be obligated to deliver gas of the quality which results from the commingling of the gas received by Transporter from Shipper and other shippers.

ARTICLE III MEASUREMENT

3.1 Unit of Measurement and Metering Base. The volumetric measurement base shall be one cubic foot of gas at a pressure base of 14.73 pounds per square inch absolute, at a temperature base of 60°F, and without adjustment for water vapor content.

3.2 Atmospheric Pressure. For the purpose of measurement, the absolute atmospheric (barometric) pressure at each measuring station shall be the atmospheric pressure determined by calculations based on the actual elevation above sea level of the meter at the place of measurement, and shall be stated in pounds per square inch.

3.3 Temperature. If determined to be necessary in the sole discretion of Transporter, the temperature of the gas shall be determined at each point of measurement by means of a properly installed recording thermometer, an indicating thermometer, an electronic temperature measuring device, or a temperature compensating meter of standard manufacture acceptable to Transporter.

3.4 Specific Gravity. If determined to be necessary in the sole discretion of Transporter, the specific gravity of the gas shall be determined at each point of receipt by one of the following methods:

- (a) By means of a properly installed recording gravitometer of standard manufacture acceptable to Transporter.
- (b) If (a) is not considered feasible, then by use of a portable specific gravity balance of standard manufacture, or other standard device acceptable to Transporter and designed for such purpose or use in conjunction with a continuous sampler.
- (c) Other methods acceptable to Transporter.

3.5 Measurement Procedures. Quantities of gas received and delivered hereunder shall be measured in accordance with Procedures contained in ANSI-API 2530, First Edition, AGA Committee Report No. 5, AGA Committee Report No. 7, and AGA Committee Report No. 8, or revisions or amendments thereto.

3.6 Measuring Equipment. Unless otherwise agreed, Transporter will provide, maintain, and operate necessary measuring and regulating stations equipped with flow meters and other necessary measuring equipment by which its quantities of gas delivered from Transporter hereunder shall be determined. Such measuring and regulating stations shall be so installed at the receipt point of the System and at other

agreeable points. All flow, measuring, testing, and related equipment shall be of standard manufacture and type acceptable to Transporter.

Transporter and Shipper shall cause the chart on all gas measurement equipment to be changed, or mechanical or electronic indices read, by either Transporter or by Shipper's representative (where economical) on a daily basis. If telemetering is not installed, Shipper shall change recording charts on Transporter's delivery point metering facilities or otherwise read Transporter's meter on a daily basis at a time specified by Transporter. Shipper may install check measuring equipment, provided that such equipment shall be so installed as not to interfere with operation of Transporter.

When Transporter deems it necessary, telemetering equipment shall be installed on Shipper's delivery point meter(s). Transporter will install and maintain the telemetering facilities. Shipper shall provide, install and maintain a weatherproof phone service and electrical service outlet with appropriate grounding for telemetering equipment. Shipper and Transporter, in the presence of each other, shall have access to all measuring equipment at all reasonable times, but the reading, calibrating, and adjusting thereof shall be done by the Transporter, unless otherwise agreed. Shipper and Transporter shall have the right to be present at the time of any installing, reading, cleaning, changing, repairing, inspecting, testing, calibrating, or adjusting done in connection with all measuring equipment. The records from such measuring equipment shall remain the property of Transporter. Reasonable care shall be exercised in the installation, maintenance and operation of measuring equipment so as to avoid any inaccuracy in the determination of the quantity of gas received and delivered.

3.7 Calibration and Test of Meters. The accuracy of all measuring equipment shall be verified by the Transporter at reasonable intervals, and if requested, in the presence of representatives of Shipper. Transporter shall not be required to verify the accuracy of such equipment more frequently than once in any Contract Year. If either party at any time desires a special test of any measuring equipment, it will promptly notify the other, and the parties shall then cooperate to secure a prompt verification of the accuracy of such equipment. Transportation and related expenses incurred by Shipper or Transporter involved in the testing of meters shall be borne by the party incurring such expenses.

3.8 Correction of Metering Errors. If, upon any test, any measuring equipment is found to be in error, such errors shall be treated in the following manner: If the resultant aggregate error in the computed receipts or deliveries is not more than 2%, then previous receipts or deliveries shall be considered accurate. All equipment shall, in any case, be adjusted at the time of test to record to zero error. If, however, the resultant aggregate error in computed receipt or deliveries exceeds 2% at a recording corresponding to the average hourly rate of gas flow for the period since the

last preceding test, the previous recordings of such equipment shall be corrected to zero error for any period which is known definitely or agreed upon. In case the period is not known definitely or agreed upon, such correction shall be for a period extending over one-half of the time elapsed since the date of the last test, not exceeding a correction period of 180 days.

3.9 Failure of Measuring Equipment. In the event any measuring equipment is out of service, or is found registering inaccurately and the error is not determinable by test, or by previous recording, receipts or deliveries through such equipment shall be estimated:

- (a) By using the registration of any check meter or meters, if installed and accurately registering, or in the absence of (a);
- (b) By correcting the error if the percentage of error is ascertainable by calibration, special test, or mathematical calculation, or in the absence of both (a) and (b) then;
- (c) By estimating the quantity of receipt or delivery based on receipts or deliveries during preceding periods under similar conditions when the measuring equipment was registering accurately.

3.10 Preservation of Records. Shipper and Transporter shall preserve all test data, charts, and other similar records for a period of at least one year, or such longer period as may be required by the SDPUC or other jurisdictional public authority.

ARTICLE IV RECEIPT AND DELIVERY POINTS

4.1 Point of Receipt. The initial point of receipt hereunder shall be the point of interconnection between the facilities of Transporter and the facilities of Northern located near Marion, South Dakota. Shipper shall deliver, or cause to be delivered, gas to Transporter at the point or receipt for transportation service, set forth in Exhibit A attached to Shipper's TSA.

4.2 Points of Delivery. The point(s) of delivery hereunder shall be the point(s) of connection between the facilities of Transporter and the facilities of Shipper, where Transporter shall deliver gas for the account of Shipper. Such point(s) of delivery are set forth in Exhibit A attached to Shipper's TSA. Unless otherwise agreed, the establishment of any additional point of delivery at the request of Shipper shall be at the expense of Shipper.

ARTICLE V
SCHEDULES

5.1 Schedules. Prior to the first day of each month, Shipper shall furnish Transporter with a schedule showing the estimated daily quantities of gas Shipper desires Transporter to transport during such month. Such monthly schedule shall be provided at least one hour before the deadline for monthly nominations in Northern's Tariff. Thereafter Shipper shall on a daily basis advise Transporter of the volumes Shipper will deliver during the following day at least one hour prior to the time Transporter must submit daily nominations to Northern pursuant to Northern's Tariff. However, Shipper may establish a standing schedule of daily volumes, notifying Transporter prior to any day when Shipper's daily deliveries will differ from the standing schedule by more than the daily delivery variance (+/-) established in Northern's Tariff.

5.2 Departures from Schedules. Departures from the scheduled deliveries at the point of receipt shall be kept to the minimum permitted by operating conditions, and shall be balanced as soon as practicable. Shipper shall use its best efforts to give Transporter notice prior to proposed change of a daily quantity from that set forth in the schedule provided for in Paragraph 5.1 hereof. Such notice shall be provided at times consistent with the notice period for intra-day nomination changes set forth in Northern's Tariff. Transporter may waive such notice upon request if, in its judgment, operating conditions permit such waiver. Transporter and Shipper shall inform each other of any other changes of deliveries immediately upon knowledge thereof.

5.3 Hourly Variation. Deliveries shall be made at uniform hourly rates to the extent practicable. Transporter's obligation to deliver shall not exceed 1/16th of Shipper's Maximum Daily Quantity in any given hour.

ARTICLE VI
DAILY AND MONTHLY BALANCING

6.1 Scheduling and Balancing Tolerances. It is recognized that the parties will be unable to control exactly the quantities of gas delivered and accepted hereunder on any day, and that deliveries by Shipper and redeliveries by Transporter may vary above or below the quantities scheduled on any day. However, nothing in this paragraph shall affect Shipper's obligation to pay for gas actually transported.

6.2 Daily Variances. The daily variance for a receipt point shall be the difference between the total quantities scheduled for receipt and the actual quantity delivered into Transporter's System. The daily variance for a delivery point shall be the

shall be the difference between the total quantities scheduled and the actual quantity delivered by Transporter at such point on any day. Shipper shall take action to correct any daily variance between scheduled and actual receipts and deliveries occurring during the month by making adjustments to schedules, receipts or deliveries. In no event shall the daily excess or deficiency variance exceed the allowable daily point of delivery variation set forth in Northern's Tariff.

6.3 Monthly Imbalances. Shipper's monthly imbalance shall be the net total of daily variances from all receipt and delivery points. Such monthly imbalance shall be corrected in-kind through adjustments to Shipper's schedules, receipts or deliveries in order for Shipper to receive Equivalent Quantities, or by such other method as is then mutually agreed upon by the parties hereto. The cumulative daily variances during any month above or below the quantities scheduled shall not exceed the monthly point of delivery monthly variance set forth in Northern's Tariff.

6.4 Disposition of Excess Gas. In order to alleviate conditions that threaten the integrity of its System, Transporter may periodically acquire quantities of gas that are in excess of System needs. Transporter may make interruptible sales of such gas from time to time at the point of receipt pursuant to 18 CFR 284.402. Such sales shall be made under rates, terms and conditions mutually agreed upon between Transporter and the purchaser, provided that all such sales shall be fully interruptible.

ARTICLE VII PRESSURE

7.1 Pressure at the Points of Receipt. Shipper shall cause the gas to be delivered at the points of receipt at a pressure sufficient to allow the gas to enter the System; however, Shipper shall not be required to deliver gas to the Transporter at any point of receipt at a pressure in excess of the minimum pressure specified with respect to each receipt point in Exhibit A of Shipper's TSA.

7.2 Pressure at Points of Delivery. Transporter shall deliver gas to Shipper's delivery points at the pressure existing in the Transporter's pipeline; however, Transporter must deliver gas to each point at a pressure not less than the minimum pressure specified with respect to each delivery point in Exhibit A to Shipper's TSA. Transporter, however, shall not be required or permitted to deliver gas at a pressure in excess of the maximum pressure specified for each point of delivery set forth in Exhibit A attached to Shipper's TSA.

ARTICLE VIII
BILLING AND PAYMENT

8.1 Billing. Unless otherwise agreed, on or before the 20th day of each month, Transporter shall render to Shipper a statement of the total amount of gas delivered by Transporter to Shipper at the points of receipt hereunder during the preceding month and the amount due. When information necessary for billing purposes is in the control of Shipper, Shipper shall furnish such information to Transporter on or before the 10th day of the month.

Shipper and Transporter shall have the right to examine at reasonable times, books, records, and charts of the other to the extent necessary to verify the accuracy of any statement, charge, or computation made under or pursuant to any of the provisions hereof.

8.2 Payment. Unless otherwise agreed, Shipper shall pay Transporter at its general office or at such other address as Transporter shall designate on or before the 28th day of the month, the amount due for the preceding month. If presentation of a bill by Transporter is delayed after the 20th day of the month, then the time of payment shall be extended accordingly unless Shipper is responsible for such delay.

8.3 Remedies for Failure to Pay. Should Shipper fail to pay all or any portion of any bill as herein provided when such amount is due, interest on the unpaid portion of the bill shall occur at a rate of one percent (1%) per month. If such failure to pay continues for 30 days after payment is due, Transporter may, in addition to any other remedy it may have hereunder, suspend further delivery of gas until such amount is paid, if authorized pursuant to the rules of the SDPUC.

8.4 Disputed Bills. If Shipper in good faith shall dispute the amount of any such bill or part thereof and shall pay to Transporter such amounts as it concedes to be correct and, at any time thereafter within 30 days of a demand made by Transporter, shall furnish a good and sufficient surety bond in an amount and with surety satisfactory to Transporter, guaranteeing payment to Transporter of the amount ultimately found due upon such bills after a final determination which may be reached either by agreement or judgment of the courts, as may be the case, then Transporter shall not be entitled to suspend further delivery of gas unless and until default be made in the conditions of such bond.

8.5 Adjustment of Billing Errors. If it shall be found that at any time or times Shipper has been overcharged or undercharged in any form whatsoever under the provisions hereof and, in the case of an overcharge, Shipper shall have actually paid the bill containing such overcharge, then within 30 days after the final determination of

such overcharge or undercharge, the appropriate party shall pay to the other party the amount of said overcharge or undercharge, net of any other amounts then payable hereunder. In the event an error is discovered in the amount billed in any statement rendered by Transporter, such error shall be adjusted within 30 days of the determination thereof provided that claim therefor shall have been made within one (1) year from the date of such statement. If the parties are unable to agree on the adjustment of any claimed error, any resort by either of the parties to legal procedure, either at law, in equity, or otherwise, shall be commenced within 12 months after the supposed cause of action is alleged to have arisen, or shall thereafter be forever barred.

ARTICLE IX CONTROL OF GAS

9.1 Responsibility for Gas. As between the Shipper and Transporter hereto, Shipper shall be in exclusive control and possession of the gas until such has been delivered to Transporter at the point of receipt, and after such gas has been redelivered to or for the account of Shipper by Transporter at the point(s) of delivery. Transporter shall be in exclusive control and possession of such gas while same is in the System between the point of receipt and the point(s) of delivery. The party which shall be in exclusive control and possession of such gas shall be responsible for all injury or damage caused thereby.

ARTICLE X FORCE MAJEURE

10.1 Force Majeure. Neither party shall be responsible or held liable for any loss or damage resulting from failure to perform its obligations due to any cause beyond its reasonable control; provided, however, that such force majeure affecting the performance hereunder by either Shipper or Transporter shall not relieve such party of liability in the event of its own concurring negligence or in the event of its own failure to use due diligence to remedy the situation and to remove the cause in an adequate manner and with all reasonable dispatch; provided further, that no such causes affecting such performance shall relieve either party from its obligations to make payments as determined hereunder or entitle either party to exercise any right To offset against any such payment obligation.

10.2 Definition. The term "force majeure" as used herein shall mean acts of God, strikes, lockouts, or other industrial disturbances; acts of a public enemy, wars, blockades, insurrection, riots, epidemics, landslides, lightning, earthquakes, fires,

storms, floods, washouts, arrests and restraints of the government, either federal or state, civil or military, civil disturbances, shutdowns for purposes of necessary repairs, relocation, or construction of facilities; breakage or accident to machinery or lines of pipe; the necessity for testing (as required by governmental authority or as deemed necessary by repairs or alterations to machinery or lines of pipe); failure of surface equipment or pipelines, accidents, breakdowns, inability of either party hereto to obtain necessary material, supplies, or permits, or labor to perform or comply with an obligation or condition of this Agreement, rights of way, and any other causes, whether of the kind herein enumerated or otherwise, which are not reasonably in the control of the party claiming suspension. It is understood and agreed that the settlement of strikes or lockouts shall be entirely within the discretion of the party having the difficulty and that the above requirement that any force majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes or lockouts by acceding to the demands of an opposing party when such course is inadvisable in the discretion of the party having the difficulty.

ARTICLE XI INTERRUPTIONS

11.1 Notice of Interruption. Transporter shall at all times attempt to operate, or cause to be operated, its System in a manner designed to make possible, as nearly as practicable, continuous receipt of gas from, and delivery of gas to, Shipper in the respective quantities provided for in Shipper's TSA. If an interruption or curtailment of such receipt and/or delivery shall become necessary, Transporter shall at once attempt to notify Shipper by facsimile or telephone or other prompt means of communication of the nature, extent and probable duration of such interruption or curtailment and of the quantity of gas which Transporter estimates it will be able to receive from and deliver to Shipper during the period of interruption or curtailment, and shall give like notice of the cessation of such interruption or curtailment.

11.2 Allocation of Reduced Capacity. If the effective capacity of all or a portion of Transporter's System is reduced as a result of force majeure, repairs, maintenance or any other cause, whether similar or dissimilar, and some curtailment of the quantity of gas to be received from shippers under their transportation agreements is required as a result, the reduced capacity shall, during the period of curtailment, be allocated proportionately, according to their respective Maximum Daily Quantities, among those shippers whose gas must be received or delivered at or transported through, the affected facilities.

11.3 Scheduling of Receipts and Deliveries. Transporter shall schedule all quantities tendered under all services performed by Transporter in sequence as follows: first to Transporter's firm transportation shippers, and second to other Rate Schedules that may be approved, in the order of priority as may be approved by the SDPUC or other regulatory bodies with jurisdiction.

ARTICLE XII

INCORPORATION IN RATE SCHEDULES AND TRANSPORTATION AGREEMENTS

12.1 These General Terms and Conditions are incorporated in and are part of Transporter's Rate Schedules and Transportation Service Agreements. In the event of a conflict between these General Terms and Conditions and terms in Transporter's Rate Schedules or TSAs, these General Terms and Conditions shall govern.

RATE SCHEDULE - FIRM TRANSPORTATION SERVICE

1.0 Availability. This Rate Schedule is available for the transportation of natural gas on an firm basis for any Shipper where (i) Transporter has determined that sufficient System capacity exists to provide the service requested by Shipper, and (ii) Shipper has executed a Transportation Service Agreement ("TSA") wherein Transporter agrees to transport gas for Shipper's account up to a specific maximum daily quantity.

2.0 Gas Supply; Upstream Transportation, New Facilities. Shipper shall be responsible for arranging for all natural gas supplies and interstate transportation of Shipper's gas on Northern to the point of receipt. Shipper must pay for all facilities required to physically connect to AMPIP's pipeline.

3.0 Receipts and Deliveries. The Point of Receipt for all gas transporter by Transporter under this Rate Schedule shall be at the interconnection of Transporter's System with Northern located near Marion, South Dakota. The Point(s) of Delivery shall be at the point(s) designated in the Exhibit A attached to Shipper's TSA.

4.0 Rates and Charges. The rates for service under this Rate Schedule are as follows:

	<u>Base Rate</u>	<u>Lost & Unaccounted Gas Percentage</u>
Transportation Service	\$0.99/MMBTU	1%
Authorized Overrun Service	\$0.99 per Dkt	

However, Transporter has the right at any time and from time to time to file with the SDPUC to adjust the rates applicable to service under this Rate Schedule.

5.0 Daily Tolerance; Penalty Provisions. The daily tolerance level (+/-) from Shipper's daily scheduled volume shall be the daily variance established in Northern's Tariff. Unless otherwise agreed, in the event the daily quantity of gas delivered by Shipper deviates above or below the daily scheduled volume in excess of the Northern Tariff tolerance level, and Transporter is assessed charges or penalties by Northern, Shipper shall pay, in addition to the appropriate rates contained in this tariff, an amount equal to any payment AMPIP is required to make to Northern.

6.0 General Terms and Conditions. Any terms or conditions not specified in this Rate Schedule shall be determined consistent with Transporter's General Terms and Conditions, which are incorporated by reference into this Rate Schedule.

0141.52.114

AMPI PIPELINE, INC
NEW ULM, MINNESOTA
GAS TRANSPORTATION SERVICE TARIFF SDPUC NO. 1

FIRST REVISED SHEET NO. 17

Sheets 17 to 20 reserved for future use.

Issued on: 09/05/97
SDPUC Docket No.

Issued by: Harlan Mammen
President

Effective: 09/08/97
Order Date:

INDEX OF SHIPPERS

<u>Shipper</u>	<u>Rate Schedule</u>	<u>Effective Date</u>	<u>Expiration Date</u>
Associated Milk Producers, Inc.	FT	12/01/95	10/31/2010
City of Freeman, South Dakota	FT	09/01/97	10/31/2007

AGREEMENT FORMS
FIRM TRANSPORTATION

AMPI INTRASTATE PIPELINE, INC
TRANSPORTATION SERVICE AGREEMENT

WITH

[insert shipper name]

Dated [insert date]

This NATURAL GAS TRANSPORTATION SERVICE AGREEMENT ("Agreement") is made this ____ day of _____, 19____, by and between AMPI Intrastate Pipeline Company, a South Dakota corporation ("Transporter"), and _____, a _____ corporation ("Shipper").

WITNESSETH:

WHEREAS, Transporter owns and operates a twenty mile intrastate natural gas distribution pipeline ("System") in McCook and Hutchinson Counties, South Dakota, subject to the jurisdiction of South Dakota Public Utilities Commission (the "SDPUC"); and

WHEREAS, Shipper desires to have natural gas transported on Transporter's System to Shipper's System, and

WHEREAS, Transporter is willing to provide such natural gas transportation service pursuant to the terms and conditions of its Transportation Service Tariff, SDPUC No. 1 and this Agreement;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties do covenant and agree as follows:

ARTICLE 1

1.1 Obligation to Transport. Commencing with initial in-service date hereunder, Transporter shall receive at the point of receipt for the account of Shipper all gas which Shipper may cause to be delivered to Transporter, up to Shipper's Contract Demand as set forth in Exhibit A hereto, and transport such gas to the point(s) of receipt on an interruptible basis.

The transportation and delivery of gas hereunder is on a firm basis. Shipper agrees to cease using gas to the extent and for the periods of interruption requested by Transporter. Transporter will not be liable for any loss, injury or damage resulting to Shipper, its assigns or others, arising from the interruption or curtailment of gas service.

1.2 Term. This Agreement shall have an initial term commencing on _____ and continuing for a period of _____ Contract Years thereafter. Unless terminated on six months written notice to Transporter prior to the termination date, this Agreement will continue in effect from year-to-year thereafter until terminated by Transporter or Shipper by six months written notice to the other party.

1.3 Maximum Daily Quantities. Subject to Transporter's prior approval, Shipper from time to time shall stipulate a Maximum Daily Quantity of gas for delivery at each point of delivery. The initial Contract Demand shall be set forth in Exhibit A attached hereto. Any updating or other modification of Exhibit A as provided in this Paragraph 1.3 shall not be effective unless and until the updated or modified Exhibit A shall have been duly executed or initialed by both parties, subject to any necessary regulatory approval. Such a revised Exhibit A shall replace the prior Exhibit A and, by this reference, shall become a part of this Agreement. The daily deliveries at any point of receipt may exceed the Maximum Daily Quantity specified for such point of receipt on a temporary basis, provided the System in Transporter's sole judgment can accommodate the excess quantity.

1.4 Transportation Charge. Unless otherwise agreed, Transporter's charge to Shipper for transporting Shipper's quantities pursuant to this Agreement shall be the maximum rate set forth in Transporter's Transportation Service Tariff, SDPUC No. 1 (hereafter "Tariff") in effect from time to time.

1.5 Overrun Services. Upon request of Shipper and at Transporter's option, Transporter may receive and deliver for Shipper's account, on any day, quantities of gas in excess of Shipper's Maximum Daily Quantity; however, such quantities shall be received and delivered on a best efforts basis. Unless otherwise agreed, such overrun deliveries shall be subject to the maximum Authorized Overrun Transportation ("AOT") commodity rate set forth in Transporter's Tariff in effect from time to time.

ARTICLE II

2.1 Changes in Rates and Charges. The service under this Agreement shall be supplied pursuant to the Rate Schedule and General Terms and Conditions of Transporter's Tariff as they now exist or may be changes from time to time. Transporter shall have the unilateral rights to file with the SDPUC or other appropriate regulatory authority to make changes in (a) the rates, charges, terms and conditions applicable to service pursuant to the Rate Schedule under which this service is rendered; and (b) any provision of the General Terms and Conditions in Transporter's Tariff. Without prejudice to Shipper's right to contest such changes, Shipper agrees to pay the effective rates and charges for service rendered pursuant to this Agreement.

2.2 Warranty. Shipper warrants for itself, its successors and assigns, that it will have at the time of delivery of gas for transportation hereunder good title or the good right to deliver such gas. Transporter warrants for itself, its successors and assigns, that it will at the time of delivery to others of the gas transported hereunder have good right to deliver such gas to others. Shipper warrants for itself, its successors and assigns, that the gas it delivers hereunder shall be free and clear of all liens, encumbrances and claims whatsoever. Shipper further warrants that it will indemnify Transporter and save it harmless from all suits, actions, debts, accounts, damages, costs, losses and expenses arising from or out of any adverse claims of any and all persons to said gas and/or to royalties, taxes, license fees or charges thereon which are applicable to such delivery of gas and that it will indemnify Transporter and save it harmless from all taxes or assessments which may be levied and assessed upon such delivery and which are by law payable by, and the obligation of, the party receiving such delivery.

2.3 Regulations. This Agreement, and all terms and provisions contained herein, and the respective obligations of the parties hereunder are subject to valid laws, orders, rules and regulations of duly constituted authorities having jurisdiction. Shipper shall furnish to Transporter all information as may be required to comply with the reporting requirements of duly constituted authorities having jurisdiction over the subject matter herein.

2.4 Notices. Except as herein otherwise provided, any notice, request, demand, statement, bill, or payment provided for in this Agreement, or any notice which either party may desire to give to the other, shall be in writing and shall be considered as duly delivered when mailed by registered or certified mail return receipt requested to the Address of the parties hereto as follows:

TO TRANSPORTER:

AMPI Intrastate Pipeline
Attention: General Manager
General Office
315 North Broadway
New Ulm, MN 56073

TO SHIPPER:

City of Freeman, South Dakota
Attention: Mr Michael Schultz
P.O. Box 178
Freeman, South Dakota 57029-0178

or such other address as the parties may designate by written notice. Routine communications including monthly statements and payments, shall be considered as duly delivered when mailed by either registered, certified or ordinary mail.

2.5 Waivers. No waiver by either Shipper or Transporter of any one or more defaults in the performance of any provision hereunder shall operate or be construed as a waiver of any future default or defaults, whether of a like or a different character.

2.6 Applicable Law. This Agreement shall be governed by and interpreted in accordance with laws of the state of South Dakota.

2.7 Assignment. This Agreement is binding upon Transporter and Shipper, their successor and assigns. Either party may assign or pledge this Agreement under the provisions of any mortgage, deed of trust, indenture or similar instrument which it has executed or may execute hereafter covering substantially all of its properties, otherwise neither of the parties shall assign this Agreement or any of its rights hereunder unless it first shall have obtained the consent thereto in writing of the other party, which shall not be unreasonably withheld.

2.8 Dispute Resolution. Any controversy or claim arising out of or relating to this Agreement, or the alleged breach thereof, shall be subject to initial resolution by mediation. If Transporter and Shipper are unable to reach a resolution by mediation, then the controversy or claim may be submitted to the SDPUC for resolution. This Section shall survive the termination of this Agreement as necessary to resolve any disputes arising under this Agreement.

2.9 No Third Party Beneficiary. No provision of this Agreement shall be in any way inure to the benefit of any third person (including the public at large) so as to constitute any such person as a third party beneficiary of the Agreement or of any one or more of the terms hereof, or otherwise given rise to any cause of action in any person not a party hereto.

2.10 Exhibits. Exhibit A attached hereto is incorporated by reference and made part of this Agreement for all purposes.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by a duly authorized officer.

AMPI Intrastate Pipeline, Inc.

By _____

Title _____

Date _____

[Shipper Name]

By _____

Title _____

Date _____

Exhibit A
Transportation Service Agreement
AMPI Intrastate Pipeline

Receipt Point

Meter No.

Delivery Point(s)

Meter No.

Annual Quantity: _____ Dkt

Maximum Daily Quantity: _____ Dkt

Transporter shall deliver Shipper's gas at a rate of flow not to exceed _____ cubic feet per hour at the point of delivery. Gas shall be delivered at such pressures and temperatures as may exist under the System operating conditions at such point of delivery. Operating pressures at this location shall normally be between _____ psig and _____ psig.

Sheets 28 to 100 reserved for future use.

Issued on: 09/05/97
SDPUC Docket No.:

Issued by: Harlan Mammen
President

Effective: 09/08/97
Order Date:

AMPI PIPELINE, INC.
TRANSPORTATION SERVICE AGREEMENT
WITH
CITY OF FREEMAN, SOUTH DAKOTA
Dated September __, 1997

This NATURAL GAS TRANSPORTATION SERVICE AGREEMENT ("Agreement") is made this ___ day of September, 1997, by and between AMPI Pipeline, Inc., a South Dakota corporation ("Transporter"), and the City of Freeman, a South Dakota municipal corporation ("Shipper").

WITNESSETH:

WHEREAS, Transporter owns and operates a twenty mile intrastate natural gas distribution pipeline ("Transporter's System") in McCook, Turner and Hutchinson Counties, South Dakota, subject to the jurisdiction of South Dakota Public Utilities Commission (the "SDPUC"); and

WHEREAS, Shipper is constructing a municipal natural gas utility system ("Shipper's System") with a planned in-service date on or about October 1, 1997; and

WHEREAS, Shipper desires to have natural gas transported on Transporter's System to Shipper's System, starting on the initial in-service date of Shipper's System; and

WHEREAS, Transporter is willing to provide such natural gas transportation service pursuant to the terms and conditions of its Transportation Service Tariff, SDPUC No. 1 (hereafter "Tariff") and this Agreement;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties do covenant and agree as follows:

ARTICLE I

1.1 Obligation to Transport Commencing with initial in-service date hereunder, Transporter shall receive at the point of receipt for the account of Shipper all gas which Shipper may cause to be delivered to Transporter, up to Shipper's Contract Demand as set forth in Exhibit A hereto, and transport such gas to the point(s) of delivery on a firm basis.

1.2 Term This Agreement shall have an initial term commencing on the in-service date and continuing for a period of ten (10) Contract Years thereafter. For the purposes of this Agreement, the term "initial in-service date" shall mean October 1, 1997, unless such date is changed by circumstances beyond the control of the parties. Unless terminated on six months written notice to Transporter prior to the termination date, this Agreement will continue in effect

from year-to-year thereafter until terminated by Transporter or Shipper by six months written notice to the other party. The first Contract Year shall be the period from the in-service date to October 31, 1998.

1.3 Maximum Daily Quantities. Subject to Transporter's prior approval, Shipper from time to time shall stipulate a Maximum Daily Quantity of gas for delivery at each point of delivery. The initial Contract Demand shall be set forth in Exhibit A attached hereto. Any updating or other modification of Exhibit A as provided in this Paragraph 1.3 shall not be effective unless and until the updated or modified Exhibit A shall have been duly executed or initialed by both parties, subject to any necessary regulatory approval. Such a revised Exhibit A shall replace the prior Exhibit A and, by this reference, shall become a part of this Agreement. The daily volumes at any point of receipt may exceed the Maximum Daily Quantity specified for such point of receipt on a temporary basis, provided Transporter's System in Transporter's sole judgment can accommodate the excess quantity.

1.4 Transportation Charge. Unless otherwise agreed, Transporter's charge to Shipper for transporting Shipper's quantities pursuant to this Agreement shall be the maximum rate set forth in Transporter's Tariff in effect from time to time.

1.5 Overrun Services. Upon request of Shipper and at Transporter's option, Transporter may receive and deliver for Shipper's account, on any day, quantities of gas in excess of Shipper's Maximum Daily Quantity; however, such quantities shall be received and delivered on a best efforts basis. Unless otherwise agreed, such overrun deliveries shall be subject to the maximum Authorized Overrun Transportation ("AOT") commodity rate set forth in Transporter's Tariff in effect from time to time.

ARTICLE II

2.1 Changes in Rates and Charges. The service under this Agreement shall be supplied pursuant to the Rate Schedule and General Terms and Conditions of Transporter's Tariff as they now exist or may be changes from time to time. Transporter shall have the unilateral right to file with the SDPUC or other appropriate regulatory authority to make changes in (a) the rates, charges, terms and conditions applicable to service pursuant to the Rate Schedule under which this service is rendered; and (b) any provision of the General Terms and Conditions in Transporter's Tariff. Without prejudice to Shipper's right to contest such changes, Shipper agrees to pay the effective rates and charges for service rendered pursuant to this Agreement.

2.2 Warranty. Shipper warrants for itself, its successors and assigns, that it will have at the time of delivery of gas for transportation hereunder good title or the good right to deliver such gas. Transporter warrants for itself, its successors and assigns, that it will at the time of delivery to others of the gas transported hereunder have good right to deliver such gas to others. Shipper warrants for itself, its successors and assigns, that the gas it delivers hereunder shall be free and clear of all liens, encumbrances and claims whatsoever. Shipper further warrants that it will indemnify Transporter and save it harmless from all suits, actions, debts, accounts, damages, costs, losses and expenses arising from or out of any adverse claims of any and all persons to

said gas and/or to royalties, taxes, license fees or charges thereon which are applicable to such delivery of gas and that it will indemnify Transporter and save it harmless from all taxes or assessments which may be levied and assessed upon such delivery and which are by law payable by, and the obligation of, the party receiving such delivery.

2.3 Regulations. This Agreement, and all terms and provisions contained herein, and the respective obligations of the parties hereunder are subject to valid laws, orders, rules and regulations of duly constituted authorities having jurisdiction. Shipper shall furnish to Transporter all information as may be required to comply with the reporting requirements of duly constituted authorities having jurisdiction over the subject matter herein.

2.4 Notices. Except as herein otherwise provided, any notice, request, demand, statement, bill, or payment provided for in this Agreement, or any notice which either party may desire to give to the other, shall be in writing and shall be considered as duly delivered when mailed by First Class U.S. Mail to the Address of the parties hereto as follows:

TO TRANSPORTER:

AMPI Pipeline, Inc.
Attention: General Manager
136 East Railway
P.O. Box 430
Freeman, South Dakota 57109

TO SHIPPER:

City of Freeman
Attention: Mr. Michael Schultz
P.O. Box 178
Freeman, South Dakota 57029-0178

or such other address as the parties may designate by written notice. Routine communications including monthly statements and payments, shall be considered as duly delivered when mailed by First Class U.S. Mail, overnight courier, or facsimile (with telephone confirmation of receipt).

2.5 Waivers. No waiver by either Shipper or Transporter of any one or more defaults in the performance of any provision hereunder shall operate or be construed as a waiver of any future default or defaults, whether of a like or a different character.

2.6 Applicable Law. This Agreement shall be governed by and interpreted in accordance with laws of the state of South Dakota.

2.7 Assignment. This Agreement is binding upon Transporter and Shipper, their successor and assigns. Either party may assign or pledge this Agreement under the provisions of any mortgage, deed of trust, indenture or similar instrument which it has executed or may

execute hereafter covering substantially all of its properties; otherwise neither of the parties shall assign this Agreement or any of its rights hereunder unless it first shall have obtained the consent thereto in writing of the other party, which shall not be unreasonably withheld.

2.8 Dispute Resolution. Any controversy or claim arising out of or relating to this Agreement, or the alleged breach thereof, shall be subject to initial resolution by mediation. If Transporter and Shipper are unable to reach a resolution by mediation, then the controversy or claim may be submitted to the SDPUC for resolution. This Section shall survive the termination of this Agreement as necessary to resolve any disputes arising under this Agreement.

2.9 No Third Party Beneficiary. No provision of this Agreement shall be in any way inure to the benefit of any third person (including the public at large) so as to constitute any such person as a third party beneficiary of the Agreement or of any one or more of the terms hereof, or otherwise given rise to any cause of action in any person not a party hereto.

2.10 Exhibits. Exhibit A attached hereto is incorporated by reference and made part of this Agreement for all purposes.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by a duly authorized officer.

AMPI Pipeline, Inc.

By: _____

Title: _____

Date: _____

City of Freeman, South Dakota, A Municipal Corporation

By: _____

Title: _____

Date: _____

Exhibit A
Transportation Service Agreement
AMPI Intrastate Pipeline

Receipt Point

Meter No.

Delivery Point(s)

Meter No.

Annual Quantity

_____ Dkt

Maximum Daily Quantity

_____ Dkt

Transporter shall deliver Shipper's gas at a rate of flow not to exceed _____ cubic feet per hour at the point of delivery. Gas shall be delivered at such pressures and temperatures as may exist under the System operating conditions at such point of delivery. Operating pressures at this location shall normally be between _____ psig and _____ psig.

Exhibit No. 5

Statements Required By Chapter 20:10:13

AMPI Pipeline, Inc.
List of Statements Included With This Filing or Not Applicable
Pursuant to Chapter 20:10:13

Rule	Statements	Explanation
20:10:13.51	Statement A Balance Sheets	Not Applicable (1)
20:10:13.52	Statement B Income Statements	Not Applicable (1)
20:10:13.53	Statement C Earned Surplus	Not Applicable (1)
20:10:13.54	Statement D Cost of Plant	See Statement D
20:10:13.55	Schedule D-1 Plant Account Detail	See Statement D-1
20:10:13.56	Schedule D-2 Plant Additions, Retirements	See Statement D-2
20:10:13.57	Schedule D-3 Working Papers-Plant in Test Year	Not Applicable (1)
20:10:13.58	Schedule D-4 Working Papers-Plant for Previous Year	Not Applicable (1)
20:10:13.59	Schedule D-5 Working Papers-Capitalized Interest	See Statement D-5
20:10:13.60	Schedule D-6 Working Papers-Changes in Intangible Plant	Not Applicable (1)
20:10:13.61	Schedule D-7 Working Papers-Plant not Used and Useful	Not Applicable (1)
20:10:13.62	Schedule D-8 Working Papers-Property Records	Not Applicable (1)
20:10:13.63	Schedule D-9 Working Papers-Unapproved Acquired Plant	Not Applicable (1)
20:10:13.64	Statement E Accumulated Depreciation	See Statement E
20:10:13.65	Statement E-1 Working Papers-Change in Accumulated Depreciation	Not Applicable (1)
20:10:13.66	Schedule E-2 Working Papers-Depreciation Method	See Statement E-2
20:10:13.67	Schedule E-3 Working Papers-Allocation of Overall Accounts	Not Applicable (1)
20:10:13.68	Statement F Working Capital	Not Applicable (1)
20:10:13.69	Schedule F-1 Monthly M&S, Fuel Stocks, Prepayments	Not Applicable (1)
20:10:13.70	Schedule F-2 Monthly M&S Two Previous Years	Not Applicable (1)
20:10:13.71	Schedule F-3 Data Used for Working Capital	Not Applicable (1)
20:10:13.72	Statement G Rate of Return, Debt Capital, Preferred Stock Capital,	See Statement G
20:10:13.75	Common Stock Capital	
20:10:13.76	Schedule G-1 Stock Dividends, Splits, or Changes	Not Applicable (2)
20:10:13.77	Schedule G-2 Common Stock Information	Not Applicable (2)
20:10:13.78	Schedule G-3 Reacquisition of Bonds or Preferred Stocks	Not Applicable (2)
20:10:13.79	Schedule G-4 Earnings per Share for Claimed Rate of Return	Not Applicable (2)
20:10:13.80	Statement H Operating and Maintenance Expenses (O&M)	See Statement H
20:10:13.81	Schedule H-1 Adjustments to O&M	Not Applicable (1)
20:10:13.82	Schedule H-2 Cost of Power and Gas	Not Applicable (1)
20:10:13.83	Schedule H-3 Working Papers for Listed Expense Accounts	Not Applicable (1)
20:10:13.84	Schedule H-4 Working Papers-Interdepartmental Transactions	Not Applicable (1)
20:10:13.85	Statement I Operating Revenues	See Statement I
20:10:13.86	Statement J Depreciation Expense	See Statement J
20:10:13.87	Schedule J-1 Other Depreciation/Amortization Expenses	Not Applicable
20:10:13.88	Statement K Income Taxes	Not Applicable
20:10:13.89	Schedule K-1 Working Papers-Federal Income Taxes	See Statement K
20:10:13.90	Schedule K-2 Book vs. Tax Depreciation Differences	Not Applicable
20:10:13.91	Schedule K-3 Working Papers-Consolidated Fed. Income Taxes	Not Applicable
20:10:13.92	Schedule K-4 Working Papers-Current Tax Greater than Consolidated	Not Applicable
20:10:13.93	Schedule K-5 Working Papers- Allowance for State Income Taxes	Not Applicable
20:10:13.94	Statement L Other Taxes	See Statement L
20:10:13.95	Schedule L-1 Working Papers for Other Taxes	Not Applicable

AMPI Pipeline, Inc.
List of Statements Included With This Filing or Not Applicable
Pursuant to Chapter 20:10:13

<u>Rule</u>	<u>Statements</u>	<u>Explanation</u>
20:10:13-96	Statement M Overall Cost of Service	See Statement M
20:10:13-97	Statement N Allocated Cost of Service	See Statement N
20:10:13-98	Statement O Comparison of Cost of Service	Not Applicable
20:10:13-99	Schedule O-1 Derivation of Increased Rates	Not Applicable
20:10:13-100	Statement P Fuel Cost Adjustment Factor	Not Applicable
20:10:13-101	Statement Q Description of Utility Operations	See Statement Q
20:10:13-102	Statement R Purchases from Affiliated Companies	See Statement R

- (1) AMPIP requests waiver of this filing requirement and statement. AMPIP serves only two customers, AMPI and the City of Freeman, SD. Both customers concur with the proposed tariff and rate. To reduce the rate case expenses associated with the filing, AMPIP seeks waiver of the filing statements which are normally required but which do not directly support the cost of service, Statement M. Also, because AMPIP has been operating only since late 1995, the statement data may not exist.
- (2) There have been no stock dividends, stock splits or changes in par or stated value. AMPIP has not issued any common or preferred stock or bonds. All AMPIP financial arrangements are met through loan agreements with AMPI.

Statement D

AMPI Pipeline, Inc.

Cost of Plant - Rule 20:10:13:54

<u>Line No.</u>	<u>Functional Classification</u>	<u>Balance</u>
1	Distribution Plant	\$1,256,056

Line No 1 - Total distribution plant used in Statement M, Page 1 of 3, Line 1, Column C.
Amount is determined on Schedule 4 of Exhibit 2.

AMPI Pipeline, Inc.

Detailed Plant Accounts - Rule 20:10:13:55

It is anticipated that all of the distribution plant will be included in Account 101.

AMPI Pipeline, Inc.

Plant Additions, Retirements - Rule 20:10:13:56

There are no material additions or retirements anticipated by AMPIP. However, as discussed elsewhere in this filing, a 7,675 foot portion of 6" polyethylene pipeline and metering equipment will be sold to the City of Freeman Municipal Gas Utility. The sale is at net book value of \$111,600 representing no gain or loss on the sale assets. Since the amount is less than \$200,000, no express approval for sale of utility assets is required by the Commission.

AMPI Pipeline, Inc.

Capitalized Interest and Other Overheads During Construction - Rule 20:10:13:59

Interest was capitalized into plant in service on the dates shown:

<u>Date</u>	<u>Description</u>	<u>Amount</u>
12/31/95	Capitalized Interest - AMPI	\$ 4,975.72
1/31/96	Capitalized Interest - AMPI	9,805.35
2/29/96	Capitalized Interest - AMPI	<u>9,230.61</u>
	Total	\$ 24,011.68

Statement E

AMPI Pipeline, Inc.

Accumulated Depreciation - Rule 20:10:13:64

AMPIP is depreciating the pipeline over 40 years at a rate of 2.45%. Statement M contains the overall cost of service study including depreciation expense and the effect of accumulated depreciation over the book life of the plant.

AMPI Pipeline, Inc.

Working Papers on Depreciation and Amortization Method - Rule 20:10:13:66

AMPIP utilizes straight-line depreciation for the pipeline at a rate of 2.45%, which is \$30,704 per year. Statement M, the overall cost of service study, includes depreciation expense and the effect of accumulated depreciation over the book life of the plant. Schedule 4 of Exhibit 2 shows the determination of the amount.

Statement G

AMPI Pipeline, Inc.

Rate of Return and Debt Capital - Rules 20:10:13:72 and 20:10:13:73

Associated Milk Producers, Inc. (AMPI) will finance all debt for its subsidiary AMPI Pipeline (AMPIP). AMPI will provide all necessary operating capital for AMPIP at a rate of 9%.

AMPI Pipeline, Inc.

Operating and Maintenance Expense - Rule 20:10:13:80

The operating and maintenance expenses contained in Statement M are as follows. The amounts are based on AMPIP books and records. Because AMPIP has only been in operation for a short period of time, some reasonable estimates have been included. Sources and notes are shown.

	Amount	Annual Escalator	1 Year Escalated Amount
	(A)	(B)	(C)
(1) Contracted Operating and Maintenance Day to day operations and maintenance of pipeline facility	\$12,000	2.0%	\$12,240
(2) AMPIP Operating and Maintenance Costs Training, readings, patrolling of line by local AMPI personnel	\$1,740	3.5%	\$1,801
(3) Corporate Services Management, clerical, accounting and tax work	\$6,710	3.5%	\$6,945
(4) Audit and Legal Fees Outside legal and audit fees	\$1,700	3.5%	\$1,760
(5) Insurance Annual Fee	\$15,000	0.0%	\$15,000
(6) OPS Assessment Office of Pipeline Safety	\$1,500	0.0%	\$1,500
(7) Regulatory Fees Gross Receipts tax and DOT Pipeline Safety Assessment	<u>\$800</u>	0.0%	<u>\$800</u>
(8) Total	<u>\$39,450</u>	1.5%	<u>\$40,045</u>

Sources and Notes:

Line 1, Column A: Per AMPIP contract with NSP NGS for pipeline operations and maintenance services.

Line 1, Column B: Contract escalator.

Lines 1 - 7, Column C: Year 2 level of cost with escalator applied to year 1 historical-based amounts.

Line 2, Column A: AMPIP direct costs of employee pipeline maintenance activities.

Lines 2, 3, and 4, Column B: Annual escalator based on anticipated inflation.

Continued...

AMPI Pipeline, Inc.

Operating and Maintenance Expense - Rule 20:10:13:80

- Line 3, Column A: Portion of AMPI corporate costs associated with the pipeline.
Line 4, Column A: Audit and legal fees based on actual results.
Line 5, Column A: Insurance costs based on actual results.
Line 6, Column A: OPS assessment based on actual results.
Line 7, Column A: Regulatory fees based on actual results.
Line 8, Columns A and C: Sum of year 1 and year 2, respectively, O&M costs from Lines 1 - 7.
Line 8, Column B: Weighted annual O&M escalator based on expenses and individual escalators shown on Lines 1 - 7.

Statement I

AMPI Pipeline, Inc.

Operating Revenues - Rule 20:10:13:85

Revenues of \$211,860 per year will be recovered from AMPI and the City of Freeman, South Dakota. The amount is the result of applying the volumetric rate of \$0.99 per Mcf to the annual projected transportation volume of 214,000 Mcf.

AMPI Pipeline, Inc.

Depreciation Expense - Rule 20:10:13:86

As described in Statement E, AMPPIP proposes to utilize a 2.45% annual depreciation rate. Based on the total cost of the pipeline facilities, the annual depreciation amount will be \$30,704. The overall cost of service can be found in Statement M. Schedule 4 of Exhibit 2 shows the determination of depreciation expense.

Statement K

AMPI Pipeline, Inc.

Income Taxes - Rule 20:10:13:88

AMPIP has no equity financing, and thus will not incur income tax expense. All costs will be deductible for income tax purposes. For cost of service purposes, book depreciation has been assumed to be equal to tax depreciation. Thus, deferred income taxes are not included in Statement M.

Statement L

AMPI Pipeline, Inc.

Other Taxes - Rule 20:10:13:94

Based upon actual liabilities, Property taxes for the proposed pipeline are 2.43%. Property taxes for the first year were \$2,470. Property taxes in 1996 were \$33,240 (prior to the asset sale to Freeman). Thereafter, an annual escalator of 2.75% has been considered. The overall cost of service can be found in Statement M and in Exhibit 2. Schedule 4 of Exhibit 2 shows development of the property tax amount for Statement M.

AMPI Pipeline, Inc.

Cost of Service - Rule 20:10:13:96

The cost of service for AMPIP is shown on the following three schedules. These same schedules are replicated as Schedule 3, Pages 1 - 3, of Exhibit 2.

Page 1 of Statement M (Schedule 3 of Exhibit 2) shows development of the cost of service elements by year for 45 years. Column J reflects the present value of those amounts in total.

Page 2 of Statement M (Schedule 3 of Exhibit 2) depicts the determination of the levelized annual revenue requirements factor of 16.87%. In Column G, that factor applied to gross plant investment of \$1,256,056 yields annual revenue requirements of \$211,897.

Page 3 of Statement M (Schedule 3 of Exhibit 2) is a listing of sources and notes for the previous two pages.

AMPI Pipeline, Inc.
Statement M - Cost of Service

Levelized Annual Revenue Requirement - See Page 3 of 3 for Sources and Notes

Schedule 3

Page 1 of 3

Capital Structure (CS)										
		Cost		Weight		Weighted Cost				
(CS1) Equity		0.00%		0.00%		0.0000%				
(CS2) Preferred Stock		0.00%		0.00%		0.0000%				
(CS3) Long-term Debt		9.00%		100.00%		9.0000%				
(CS4) Short-term Debt		0.00%		0.00%		0.0000%				
(CS5)				100.00%		9.0000%		9.0000%		
Time Period	Year	Plant in Service Additions (C)	Net Investment Rate Base (D)	Debt Return (E)	Book Dep'n (F)	Operating Expenses (G)	Property Taxes (H)	Total Revenue Requirement (I)	Present Value of Revenue Deficiency (Excess) (J)	
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	
(1)	0	1995	1,256,056	1,240,704	55,832	15,352	39,450	2,470	113,104	113,104
(2)	1	1996	0	1,210,000	110,282	30,704	40,045	30,528	211,559	194,091
(3)	2	1997	0	1,179,296	107,518	30,704	40,649	31,368	210,239	176,954
(4)	3	1998	0	1,148,592	104,755	30,704	41,263	32,230	208,952	161,349
(5)	4	1999	0	1,117,888	101,992	30,704	41,885	33,116	207,697	147,138
(6)	5	2000	0	1,087,184	99,228	30,704	42,517	34,027	206,477	134,196
(7)	6	2001	0	1,056,480	96,465	30,704	43,159	34,963	205,291	122,408
(8)	7	2002	0	1,025,776	93,702	30,704	43,810	35,924	204,140	111,672
(9)	8	2003	0	995,072	90,938	30,704	44,471	36,912	203,026	101,892
(10)	9	2004	0	964,368	88,175	30,704	45,142	37,927	201,948	92,983
(11)	10	2005	0	933,664	85,411	30,704	45,823	38,970	200,909	84,866
(12)	11	2006	0	902,960	82,648	30,704	46,515	40,042	199,909	77,471
(13)	12	2007	0	872,256	79,885	30,704	47,217	41,143	198,949	70,733
(14)	13	2008	0	841,552	77,121	30,704	47,929	42,275	198,029	64,593
(15)	14	2009	0	810,848	74,358	30,704	48,652	43,437	197,151	58,997
(16)	15	2010	0	780,144	71,595	30,704	49,386	44,632	196,317	53,896
(17)	16	2011	0	749,440	68,831	30,704	50,132	45,859	195,526	49,247
(18)	17	2012	0	718,736	66,068	30,704	50,888	47,120	194,780	45,008
(19)	18	2013	0	688,032	63,305	30,704	51,656	48,416	194,080	41,144
(20)	19	2014	0	657,328	60,541	30,704	52,435	49,748	193,428	37,620
(21)	20	2015	0	626,624	57,778	30,704	53,226	51,116	192,824	34,406
(22)	21	2016	0	595,920	55,014	30,704	54,030	52,521	192,269	31,474
(23)	22	2017	0	565,216	52,251	30,704	54,845	53,966	191,765	28,800
(24)	23	2018	0	534,512	49,488	30,704	55,672	55,450	191,314	26,359
(25)	24	2019	0	503,808	46,724	30,704	56,512	56,974	190,915	24,133
(26)	25	2020	0	473,104	43,961	30,704	57,365	58,541	190,571	22,100
(27)	26	2021	0	442,400	41,198	30,704	58,231	60,151	190,283	20,245
(28)	27	2022	0	411,696	38,434	30,704	59,109	61,805	190,053	18,551
(29)	28	2023	0	380,992	35,671	30,704	60,001	63,505	189,881	17,004
(30)	29	2024	0	350,288	32,908	30,704	60,906	65,251	189,769	15,590
(31)	30	2025	0	319,584	30,144	30,704	61,825	67,046	189,719	14,299
(32)	31	2026	0	288,880	27,381	30,704	62,758	68,890	189,733	13,120
(33)	32	2027	0	258,176	24,618	30,704	63,705	70,784	189,811	12,041
(34)	33	2028	0	227,472	21,854	30,704	64,666	72,731	189,955	11,055
(35)	34	2029	0	196,768	19,091	30,704	65,642	74,731	190,168	10,154
(36)	35	2030	0	166,064	16,327	30,704	66,633	76,786	190,450	9,329
(37)	36	2031	0	135,360	13,564	30,704	67,638	78,897	190,803	8,575
(38)	37	2032	0	104,656	10,801	30,704	68,659	81,067	191,230	7,885
(39)	38	2033	0	73,952	8,037	30,704	69,695	83,296	191,732	7,253
(40)	39	2034	0	43,248	5,274	30,704	70,746	85,587	192,311	6,674
(41)	40	2035	0	12,544	2,511	30,704	71,814	87,941	192,969	6,144
(42)	41	2036	0	0	564	12,544	72,897	90,359	176,365	5,151
(43)	42	2037	0	0	0	0	73,997	92,844	166,841	4,471
(44)	43	2038	0	0	0	0	75,114	95,397	170,511	4,192
(45)	44	2039	0	0	0	0	76,247	98,021	174,268	3,931
(46)	45	2040	0	0	0	0	77,398	100,716	178,114	3,686
(47) Project Totals		1,256,056		2,312,243	1,256,056	2,592,358	2,655,481	8,816,137	2,305,982	

Levelized Annual Revenue Requirement - LARR			
(RR1)	\$87,398	\$31,799	\$50,761
			\$41,967

LARR - As a % of Original Cost			
(RR2)	6.96%	2.53%	4.04%
			3.34%

	9.0000%	9.0000%	9.0000%	9.0000%	Present Value		
	Present Value	Present Value	Present Value	Present Value	of Revenue		
	of Debt	of Book	of Operating	of Current	Requirements		
	Return	Depreciation	Expenses	Property Taxes	or (Excess)	Summary - LARR	Amounts
	(A)	(B)	(C)	(D)	(E)	(F)	(G)
(1)	55,832	15,352	79,450	2,470	113,104	Return	6.96%
(2)	101,176	28,169	36,739	28,007	194,091	Depreciation	2.53%
(3)	90,496	25,843	34,214	26,401	176,954	O&M and Prop Taxes	7.38%
(4)	80,890	23,799	31,862	24,888	161,349		
(5)	72,253	21,751	29,673	23,461	147,138	Total LARR	16.87%
(6)	64,492	19,955	27,633	22,315	134,196		
(7)	57,519	18,308	25,734	20,847	122,408		
(8)	51,258	16,796	23,966	19,652	111,672	Plant In Service	\$1,256,056
(9)	45,639	15,409	22,319	18,525	101,892		
(10)	40,598	14,137	20,785	17,463	92,983	Annual Requirement	\$211,897
(11)	36,079	12,970	19,356	16,462	84,866		
(12)	32,029	11,899	18,026	15,518	77,471		
(13)	28,402	10,916	16,787	14,628	70,733		
(14)	25,155	10,015	15,633	13,789	64,593		
(15)	22,251	9,188	14,559	12,998	58,997		
(16)	19,655	8,429	13,558	12,253	53,896		
(17)	17,337	7,733	12,627	11,551	49,247		
(18)	15,267	7,095	11,759	10,888	45,008		
(19)	13,420	6,509	10,951	10,264	41,144		
(20)	11,775	5,972	10,198	9,675	37,620		
(21)	10,309	5,479	9,497	9,121	34,406		
(22)	9,006	5,026	8,845	8,598	31,474		
(23)	7,847	4,611	8,237	8,105	28,800		
(24)	6,818	4,230	7,671	7,640	26,359		
(25)	5,906	3,881	7,143	7,202	24,133		
(26)	5,098	3,561	6,652	6,789	22,100		
(27)	4,383	3,267	6,195	6,400	20,245		
(28)	3,751	2,997	5,770	6,033	18,551		
(29)	3,194	2,749	5,373	5,687	17,004		
(30)	2,704	2,522	5,004	5,361	15,590		
(31)	2,272	2,314	4,660	5,053	14,299		
(32)	1,893	2,123	4,340	4,764	13,120		
(33)	1,562	1,948	4,041	4,490	12,041		
(34)	1,272	1,787	3,764	4,233	11,055		
(35)	1,019	1,639	3,505	3,990	10,154		
(36)	800	1,504	3,264	3,761	9,329		
(37)	610	1,380	3,040	3,546	8,575		
(38)	445	1,266	2,831	3,342	7,885		
(39)	304	1,161	2,636	3,151	7,253		
(40)	183	1,066	2,455	2,970	6,674		
(41)	80	978	2,286	2,800	6,144		
(42)	16	366	2,129	2,639	5,151		
(43)	0	0	1,983	2,488	4,471		
(44)	0	0	1,847	2,345	4,192		
(45)	0	0	1,720	2,211	3,931		
(46)	0	0	1,602	2,084	3,686		
(47)	950,996	346,012	552,317	456,657	2,305,982		

AMPI Pipeline, Inc.
Statement M - Cost of Service
Levelized Annual Revenue Requirement
Sources and Notes

Schedule 3
Page 3 of 3

Schedule 3, Page 1 of 3:

Lines CS1 - CS5: AMPIP Cost of Capital Debt only @ 9% Interest Rate
Line 1, Column A: Time Period for present value calculation
Line 1, Column B: Year in service. Present value is life cycle beginning in 1995
Line 1, Column C: Net pipeline expenditures. Reduced for sale of 7,675' to City of Freeman for \$111,600.
Lines 1 - 46, Column D: Net investment reduced for accumulated depreciation for each year
Line 1, Column E: One-half of end of first year investment (\$1,240,704.2) applied to debt cost (9%)
Line 1, Column F: Book depreciation per AMPIP adjusted for sale of 7,675' to Freeman (half year). See Schedule 4
Line 1, Column G: See Schedule 5
Line 1, Column H: Actual Property Taxes per AMPIP for first year
Lines 1 - 46, Column I: Sum of Columns E - H for corresponding lines
Lines 1 - 46, Column J: Present Value of Column I @ Overall Cost of Capital (9%)
Lines 2 - 46, Column E: Average net investment applied to debt cost (9%)
Lines 2 - 46, Column F: Book depreciation per AMPIP adjusted for sale of 7,675' to Freeman. See Schedule 4
Lines 2 - 46, Column G: Operating expenses per Schedule 5, escalated at rate determined on Schedule 5
Lines 2 - 46, Column H: Property taxes per AMPIP adjusted for sale of 7,675' to Freeman. See Schedule 4. Escalated at 2.5% annually.
Line 47: Check total.

Schedule 3, Page 2 of 3:

Line RR1: The levelized annual revenue requirements of the items reflected in the columns below
Line RR2: The percent of original cost (\$1,256,056) for the levelized revenue requirements shown on RR1
Lines 1 - 46, Columns A - D: Annual present value of each revenue requirement component shown. The nominal amounts are from Schedule 3, Page 2 of 3, Columns E - H
Lines 1 - 46, Column E: Annual present value of total revenue requirements. Matches Column J on Schedule 3, Page 1 of 3.
Line 47, Columns A - E: Total of annual present value amounts for each column. These amounts are then discounted to arrive at the amounts shown on Line RR1.
Column F and G: Summary of Levelized Annual Revenue Requirements. Column F describes each component. Column G shows the LARR rate by component and the total. The LARR rate of 16.79% on Line 5, Column G is applied to the original cost of the pipeline shown on Line 8, Column G to arrive at the levelized annual revenue requirements shown on Line 10, Column G of \$210,892. This amount is carried forward to Schedule 2 to determine the pipeline rate.

AMPI Pipeline, Inc.

Allocated Cost of Service: 20:10:13:97

AMPIP expects that all of its revenue will initially be generated by the transportation of natural gas for two customers, AMPI and the City of Freeman, South Dakota. Based on projected usage in the first full year of the City Municipal Utility, AMPI will pay approximately 67% of the total revenue requirement and the City Utility approximately 33%. If AMPIP adds other customers at a later date, AMPIP will file with the Commission to establish rates, tariffs and cost allocations by class.

AMPI Pipeline, Inc.

Description of Utility Operations: 20:10:13:101

AMPIP operates an intrastate natural gas pipeline extending from a point on the existing Northern Natural Gas interstate pipeline located at township 101 North, Range 54 West, Section 24, in McCook County, South Dakota, south along 447th Avenue to Turner County #10, west along County #10 to Turner County #15, south along County #10 to State Highway #44 again west along Highway #44 to US 81 and then south along Highway 81. The pipeline ends at a district regulating station in the SE 1/4 of Section 26, township 99N, Range 56W in Hutchinson County.

Since the pipeline began operations, the sole customer has been AMPI's milk processing plant in Freeman, SD. The rate proposed herein is to allow for service to both AMPI and a newly established municipal gas distribution utility in Freeman, SD. The AMPI plant will also be a retail transportation customer of the City of Freeman. The City of Freeman has concurred with the proposed rate. Mayor Michael Schultz has filed a statement of concurrence with this application.

In the future, AMPIP may install additional taps for deliveries to potential customers along the proposed route as customer requests arise. If necessary, AMPIP would file additional initial tariffs and rates as services may be added.

AMPI Pipeline, Inc.

Purchases from Affiliated Companies: 20:10:13:102

AMPIP is a wholly-owned subsidiary company of AMPI. To minimize operating costs, AMPIP utilizes services from the parent company in its day to day operations. Below is an explanation of those services and the amounts charged to AMPIP. This information is also shown on Schedule 5 of Exhibit 2, herein, and is addressed by Witness Mr. Winter in his testimony in Exhibit 2.

Annual Charges from AMPI to AMPIP
Year 1

AMPIP - O & M Costs	\$1,740
Training, readings, patrolling of line by local AMPI personnel	
Corporate Services	<u>\$6,710</u>
Management, clerical, accounting and tax work	
Total Charges to AMPIP from AMPI	\$8,450

AMPI direct costs and corporate services are provided as a means of minimizing resource requirements for both AMPI and AMPIP.

AMPIP - O & M costs are primarily AMPI personnel used for patrolling the pipeline and providing meter readings and other operating data. Because they are located in Freeman and charge only a portion of their time, it is the most inexpensive alternative for this service.

Corporate services are related to tax and reporting requirements of AMPIP and AMPI, as well as general management of the pipeline business as a subsidiary of AMPI. A portion of management and management support time is included, as well as professional internal services related to accounting, auditing, and reporting. As with the direct costs, because the services provided are a portion of various employees' time, and they are familiar with the business, using their services is the lowest cost and most effective alternative.

Affiliate rate of return data associated with the provision of the services discussed above is not available.

Direct Testimony and Schedules
Mr. Harlan Mammen

Before the South Dakota Public Utilities Commission

In the Matter of the Application to Establish Revised Transportation Rates for
Associated Milk Producers Pipeline, Inc.

Docket No. _____
Exhibit No. 1

September 1997



Mr. Harlan Mammen
Project Support
Docket No. _____

1 Q. Please state your name, business address and position with Associated Milk Producers
2 Pipeline, Inc.

3 A. My name is Harlan Mammen. I am the President of AMPI Pipeline Inc., ("AMPIP")
4 which is an intrastate natural gas pipeline operated in McCook, Turner and Hutchinson
5 counties in southeastern South Dakota. The AMPIP pipeline currently serves the
6 Associated Milk Producers, Inc. ("AMPI") plant in Freeman, South Dakota. AMPIP is a
7 wholly-owned subsidiary of AMPI.

8
9 Q. Have you previously testified before the South Dakota Public Utilities Commission
10 ("SDPUC")?

11 A. Yes. I have provided written testimony before the Commission in Docket No. NG95-
12 017. That filing established the initial transportation rates on the AMPIP pipeline.

13
14 Q. What are your current responsibilities, education and professional background?

15 A. As Assistant Regional Manager of AMPI, my current responsibilities include direct
16 responsibility for manufacturing operations at fourteen processing plants in five
17 midwestern states, including the plant located in Freeman, South Dakota.

18
19 Q. What is the purpose of your testimony?

20 A. The purpose of my testimony is to explain the history of AMPIP and to explain how
21 AMPIP will provide natural gas transportation service for the municipal gas utility being
22 established by the City of Freeman, and explain the economic benefits to both parties.

23
24 Q. Please explain the history of AMPIP, Inc.

25 A. AMPI is a national milk producing cooperative operating in twenty states. AMPI's
26 corporate headquarters are located in San Antonio Texas. AMPI has one facility located
27 in the State of South Dakota, in Freeman. Prior to the installation of AMPIP, production
28 costs at this Freeman facility were substantially higher than at any other AMPI plant.

04-01-2014-11-08

Mr. Harlan Mammen
Project Support
Docket No. _____

1 This was due, in large part to the fact that the Freeman AMPI plant was the only AMPI
2 site without natural gas service. Two years ago, AMPI studied the feasibility of
3 providing natural gas to the plant located in Freeman. The most economical way to do
4 this was to establish a direct connection to the Northern Natural Gas Company interstate
5 pipeline system near Marion, SD. However, because of certain FERC regulatory
6 requirements, and to provide future flexibility, AMPI created AMPIP as a subsidiary of
7 AMPI to own and operate the intrastate natural gas pipeline, subject to the Commission's
8 rate and tariff jurisdiction. In November 1995, AMPIP filed an application with the
9 Commission to establish initial transportation rates for the pipeline. That application was
10 approved by the Commission.
11

12 Q. What has occurred since AMPIP went into service?

13 A. The initial pipeline was structured to allow flexibility to respond to future developments.
14 We expected that retail natural gas service could be extended to the residents and
15 businesses in Freeman at some future time. As I understand it, the City studied several
16 options and has decided to establish a municipal gas utility to provide this service. The
17 City utility would purchase wholesale transportation service from the AMPIP line. The
18 City utility would purchase natural gas supplies from a third party, and interstate
19 transportation from Northern Natural. AMPIP will not provide sales service.
20

21 The City, having decided to go ahead with forming a municipal gas utility, approached
22 AMPIP about the possibility of AMPIP allowing the City to tap the AMPIP line and
23 serve retail customers in the City. AMPIP has agreed to provide this access to the City
24 under its Tariff and contract form on file with the Commission. The tariff rate and terms
25 and conditions of service to AMPI and the City Utility will be the same, so AMPIP will
26 provide service on a non-discriminatory basis.

0141152245
Mr. Harlan Mammen
Project Support
Docket No. _____

1

2 Q. Has Freeman reviewed the rates and tariff terms and conditions proposed here?

3

4 A. Yes. Freeman has reviewed the tariff and associated rates contained in this filing and
5 believes these rates and tariffs meet their requirements to provide economic, reliable
6 natural gas service to the citizens and businesses of Freeman. The mayor, Mike Schultz,
7 has provided a Certificate of Concurrence which is attached to this filing as Exhibit 3,
8 indicating the City supports the proposed rate and tariff. The proposed rates are thus
9 uncontested and should be promptly approved by the Commission.

10

11 Q. Are any facility changes required?

12

13 A. In order for the City to establish it's gas utility, AMPIP will sell a small portion of the
14 current pipeline to the City. The portion of the pipeline to be sold is inside the City
15 boundaries and connects the AMPI plant to AMPIP. As a result, the AMPI plant will
16 become a retail transportation customer of the City utility. AMPIP will sell the portion of
17 pipe to the City for \$111,600, which is the net book value on AMPIP's books and
18 records. As I understand the requirements of SDPUC 49-34A-35, this sale is not subject
19 to Commission approval because it involves less than \$200,000.

20

21 Q. What are the benefits of AMPIP providing wholesale natural gas transportation service to
22 the City Municipal Utility?

23 A. Natural gas service, including the cost of gas supply, has produced energy cost savings
24 for AMPI compared to the cost of alternative fuels. Moreover, retail customers of the
25 City Utility would also presumably enjoy energy cost savings if they take service through
26 the pipeline and the City Utility. The City Utility and AMPI will share the use of
27 AMPIP, reducing the cost to AMPI, and using the facilities more efficiently. The public
28 interest will be served.

Mr. Harlan Mammen
Project Support
Docket No. _____

1

2 Q. Who will provide the gas supply for Freeman to be transported through AMPIP?

3 A. As the Commission knows, over the last decade the FERC has restructured the wholesale
4 interstate pipeline industry. Northern Natural no longer provides gas supply services.
5 Instead, Freeman can directly contract with any one of a number of wholesale gas
6 suppliers, using Northern and AMPIP only for transportation services.

7

8 Q. What tariff changes are proposed to the AMPIP tariff?

9 A. Most importantly, of course, the rate contained in the Firm Transportation rate schedule
10 has been changed to reflect the cost of service in testimony sponsored by Mr. John
11 Winter. Mr. Winter uses the AMPI and City Utility's billing determinants to arrive at the
12 Firm Transportation rate of \$0.99.

13

14 In addition, AMPIP is changing the definition of "gas day" to reflect the changes to
15 Northern's FERC tariff to implement new Gas Industry Standards Board ("GISB")
16 standards. FERC mandated all interstate pipelines use a "gas day" starting at 9:00 central
17 clock time; Northern previously used a 12:00 Noon gas day.

18

19 AMPIP is also adding provisions whereby it can pass through to a shipper any imbalance
20 penalties from Northern caused by the shipper. Northern received FERC approval to
21 modify its imbalance penalty structure, including imposing "critical day" penalties of up
22 to \$113 per dkt, in order to maintain system integrity. See FERC Docket No. RP96-302.
23 AMPIP does not anticipate such penalties being imposed on AMPIP since AMPI and the
24 City Utility, or their supplier, will hold the transportation contract on Northern and
25 should bear any imbalance penalties. However, if a penalty is imposed on AMPIP by
26 Northern as a result of the actions of a shipper, the shipper should reimburse AMPIP
27 since the cost of service supporting the proposed transportation rates does not include any
28 penalty costs.

Mr. Harlan Mammen
Project Support
Docket No. _____

1
2 Finally, AMPIP is proposing a few "clean-up" changes which are not substantive. As I
3 stated earlier, the City Utility has reviewed the proposed tariff, transportation contract and
4 rate, and supports prompt Commission approval. The changes are proposed to be
5 effective 30 days after filing.
6

7 Q. Do you have any final comments?

8 A. AMPIP views this proposal as a significant economic development step for the City of
9 Freeman and southeastern South Dakota. The project will make the City of Freeman
10 more competitive, and should help attract economic development to the area. I hope the
11 Commission will agree by approving the proposed tariff and rate effective 30 days after
12 filing, so that natural gas deliveries may take place prior to the 1997-1998 heating season.
13

14 Q. Does this conclude your testimony?

15 A. Yes.

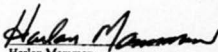
AFFIDAVIT

STATE OF MINNESOTA)
)
COUNTY OF BROWN)

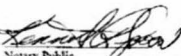
Affiant, having been first duly sworn, on oath deposes and says:

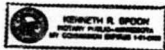
That he has read the foregoing testimony and if asked the questions therein his answers in response would be as shown;

That the facts contained in said answers are true to the best of his knowledge and belief.


Harlan Mammen

SUBSCRIBED AND SWORN to me before me this 3rd day of September, 1997.


Notary Public



Direct Testimony and Schedules
John Winter

Before the South Dakota Public Utilities Commission

In the Matter of the Application to Establish Revised Transportation Rates
for Associated Milk Producers Pipeline, Inc.

Docket _____
Exhibit No. 2

September 1997



1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

Q Please state your name, position, and business address.

A My name is John Winter. My position is Sr. Regulatory Consultant within the Regulatory Services Department of Northern States Power Company ("NSP"). My business address is 414 Nicollet Mall in Minneapolis, MN.

Q What are your current responsibilities?

A I am responsible for providing project management and team participation on various regulatory projects, particularly in the area of rates. I provide expert testimony, including development of underlying technical cost support, for the revenue requirements aspects of NSP regulatory proceedings. The cost support I prepare involves gathering revenue, expense, and plant investment data and determining the appropriate amounts related to the provision of utility services. My internal NSP clients include NSP-South Dakota, NSP-North Dakota, NSP-Electric (wholesale and transmission), and NSP-Natural Gas Services.

Q What is your educational and professional background?

A Schedule 1 contains a summary of my educational and professional background.

Q Have you testified previously before this Commission?

A As shown on Schedule 1, I appeared before this Commission in a Conservation Cost Recovery case. I also submitted cost of service testimony in Docket F-3422. The case was subsequently settled. I have provided direct and indirect support for numerous regulatory projects in South Dakota since the late 1970's.

1
2
3 Q. What is your role in this proceeding and the purpose of your testimony?

4 A. I am providing internal consulting services to NSP-Natural Gas Services ("NGS"), a
5 division of NSP's Gas Utility. In this proceeding, NGS is providing consulting services
6 to Associated Milk Producers, Inc. Pipeline ("AMPIP"), a subsidiary of Associated Milk
7 Producers, Inc. ("AMPI"), and the City of Freeman, South Dakota ("City"), to develop
8 and establish a rate for intrastate transportation for natural gas delivered on AMPIP to
9 AMPI and Freeman's new municipal gas utility. Using cost data provided by AMPIP,
10 my testimony describes the cost of service for the pipeline and establishes the proposed
11 volumetric pipeline rate. AMPI and the City both contract with other parties for natural
12 gas supply and AMPIP transports the gas. Mr. Harlan Mammen, Assistant Regional
13 General Manager of AMPI and President of AMPIP, describes the AMPIP/Freeman
14 contract in greater detail in his testimony.
15

16 Q. Please generally describe the development of the pipeline rate.

17 A. The pipeline rate is developed on Schedule 2 of my exhibits. Schedules 3 - 5 support that
18 calculation. Consistent with Docket NG95-017, a levelized annual revenue requirement
19 factor is developed and applied to gross plant investment to determine the annual revenue
20 requirements of the pipeline system. The factor includes components reflecting debt
21 service, depreciation, property taxes, operating and maintenance expenses, property
22 insurance, and regulatory fees. The components are escalated where appropriate over a
23 45 year period, and then discounted at AMPIP's cost of capital to determine the levelized
24 annual revenue requirements of \$211,897. The proposed volumetric rate of \$0.99/Mcf is
25 determined by dividing the annual revenue requirements by the anticipated transportation
26 volumes of 214,000 Mcf. This rate, if approved, will be applied to all transportation
27 services for AMPI and Freeman's Municipal Gas Utility as described in the Gas
28 Transportation Service Tariff Schedules, Exhibit No. 4 of this filing. The City will own
29 and operate its municipal distribution system and provide retail transportation service to
30 AMPI. This is not subject to SDPUC regulation.

- 1
- 2
- 3
- 4 Q Please describe in more detail your development of the pipeline revenue requirements
- 5 beginning with the pipeline investment.
- 6 A Schedule 3, Page 1 of 3, shows the components of the pipeline's projected revenue
- 7 requirements over the first 45 years of operation. AMPIP's original cost investment in
- 8 the pipeline is \$1,256,056 and is developed on my Schedule 4. It is also shown in
- 9 Column C of Schedule 3, Page 1 of 3. That amount reflects AMPIP's original cost of the
- 10 pipeline less the value of a small segment within the City of Freeman. The City will
- 11 purchase that segment for \$111,600. The investment is recovered over a 40 year book
- 12 life at the rate of \$30,704 per year. The annual depreciation is also developed on
- 13 Schedule 4 and incorporated on Page 1 of 3 of Schedule 3 in Column F. This amount has
- 14 been reduced to reflect the portion sold to the City. Property taxes begin at \$30,576 per
- 15 year (1996), reduced for the portion sold to the City, and are developed on Schedule 4
- 16 and incorporated on Page 1 of 3 of Schedule 3 in Column H. The property tax amounts
- 17 are escalated at 2.75% per year. Tax depreciation uses alternative Modified Accelerated
- 18 Cost Recovery System (MACRS) with a 22 year tax life on a straight line basis. The
- 19 half-year convention is also used.
- 20
- 21 Q Does the tax vs. book depreciation differences have an impact on the proposed rate?
- 22 A. Essentially, there is no impact. I have simplified the revenue requirements calculation by
- 23 setting tax depreciation equal to book depreciation. Since this is a leveled
- 24 determination, the result is essentially the same as if the tax vs. book differences were
- 25 deferred and later flowed back.
- 26
- 27 Q. What have you used for cost of capital?
- 28 A. I have included interest on the pipeline debt at 9%, which is the rate on AMPIP's note
- 29 payable.
- 30

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

Q. Please describe how you have estimated operating and maintenance expenses (O&M)?

A. Based on AMPIP's actual results of operations since 1995, I have incorporated their estimates of first year O&M expenses. I have shown those expenses, \$39,450, on my Schedule 5. In addition, I have included reasonable escalators for each component of O&M reflecting historical, contractual, and expected increases over time. I then calculated the weighted overall escalator of 1.5%, which I used in determining the annual O&M over the life of the project.

Q. What was the result of your levelized annual present value calculation?

A. I determined that the levelized annual revenue requirement of the pipeline is \$211,897. This amount is shown on Page 2 of 3, Schedule 3, and again in Schedule 2 where the pipeline rate is developed.

Q. Have you provided additional detail about your determination of AMPIP's proposed rate?

A. Yes. Each of Schedules 2 - 5 include a section showing Sources and Notes. These references provide additional documentation for the cost of service.

Q. Please describe the required filing statements included with this application.

A. Exhibit 5 of this filing consists of the required filing statements per Chapter 20:10:13 of the South Dakota Administrative Rules. The initial pages of that exhibit list the statements included, or that are not applicable. The reasons certain statements are not applicable is described on page two of the listing. Waiver of those statements not applicable is respectfully requested of the Commission.

1

2

3 Q. Is AMPIP proposing some form of purchased cost of gas adjustment mechanism?

4 A. Yes. Not unlike typical gas local distribution companies, AMPIP will be exclusively a
5 gas transporter and will not provide sales service. However, AMPIP proposes to pass
6 along uncontrollable charges imposed by Northern Natural Gas, the upstream interstate
7 pipeline. The City may, in turn, elect to pass those costs on to its customers in its retail
8 rates. Section 5.1 in the Gas Service Tariff, First Revised Sheet No. 16 discusses the
9 pipeline cost adjustment.

10

11 Q. Do you have any concluding remarks?

12 A. Yes. The proposed rates are comparable to other utilities, reasonable, and represent a
13 good value to energy supply. AMPIP respectfully requests Commission approval of
14 AMPIP's proposed rates for intrastate transportation to its shippers (AMPI and Freeman,
15 SD).

16

17 Q. Has the City of Freeman agreed to these rates?

18 A. Yes. In his Statement of Concurrence, Freeman's Mayor Michael Schultz expresses
19 agreement on behalf of the Freeman with the proposed tariff terms, conditions, and rates.
20 This consent to the proposed rates provides additional support for the Commission to
21 approve the proposed rates without suspension.

22

23 Q. Does this conclude your testimony?

24 A. Yes it does.

25

Exhibit 2

List of Schedules

Schedule 1	Resume of John Winter
Schedule 2	Pipeline Rate
Schedule 3	Cost of Service (Statement M)
Schedule 4	Plant Investment and Related Costs
Schedule 5	Operating Expenses

JOHN D. WINTER, CPA
Sr. Regulatory Consultant - Regulatory Services
414 Nicollet Mall
Mpls., MN 55401

CURRENT RESPONSIBILITIES (June 1992 - Present)

Directly responsible for providing project management and team participation on various regulatory projects, particularly in the area of rates. Provide expert testimony, including development of underlying technical cost support, for the revenue requirements aspects of regulatory proceedings. Internal clients are Northern States Power Company (NSP)-South Dakota, NSP-North Dakota, NSP-Electric (wholesale and transmission), and NSP-Natural Gas Services. Responsibilities frequently include overall project management/coordination. Leadership for the project team and participants is critical. A significant aspect of the position is the need to build credible and effective relationships with regulators in all jurisdictions.

EMPLOYMENT HISTORY (Northern States Power Company)

Sr. Regulatory Consultant	1994 - Present
Assistant to the Chief Financial Officer	1992 - 1993
Director, Financial Accounting, Budgets, and Reports	1990 - 1992
Director, Electric Finance and Information Management	1989 - 1990
Director, Electric Finance	1988 - 1989
Manager, Electric Financial Planning & Administration	1984 - 1988
Administrator, Revenue Requirements	1983 - 1984
Sr. Rate Analyst/Rate Analyst, Revenue Requirements	1979 - 1983
Accountant Sr., General Accounting	1977 - 1979
Accounting Specialist, Material Accounting	1976 - 1977

EDUCATION

Electric Utility System Operation	1993
The Masters Forum	1991 - 1992
Strategic Cost Management, Tuck at Dartmouth	1991
Public Utility Finance Seminar, Kidder Peabody	1989
Bachelor of Science - Accounting, University of Minnesota	1976

PROFESSIONAL CERTIFICATION AND ASSOCIATIONS

Certified Public Accountant (CPA) - Minnesota
Member, American Institute of CPA's (AICPA)
Member, Minnesota Society of CPA's

PREVIOUS TESTIMONY

FERC Application for Merger Approval (Primergy)	ER95-1358-000
North Dakota Application for Merger Approval (Primergy)	PU-400-95-340
North Dakota - Electric	PU-400-94-514
FERC Open Access Transmission Tariff	ER94-1113-000
FERC Transmission - Order 84 Sales for Resale	ER94-1090-000
FERC Wholesale	ER93-385-000
North Dakota - Electric	PU-400-92-399
Minnesota - Electric (Budgets and Budget Process)	E002/GR-91-001
South Dakota - Electric	F-3422
South Dakota Conservation Cost Recovery	PUC Hearing, 1981

AMPI Pipeline, Inc.
Freeman, South Dakota Rate
Pipeline Rate

Schedule 2

	<u>Volume / Amount</u>	<u>Volumetric Rates</u>
	(A)	(B)
(1) Annual MCF	214,000	
(2) Annualized Revenue Requirements	\$211,897	
(3) Total Blended Volumetric Rate		<u>\$0.99</u>

Sources and Notes

- Line 1: Sales volume estimates, first full year. Per Freeman, AMPIP.
Line 2: Schedule 3, Page 2 of 2. Referred to as "Annual Requirement".
Line 3: Line 2 divided by Line 1 above.

AMPI Pipeline, Inc.
Statement M - Cost of Service
Levelized Annual Revenue Requirement - See Page 3 of 3 for Sources and Notes

Schedule 3
Page 1 of 3

Capital Structure (CS)			
	Cost	Weight	Weighted Cost
(CS1) Equity	0.00%	0.00%	0.0000%
(CS2) Preferred Stock	0.00%	0.00%	0.0000%
(CS3) Long-term Debt	9.00%	100.00%	9.0000%
(CS4) Short-term Debt	0.00%	0.00%	0.0000%
(CS5)	0.00%	100.00%	9.0000%

9.0000%
Present Value
of Revenue
Deficiency or
(Excess)

Present Value of Revenue Deficiency or (Excess)									
Time Period	Year	Service Additions	Net Investment Rate Base	Debt Return	Book Dep'n	Operating Expenses	Property Taxes	Total Revenue Requirement	Deficiency or (Excess)
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
(1)	0	1995	1,256,056	1,240,704	55,832	15,352	39,450	2,470	113,104
(2)	1	1996	0	1,210,000	110,282	30,704	40,045	30,528	211,559
(3)	2	1997	0	1,179,296	107,518	30,704	40,649	31,368	210,239
(4)	3	1998	0	1,148,592	104,755	30,704	41,263	32,230	208,952
(5)	4	1999	0	1,117,888	101,992	30,704	41,885	33,116	207,607
(6)	5	2000	0	1,087,184	99,228	30,704	42,517	34,027	206,477
(7)	6	2001	0	1,056,480	96,465	30,704	43,159	34,963	205,291
(8)	7	2002	0	1,025,776	93,702	30,704	43,810	35,924	204,140
(9)	8	2003	0	995,072	90,938	30,704	44,471	36,912	203,026
(10)	9	2004	0	964,368	88,175	30,704	45,142	37,927	201,948
(11)	10	2005	0	933,664	85,411	30,704	45,823	38,970	200,909
(12)	11	2006	0	902,960	82,648	30,704	46,515	40,042	199,909
(13)	12	2007	0	872,256	79,885	30,704	47,217	41,143	198,949
(14)	13	2008	0	841,552	77,121	30,704	47,929	42,275	198,029
(15)	14	2009	0	810,848	74,358	30,704	48,652	43,437	197,151
(16)	15	2010	0	780,144	71,595	30,704	49,386	44,632	196,317
(17)	16	2011	0	749,440	68,831	30,704	50,132	45,859	195,526
(18)	17	2012	0	718,736	66,068	30,704	50,888	47,120	194,780
(19)	18	2013	0	688,032	63,305	30,704	51,656	48,416	194,080
(20)	19	2014	0	657,328	60,541	30,704	52,435	49,748	193,428
(21)	20	2015	0	626,624	57,778	30,704	53,226	51,116	192,824
(22)	21	2016	0	595,920	55,014	30,704	54,030	52,521	192,269
(23)	22	2017	0	565,216	52,251	30,704	54,845	53,966	191,765
(24)	23	2018	0	534,512	49,488	30,704	55,672	55,450	191,314
(25)	24	2019	0	503,808	46,724	30,704	56,512	56,974	190,915
(26)	25	2020	0	473,104	43,961	30,704	57,365	58,541	190,571
(27)	26	2021	0	442,400	41,198	30,704	58,231	60,151	190,283
(28)	27	2022	0	411,696	38,434	30,704	59,109	61,805	190,053
(29)	28	2023	0	380,992	35,671	30,704	60,001	63,505	189,881
(30)	29	2024	0	350,288	32,908	30,704	60,906	65,251	189,769
(31)	30	2025	0	319,584	30,144	30,704	61,825	67,046	189,719
(32)	31	2026	0	288,880	27,381	30,704	62,758	68,890	189,733
(33)	32	2027	0	258,176	24,618	30,704	63,705	70,784	189,811
(34)	33	2028	0	227,472	21,854	30,704	64,666	72,731	189,955
(35)	34	2029	0	196,768	19,091	30,704	65,642	74,731	190,168
(36)	35	2030	0	166,064	16,327	30,704	66,633	76,786	190,450
(37)	36	2031	0	135,360	13,564	30,704	67,638	78,897	190,803
(38)	37	2032	0	104,656	10,801	30,704	68,659	81,067	191,230
(39)	38	2033	0	73,952	8,037	30,704	69,695	83,296	191,732
(40)	39	2034	0	43,248	5,274	30,704	70,746	85,587	192,311
(41)	40	2035	0	12,544	2,511	30,704	71,814	87,941	192,969
(42)	41	2036	0	0	564	12,544	72,897	90,359	176,365
(43)	42	2037	0	0	0	0	73,997	92,844	166,841
(44)	43	2038	0	0	0	0	75,114	95,397	170,511
(45)	44	2039	0	0	0	0	76,247	98,021	174,268
(46)	45	2040	0	0	0	0	77,398	100,716	178,114
(47) Project Totals		1,256,056		2,312,243	1,256,056	2,592,358	2,655,481	8,816,137	2,305,982

Levelized Annual Revenue Requirement - See Page 3 of 3 for Sources and Notes

Levelized Annual Revenue Requirement - LARR				
(RR1)	\$87,398	\$31,799	\$50,761	\$41,967

LARR - As a % of Original Cost				
(RR2)	6.96%	2.53%	4.04%	3.34%

	9.0000%	9.0000%	9.0000%	9.0000%	Present Value of Revenue Requirements	Summary - LARR	Amounts
	Present Value of Debt	Present Value of Book Depreciation	Present Value of Operating Expenses	Present Value of Current Property Taxes	or (Excess)	(F)	(G)
	(A)	(B)	(C)	(D)	(E)		
(1)	55,832	15,352	39,450	2,470	113,104	Return	6.96%
(2)	101,176	28,169	36,739	28,007	194,091	Depreciation	2.53%
(3)	90,496	25,843	34,214	26,401	176,954	O&M and Prop Taxes	7.38%
(4)	80,890	23,709	31,862	24,888	161,349		
(5)	72,253	21,751	29,673	23,461	147,138	Total LARR	16.87%
(6)	64,492	19,955	27,633	22,115	134,196		
(7)	57,519	18,308	25,734	20,847	122,408		
(8)	51,258	16,796	23,966	19,652	111,672	Plant In Service	\$1,256,056
(9)	45,639	15,409	22,319	18,525	101,892		
(10)	40,598	14,137	20,785	17,463	92,983	Annual Requirement	\$211,897
(11)	36,079	12,970	19,356	16,462	84,866		
(12)	32,029	11,899	18,026	15,518	77,471		
(13)	28,402	10,916	16,787	14,628	70,733		
(14)	25,155	10,015	15,633	13,789	64,593		
(15)	22,251	9,188	14,559	12,998	58,997		
(16)	19,655	8,429	13,558	12,253	53,896		
(17)	17,337	7,733	12,627	11,551	49,247		
(18)	15,267	7,095	11,759	10,888	45,008		
(19)	13,420	6,509	10,951	10,264	41,144		
(20)	11,775	5,972	10,198	9,675	37,620		
(21)	10,309	5,479	9,497	9,121	34,406		
(22)	9,006	5,026	8,845	8,598	31,474		
(23)	7,847	4,611	8,237	8,105	28,800		
(24)	6,818	4,230	7,671	7,640	26,359		
(25)	5,906	3,881	7,143	7,202	24,133		
(26)	5,098	3,563	6,652	6,789	22,100		
(27)	4,383	3,267	6,195	6,400	20,245		
(28)	3,751	2,997	5,770	6,033	18,551		
(29)	3,194	2,749	5,373	5,687	17,004		
(30)	2,704	2,522	5,004	5,361	15,590		
(31)	2,272	2,314	4,660	5,053	14,299		
(32)	1,893	2,123	4,340	4,764	13,120		
(33)	1,562	1,948	4,041	4,490	12,041		
(34)	1,272	1,787	3,764	4,233	11,055		
(35)	1,019	1,679	3,505	3,990	10,154		
(36)	800	1,504	3,264	3,761	9,329		
(37)	610	1,380	3,040	3,546	8,575		
(38)	445	1,266	2,831	3,342	7,885		
(39)	304	1,161	2,636	3,151	7,253		
(40)	183	1,066	2,455	2,970	6,674		
(41)	80	978	2,286	2,800	6,144		
(42)	16	866	2,129	2,639	5,151		
(43)	0	0	1,983	2,488	4,471		
(44)	0	0	1,847	2,345	4,192		
(45)	0	0	1,720	2,211	3,931		
(46)	0	0	1,602	2,084	3,686		
(47)	950,996	346,612	552,317	456,657	2,305,982		

AMPI Pipeline, Inc.
Statement M - Cost of Service
Levelized Annual Revenue Requirement
Sources and Notes

Schedule 3
Page 3 of 3

Schedule 3, Page 1 of 3:

Lines CS1 - CS5: AMPIP Cost of Capital: Debt only at 9% Interest Rate
Line 1, Column A: Time Period for present value calculation
Line 1, Column B: Year in service: Present value is life cycle beginning in 1995
Line 1, Column C: Net pipeline expenditures: Reduced for sale of 7,675' to City of Freeman for \$111,600.
Lines 1 - 46, Column D: Net investment reduced for accumulated depreciation for each year
Line 1, Column E: One-half of end of first year investment (\$1,240,704/2) applied to debt cost (9%)
Line 1, Column F: Book depreciation per AMPIP adjusted for sale of 7,675' to Freeman (half year). See Schedule 4.
Line 1, Column G: See Schedule 5.
Line 1, Column H: Actual Property Taxes per AMPIP for first year
Lines 1 - 46, Column I: Sum of Columns E - H for corresponding lines
Lines 1 - 46, Column J: Present Value of Column I @ Overall Cost of Capital (9%)
Lines 2 - 46, Column E: Average net investment applied to debt cost (9%)
Lines 2 - 46, Column F: Book depreciation per AMPIP adjusted for sale of 7,675' to Freeman. See Schedule 4.
Lines 2 - 46, Column G: Operating expenses per Schedule 5, escalated at rate determined on Schedule 5.
Lines 2 - 46, Column H: Property taxes per AMPIP adjusted for sale of 7,675' to Freeman. See Schedule 4. Escalated at 2.5% annually.
Line 47: Check totals.

Schedule 3, Page 2 of 3:

Line RR1: The levelized annual revenue requirements of the items reflected in the columns below.
Line RR2: The percent of original cost (\$1,256,056) for the levelized revenue requirements shown on RR1.
Lines 1 - 46, Columns A - D: Annual present value of each revenue requirement component shown. The nominal amounts are from Schedule 3, Page 2 of 3, Columns E - H.
Lines 1 - 46, Column E: Annual present value of total revenue requirements. Matches Column J on Schedule 3, Page 1 of 3.
Line 47, Columns A - E: Total of annual present value amounts for each column. These amounts are then discounted to arrive at the amounts shown on Line RR1.
Columns F and G: Summary of Levelized Annual Revenue Requirements. Column F describes each component. Column G shows the LARR rate by component and the total. The LARR rate of 16.79% on Line 5, Column G is applied to the original cost of the pipeline shown on Line 8, Column G to arrive at the levelized annual revenue requirements shown on Line 10, Column G of \$210,892. This amount is carried forward to Schedule 2 to determine the pipeline rate.

AMPI Pipeline, Inc.
 Freeman, South Dakota Pipeline Rate
 Plant Investment and Related Costs

Schedule 4

Pipeline Sold to Freeman, SD	AMPIP Amounts (C)
(1) Pipeline Original Cost	\$1,367,656
(2) less: Portion Sold to City	<u>111,600</u>
(3) Net Pipeline Original Cost	\$1,256,056

Adjustments to Cost Items for Sold Portion

	Original Amount (A)	Percent Reduced (B)	
(4) Annual Book Depreciation	\$33,432	8.16%	\$30,704
(5) Annual Property Taxes	33,240	8.16%	\$30,528

Sources and Notes:

- Line 1: Pipeline original cost per AMPIP books and records
 Line 2: 7,675 Feet of 6" Steel to be sold to the City of Freeman, SD. This portion is within the city limits and thus on the City's side of the town border station.
 Line 3: Net AMPIP original cost of the pipeline.
 Line 4: Book depreciation per AMPIP's books and records shown in Column A. Percent reduced is determined above on Lines 1 - 3. Net AMPIP portion is shown in Column C.
 Line 5: Property Taxes per AMPIP's books and records shown in Column A. Percent reduced is determined above on Lines 1 - 3. Net AMPIP portion is shown in Column C.

AMPI Pipeline, Inc.
Freeman, South Dakota Rate
Operating Expenses (O&M)

Schedule 5

	Amount (A)	Annual Escalator (B)	1 Year Escalated Amount (C)
(1) Contracted - Operating and Maintenance Day to day operations and maintenance of pipeline facility	\$12,000	2.0%	\$12,240
(2) AMPIP - Operating and Maintenance Costs Training, readings, patrolling of line by local AMPI personnel	\$1,740	3.5%	\$1,801
(3) Corporate Services Management, clerical, accounting and tax work	\$6,710	3.5%	\$6,945
(4) Audit and Legal Fees Outside legal and audit fees	\$1,700	3.5%	\$1,760
(5) Insurance Annual Fee	\$15,000	0.0%	\$15,000
(6) OPS Assessment Office of Pipeline Safety	\$1,500	0.0%	\$1,500
(7) Regulatory Fees Gross Receipts tax and DOT Pipeline Safety Assessment	\$800	0.0%	\$800
(8) Total	<u>\$39,450</u>	1.5%	<u>\$40,045</u>

Sources and Notes:

- Line 1, Column A: Per AMPIP contract with NSP NGS for pipeline operations and maintenance services
- Line 1, Column B: Contract escalator
- Lines 1 - 7, Column C: Year 2 level of cost with escalator applied to year 1 historical-based amounts
- Line 2, Column A: AMPIP direct costs of employee pipeline maintenance activities
- Lines 2, 3, and 4, Column B: Annual escalator based on anticipated inflation
- Line 3, Column A: Portion of AMPI corporate costs associated with the pipeline
- Line 4, Column A: Audit and legal fees based on actual results
- Line 5, Column A: Insurance costs based on actual results
- Line 6, Column A: OPS assessment based on actual results
- Line 7, Column A: Regulatory fees based on actual results
- Line 8, Columns A and C: Sum of year 1 and year 2, respectively, O&M costs from Lines 1 - 7.
- Line 8, Column B: Weighted annual O&M escalator based on expenses and individual escalators shown on Lines 1 - 7.

AFFIDAVIT

STATE OF MINNESOTA)
)
COUNTY OF RAMSEY)

Affiant, having been first duly sworn, on oath deposes and says:

That he has read the foregoing testimony and if asked the questions therein his answers in response would be as shown:

That the facts contained in said answers are true to the best of his knowledge and belief.

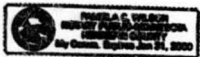


John D. Winter

SUBSCRIBED AND SWORN to me before me this 3rd day of September, 1997.



Notary Public



BEFORE THE
PUBLIC UTILITIES COMMISSION
STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION OF
ASSOCIATED MILK PRODUCERS, INC., PIPELINE, INC.
FOR AUTHORITY
TO ESTABLISH A REVISED TRANSPORTATION RATE
FOR NATURAL GAS SERVICE
IN SOUTH DAKOTA

Docket No. NG97-015
Testimony of Gregory A. Rislov
On Behalf of the Commission Staff
March 1998

1 Q. Please state your name, address, and present position.

2 A. My name is Gregory A. Rislov; my business address is: Public Utilities Commission
3 (PUC), State Capitol Building, Pierre, S.D. 57501; I am currently employed as director of the
4 Fixed Utilities Division of the SDPUC.

5 Q. What are your educational background and experience?

6 A. I was graduated in 1976 from the University of South Dakota in Vermillion with a
7 Bachelor of Science degree in Business Administration, majoring in Accounting. In 1980 I
8 received a Master of Business Administration degree from the same institution. I began work
9 with the PUC as a utility analyst in July 1976. I was named Director of the Fixed Utilities
10 Division in April of 1984. Although the main focus of my work has been statutorily
11 prescribed analysis of utility operations and administration of rate cases and other dockets, I
12 also become involved in general and policy matters related to utility regulation. I have
13 testified before the South Dakota Senate, House, and various interim legislative committees on
14 a variety of matters which could affect rates and costs of service. I have appeared before the
15 public, when directed by the Commissioners, on behalf of the PUC.

16 Q. Have you previously testified before this Commission?

17 A. Yes, in approximately 50 major electric, natural gas, and telecommunications dockets. I
18 have participated in many dockets where settlement was reached with no need for testimony
19 preparation.



- 1 Q. What is the purpose of your testimony in this proceeding?
- 2 A. I will make specific cost of service recommendations for the Associated Milk Producers Inc.,
3 Pipeline, Inc. (AMPIP) transport rate. I am sponsoring Exhibit (GAR-1) that numerically
4 depicts my recommendations.
- 5 Q. Is this a new rate for a new service, or is it a revision of an existing rate?
- 6 A. It could be described either way. The AMPIP line has been in operation since late 1995, but
7 it has had only one customer, the corporate-sister AMPI milk processing facility in Freeman.
8 The rate AMPIP charged AMPI was of less concern because the pipeline cost was borne by the
9 parent, AMPI, one way or another. The City of Freeman is obviously not part of that affiliate
10 relationship. This proceeding will establish the initial nonaffiliated customer rate.
- 11 Q. What are the unique features, if any, of AMPIP's cost of service filing?
- 12 A. A forecasted, forty-five (45) year levelized cost of service.
- 13 Q. Why is this unique?
- 14 A. We have only one other time developed rates on a forecasted, levelized cost of service. That
15 rate was levelized over ten years, not forty-five.
- 16 Q. Does this commission allow filings based on forecasted costs of service?
- 17 A. The commission rules require that filings be made based on historical costs, but allow for
18 applicants to also file parallel, forecasted costs of service. This case has a limited amount of
19 historical data because AMPIP is a start-up company. This coupled with the fact that costs are
20 being projected over forty-five years means that some data must be forecasted.
- 21 Q. What data is known?
- 22 A. There are actual plant numbers, and some actual operating and maintenance (O&M) amounts
23 for 1996. The financing cost of 9% is known, as is the depreciation rate. Even this known data
24 must be estimated for the future, and a 45-year levelized cost of service looks 45 years into the
25 future.
- 26 Q. Cost of service is one part of the equation for determining rates. Another is sales. Do you
27 have actual sales data?
- 28 A. We have some actual sales data. But it has limited value as it is not complete. Note that
29 customers are making decisions regarding fuel choice. They may be connected to gas service.
30 They may be waiting to connect, subject to labor availability. They may decide to connect later.

1 This unsettled market is not operating on a steady-state basis. This is a start-up operation, not a
2 mature one. Staff witness Jacobson will discuss sales and sales issues and concerns in more
3 detail.

4 Q. What is included in AMPIP's rate base?

5 A. AMPIP's rate base is highly simplified compared to the normal utility filing. It consists of
6 plant-in-service and accumulated depreciation.

7 Q. Is plant-in-service estimated?

8 A. We have actual cost data supported by invoices for the bulk of the costs. One feature of
9 plant-in-service is that the 45-year levelized cost of service does not estimate any plant additions.
10 There will likely be additions as time goes on, but AMPIP has not included any.

11 Q. Should additions be included in plant-in-service?

12 A. Any additions to plant would be extremely speculative. If significant additions are made,
13 AMPIP has the right to refile its cost of service.

14 Q. Should other rate base items be included?

15 A. AMPIP has made no claim for other rate base items. This is understandable as it is a start-up
16 company that has a limited operation compared to most utilities.

17 Q. Is staff offering adjustments to AMPIP's rate base?

18 A. No. I have reviewed the filing and have found rate base is supported in context of the 45-
19 year levelized cost of service.

20 Q. Did you review AMPIP's filed operating income components?

21 A. Yes.

22 Q. What conclusions did you reach?

23 A. Operating income components, like rate base components, are comparatively limited. For
24 example, operations and maintenance expense (O&M) is either contracted, actual, or based on
25 conservative estimates. O&M expenses relate to operating the system, maintenance,
26 management, record keeping, audit and legal fees, insurance, and regulatory fees. O&M totals
27 \$39,450 before annual escalation of 1.5%. The largest expenses are the \$12,000 annual
28 operations contract and the \$15,000 insurance. The total O&M expense of \$39,450 includes
29 many services including legal, auditing, accounting, clerical, insurance, maintenance,

- 1 management, tax, meter reading and billing. The total O&M is inflated by 1.5% per year over
2 the 45-year period. I have not adjusted the filed O&M costs or the annual escalation of 1.5%.
- 3 Q. Does the O&M include the costs of getting the pipeline up and running?
- 4 A. AMPIP responded to a question regarding start-up costs included in corporate services.
5 AMPIP said that the corporate services costs in O&M reflect only ongoing costs.
- 6 Q. You stated earlier that total O&M is inflated by 1.5% per year over the 45-year period.
7 Explain why that is done and the mechanics of doing it.
- 8 A. The entire cost of service must, as a starting point, be based on an annual cost of providing
9 service. AMPIP chose to average the cost of service over a 45-year period. This means that a
10 cost of service must be prepared for each of 45 years. A logical way of doing this is by preparing
11 a current year's cost of service and using it as a basis for determining the cost of service for the
12 next 44 years. One way to adjust is to estimate inflation's effect each year, and add that effect to
13 the prior year's costs. AMPIP termed this inflation percentage as the "Annual Escalator." The
14 application of the annual escalator was the means to adjust O&M for each of the 44 forecasted
15 years.
- 16 Q. Are there any other costs included in the cost of service?
- 17 A. Yes. Property taxes, depreciation, and the return on investment are the other costs.
- 18 Q. Would you describe each?
- 19 A. Yes. Property taxes are based on actual assessments, and then inflated by 2.75% for each
20 succeeding year of the leveled cost of service. Depreciation is straight-line based on the
21 estimated 45-year plant life and 10% negative salvage. The return on investment is the debt
22 financing cost of 9%. The entire cost is funded by debt.
- 23 Q. Are these costs reasonable?
- 24 A. Yes. My review of property taxes, which included consultation with the Department of
25 Revenue, suggests the percentage inflator is reasonable. This number may be conservative as
26 property taxes may rise with any increased investment besides any percentage increase. The
27 depreciation was compared to recent depreciation orders by the Minnesota PUC related to
28 Northern States Power's natural gas operation. Both plant life and salvage values are reasonable
29 based on our previous experience and the Minnesota investigation. The return on investment is
30 simply the debt cost. The money is being advanced by Associated Milk Producers, Inc., the
31 parent company. Because of the relationship, the debt cost was compared and questioned. The
32 cost of debt is in line with market indicators, and especially so as the entire investment is
33 financed with debt.

1 Q. Is the annual escalator of 1.5% reasonable?

2 A. It is below the recent low rates of inflation. The Bureau of Labor Statistics Consumer Price
3 Index- All Urban Consumers for the North Central region, from January 1997 to September
4 1997, ranged from 3.53% to 2.22%. Both are more than 1.5%.

5 Q. What steps did staff take to review AMPIP's filed cost of service?

6 A. Four separate data requests were issued, each containing multiple questions. There were
7 phone conversations with AMPIP representatives and employees of the City of Freeman, a trip to
8 the City of Freeman to meet with city officials about sales estimates. Independent data sources,
9 some which have already been mentioned, were employed.

10 Q. Was the determination of each of the 45 years' costs of service and estimated sales the end of
11 your analysis?

12 A. No. AMPIP requested a levelized cost of service. The only point in doing 45-year forecast
13 is to develop a levelized cost of service.

14 Q. What is a levelized cost of service?

15 A. Cost of service naturally changes each year. In a mature, large company this change is
16 relatively small. In a small, new company the change can be very large, and the revenues needed
17 to recover the costs can be dramatically different. A levelized cost of service is designed to
18 "average" the cost of service and related revenue requirement.

19 Q. What causes this dramatic change?

20 A. In a start-up company, all plant is new and therefore undepreciated. A strict rate base, rate of
21 return revenue requirement may lead to unmarketable product costs in early years, and very low,
22 below market costs in later years. This is because rate base is high in early years and sales are
23 still developing.

24 Q. Do you simply average the costs of service for 45 years?

25 A. No. The time value of money must be considered. The timing of cash flows differs with the
26 actual compared to the levelized cost of service. This difference is "zeroed out" by adding
27 carrying costs to either the actual or levelized cost of service.

28 Q. How is this done?

29 A. By equating the "net present value" of the actual and the levelized cost of service for the 45
30 years. I've done that in my attached exhibit on page 2, line 50 of columns I and J. The "carrying

- 1 cost" of the levelized rate is shown on line 49, page 2 of my exhibit.
- 2 Q. Does AMPIP present its levelized cost of service with this in mind?
- 3 A. I don't know. It should be their intent and possibly is, but regardless the AMPIP method
4 overstates the levelized cost of service.
- 5 Q. How does AMPIP overstate its levelized cost of service?
- 6 A. I've not yet replicated AMPIP's work. Even so, AMPIP's "levelized" cost of service exceeds
7 its actual cost of service even when its actual cost of service is at its highest level. That
8 intuitively cannot be right as the levelized cost of service is an "average" with carrying costs.
9 We would, for example, be better off if we allow AMPIP to charge its highest rate each year.
10 AMPIP's highest actual cost of service, \$211,559, occurs in the first full operational year.
11 AMPIP's proposed levelized cost of service is \$211,897. It is \$338 more than its highest actual
12 cost. That fact alone is reason to reject AMPIP's method.
- 13 Q. What is the result of your levelization?
- 14 A. Staff's levelized cost of service is less than the actual for the first ten years, and above the
15 actual for the last thirty-five years. The highest actual cost of service is in my analysis is
16 \$209,040, which occurs in the first year. The lowest is \$179,442, which occurs in the last year.
17 The levelized rate of \$199,112, which falls between the highest and lowest, is an average
18 inclusive of carrying costs. These numbers are found in my exhibit which is attached. Column I
19 has the year-by-year actual cost of service. Column J has the levelized cost of service. Columns
20 I and J are on page 2 of my exhibit.
- 21 Q. Does this seem appropriate?
- 22 A. Yes. The levelized cost of service is lower than the actual in the early years because
23 undepreciated plant makes the actual cost of service relatively high. As plant depreciates, the
24 actual will eventually drop below the levelized. The levelized cost of service is effectively
25 accruing interest charges in the early years and recovering them in the later years. This is how
26 the levelized cost of service is designed to work. It makes rates more affordable early-on when
27 traditional cost of service is simply too high to support a market. This early year shortfall is
28 made up in later years, with interest.
- 29 Q. A key component of present value analysis is the discount rate. What is your discount rate?
- 30 A. The 9% cost of debt. It is appropriate as it is the cost of money for AMPIP.
- 31 Q. How does your levelization affect AMPIP's filed rate?

1 A. Staff witness Jacobson is addressing the sales forecasts and tariffs. There will be only one
2 transport rate for AMPIP's transmission service. Mr. Jacobson will develop that rate based on
3 my leveled cost of service recommendation allocated to his determination of sales units.

4 Q. Have you any further recommendations?

5 A. This case has necessarily placed heavy reliance upon estimates that have varying degrees of
6 support. The sales number is used for each of the 45 years, though one can expect the current
7 estimate will only coincidentally mirror the actual results. By necessity we use estimates for a
8 start-up utility, but we will develop actuals. I recommend that AMPIP's cost of service be
9 reviewed either in 1999, based on 1998 results, or in 2000, based on 1999's results. The
10 Commission should order this review when the current rate is approved so that AMPIP is put on
11 notice.

12 Q. I have no further questions.

AMPI Pipeline Cost of Service
NG97-015
March 1998

Staff Exhibit __ (GAR-1)
Page One

Line	Rate Periods	Year	Plant in Service	Depreciation	Net Plant	Return [Col. E x 9%]	Operating Expenses	Property Taxes
	[a]	[b]	[c]	[d]	[e]	[f]	[g]	[h]
1		1995	\$1,256,056	\$15,352				
2		1996	0	30,704	\$1,210,000			
3	1	1997	0	30,704	1,179,296	\$107,518	\$39,450	\$31,368
4	2	1998	0	30,704	1,148,592	104,755	40,042	32,231
5	3	1999	0	30,704	1,117,888	101,992	40,642	33,117
6	4	2000	0	30,704	1,087,184	99,228	41,252	34,028
7	5	2001	0	30,704	1,056,480	96,465	41,871	34,963
8	6	2002	0	30,704	1,025,776	93,702	42,499	35,925
9	7	2003	0	30,704	995,072	90,938	43,136	36,913
10	8	2004	0	30,704	964,368	88,175	43,783	37,928
11	9	2005	0	30,704	933,664	85,411	44,440	38,971
12	10	2006	0	30,704	902,960	82,648	45,107	40,043
13	11	2007	0	30,704	872,256	79,885	45,783	41,144
14	12	2008	0	30,704	841,552	77,121	46,470	42,275
15	13	2009	0	30,704	810,848	74,358	47,167	43,438
16	14	2010	0	30,704	780,144	71,595	47,875	44,632
17	15	2011	0	30,704	749,440	68,831	48,593	45,860
18	16	2012	0	30,704	718,736	66,068	49,322	47,121
19	17	2013	0	30,704	688,032	63,305	50,061	48,417
20	18	2014	0	30,704	657,328	60,541	50,812	49,748
21	19	2015	0	30,704	626,624	57,778	51,575	51,116
22	20	2016	0	30,704	595,920	55,014	52,348	52,522
23	21	2017	0	30,704	565,216	52,251	53,133	53,966
24	22	2018	0	30,704	534,512	49,488	53,930	55,450
25	23	2019	0	30,704	503,808	46,724	54,739	56,975
26	24	2020	0	30,704	473,104	43,961	55,560	58,542
27	25	2021	0	30,704	442,400	41,198	56,394	60,152
28	26	2022	0	30,704	411,696	38,434	57,240	61,806
29	27	2023	0	30,704	380,992	35,671	58,098	63,506
30	28	2024	0	30,704	350,288	32,908	58,970	65,252
31	29	2025	0	30,704	319,584	30,144	59,854	67,047
32	30	2026	0	30,704	288,880	27,381	60,752	68,891
33	31	2027	0	30,704	258,176	24,618	61,664	70,785
34	32	2028	0	30,704	227,472	21,854	62,588	72,732
35	33	2029	0	30,704	196,768	19,091	63,527	74,732
36	34	2030	0	30,704	166,064	16,327	64,480	76,787
37	35	2031	0	30,704	135,360	13,564	65,447	78,899
38	36	2032	0	30,704	104,656	10,801	66,429	81,068
39	37	2033	0	30,704	73,952	8,037	67,426	83,298
40	38	2034	0	30,704	43,248	5,274	68,437	85,588
41	39	2035	0	30,704	12,544	2,511	69,463	87,942
42	40	2036	0	12,544	0	564	70,505	90,360
43	41	2037	0	0		0	71,563	92,845
44	42	2038	0	0			72,636	95,399
45	43	2039	0	0			73,726	98,022
46	44	2040	0	0			74,832	100,718
47	45	2041	0	0			75,954	103,487
48	Total		\$1,256,056	\$1,256,056				
49	Interest Component of Levelized Rate (L. 48, Col. K, less L. 48, Col. J)							

50 **Net Present Value (sum of individual year's, 1-45)**

AMPI Cost of Service
NG97-015
March 1998

Staff Exhibit (GAR-1)
 Page Two

Revenue Requirement [d]+[g+h] [i]	Levelized Requirement NPV[i]=NPV[j] [j]	Line
		1
		2
\$209,040	\$199,112	3
207,731	199,112	4
206,455	199,112	5
205,212	199,112	6
204,003	199,112	7
202,829	199,112	8
201,691	199,112	9
200,590	199,112	10
199,527	199,112	11
198,502	199,112	12
197,516	199,112	13
196,571	199,112	14
195,667	199,112	15
194,806	199,112	16
193,988	199,112	17
193,215	199,112	18
192,487	199,112	19
191,806	199,112	20
191,173	199,112	21
190,589	199,112	22
190,055	199,112	23
189,573	199,112	24
189,143	199,112	25
188,768	199,112	26
188,448	199,112	27
188,184	199,112	28
187,979	199,112	29
187,834	199,112	30
187,749	199,112	31
187,728	199,112	32
187,770	199,112	33
187,878	199,112	34
188,054	199,112	35
188,299	199,112	36
188,614	199,112	37
189,002	199,112	38
189,465	199,112	39
190,003	199,112	40
190,620	199,112	41
173,974	199,112	42
164,408	199,112	43
168,035	199,112	44
171,748	199,112	45
175,550	199,112	46
179,442	199,112	47
\$8,591,720	\$8,960,040	48
	\$368,320	49
\$2,166,577	\$2,166,577	50

Sources

Cols. [a] and [b]: 45 year levelized life beginning in 1997
 [c]: Plant in service per AMPI Statement M.
 [d]: Depreciation per AMPI Statement M.
 [f]: Return is the debt cost. Per Statement G.
 [g]: Operating expenses per Statement H.
 [h]: Property taxes per Statement L.
 [i]: Forecasted revenue requirements before levelization.
 [j]: Levelized revenue requirement.
 [j], l. 49: Levelized payment carrying charges (9% per year)
 [i] and [j], line 50: Net present value of 45-year revenue streams.

BEFORE THE
PUBLIC UTILITIES COMMISSION
STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION OF
ASSOCIATED MILK PRODUCERS, INC., PIPELINE, INC.
FOR AUTHORITY
TO ESTABLISH A REVISED TRANSPORTATION RATE
FOR NATURAL GAS SERVICE
IN SOUTH DAKOTA

Docket No. NG97-015
Testimony of David A. Jacobson
On Behalf of the Commission Staff
March 1998

- 1 Q What is your name and by whom are you employed?
- 2 A My name is David A. Jacobson and my business address is Public Utilities
3 Commission, State Capitol Building, Pierre, South Dakota 57501. I am presently
4 employed as a Utility Analyst with the Fixed Utilities Division of the Public Utilities
5 Commission
- 6 Q Please describe your educational background and experience.
- 7 A I received a Bachelor of Science Degree in Business Administration majoring in
8 management in 1980 and subsequently completed major course work in
9 accounting at the University of South Dakota. I have been with the Public Utilities
10 Commission since May of 1984.
- 11 Q Have you previously testified before the Commission?
- 12 A Yes. I have presented testimony in eleven rate increase applications and in other
13 docketed matters before the Commission.
- 14 Q What is the purpose of your testimony in this proceeding?
- 15 A I shall present Staff's determination of the transportation volumes used as the
16 denominator to determine the per dekatherm (Dkt) rate which will apply to
17 Associated Milk Producers, Inc. Pipeline, Inc.'s (AMPIP's) customers. I shall also
18 recommend certain changes to the proposed tariff submitted in the application.

EXHIBIT

5

1 Q How did AMPIP determine transportation volumes in their application?

2 A In response to a Staff data request, AMPIP explained that their volume estimates
3 were based on an August 1996, canvassing of potential business and residential
4 customers in the city of Freeman. The survey, conducted by Northern States
5 Power Company's Natural Gas Services, was undertaken to determine the
6 feasibility of offering natural gas to city residents. It should be noted that AMPIP
7 assumed that one Mcf (thousand cubic feet) equals one Dkt and Staff will do the
8 same.

9 Q How did Staff make its determination of transportation volumes?

10 A Per data request, Staff received the results of the study conducted for AMPIP.
11 Staff then contacted the City of Freeman finance officer and requested
12 information regarding customers currently hooked up and customers expected to
13 be hooked up in the near future. Staff also inquired as to whether there had been
14 any events which would result in changes to the volumes expected to be
15 delivered to individual customers. On February 18th, 1998, Staff Witness Rislov
16 and I traveled to Freeman to further discuss customer numbers and volume
17 estimates with City personnel.

18 Q How did AMPIP's volume estimate compare to Staff's findings?

19 A Starting with the small volume class, AMPIP estimated 132 customers with annual
20 consumption of 110 Dkt each. Staff's investigation revealed that as of January,
21 1998, the City of Freeman was actually serving 253 small volume accounts. The
22 city provided a breakdown of small volume usage indicating how many furnaces,
23 water heaters and dryers/fireplaces/heaters were actually being served as of
24 February 15, 1998. As shown on Exhibit __ (DAJ-1), 187 residential furnaces, 72
25 residential water heaters and 32 dryers, fireplaces or heaters were being served
26 on that date. Staff estimated usage of 85 Dkt for residential furnaces, 30 Dkt for
27 water heaters and 5 Dkt for dryers, fireplaces or heaters. AMPIP's estimate of
28 total annual small volume consumption is 14,520 Dkt. Staff's estimated volume
29 is 18,215 Dkt.

1 For the medium volume or commercial class, AMPIP estimated 35 customers with
2 annual throughput of 400 Dkt each or 14,000 Dkt total annual consumption.
3 Staff's investigation revealed that 23 commercial customers were either taking
4 service currently or expected to be taking service shortly. Three of these
5 customers had volumes specifically estimated and the remainder were estimated
6 to average 400 Dkt of annual throughput. Staff's estimated volume is 11,800 Dkt
7 for the medium volume or commercial class.

8 AMPIP's estimated throughput for nine large volume, or large commercial
9 customers is 39,500 Dkt. Staff's investigation revealed that of the nine customers
10 identified by AMPIP as large commercial, two were actually being served as
11 medium volume or commercial customers. Also, one of the large commercial
12 customers identified by AMPIP had now decided not to take natural gas service
13 and another had approximately doubled the size of its operation. Staff's large
14 commercial volume estimate is 40,200 Dkt.

15 The final customer to be considered in deriving a total annual throughput is AMPI.
16 Both Staff and AMPIP have estimated this volume at 144,000 Dkt.

17 Q What is the final comparison of AMPIP's total annual throughput and Staff's total
18 annual throughput?

19 A AMPIP has estimated 214,000 Dkt annual throughput and Staff has estimated
20 214,215 Dkt annual throughput.

21 Q Does Staff believe that the throughput they have estimated is reasonably
22 accurate?

23 A Staff believes it is the most accurate estimate possible at this time however there
24 are several variables which could significantly alter actual volumes. Obviously,
25 none of the customers served by this system have a long history of usage to
26 examine. Prior to this last fall, AMPI was the only customer being served. Usage
27 by AMPI during the 1996/1997 winter may reflect the extreme weather conditions
28 at that time. Additional customers may hook up to the system in the short term
29 depending on natural gas and alternative energy prices.

- 1 Q Has Staff escalated future annual throughput to account for growth?
- 2 A Staff has considered a growth adjustment but not included one in its estimate. It
3 is hard to determine whether, or to what degree growth in throughput will occur
4 in Freeman. Many smaller communities in South Dakota are decreasing in size
5 as the population ages and as people migrate to the larger cities. On the other
6 hand, many communities are experiencing growth through economic expansion.
7 Many communities around Freeman are already served by natural gas therefore
8 somewhat neutralizing its effect on attracting new customers. Staff recommends
9 the Commission review the rate determined in this proceeding after a period of
10 time to true up the rate once additional historical data is available.
- 11 Q If the annual throughput of 214,215 Dkt is applied, what is the resulting rate for
12 transportation services on the AMPIP system?
- 13 A Dividing the cost of service provided by Staff Witness Rislov of \$199,112 by
14 Staff's expected transportation volume of 214,215 Dkt results in a rate of \$.9295
15 per Dkt.
- 16 Q What do you recommend regarding the tariff filed by AMPIP in this application.
- 17 A I have recommended to AMPIP certain changes to the tariff submitted. Certain
18 conditions and provisions in the tariff are not specifically articulated in the tariff but
19 instead mirror and are referenced to Northern Natural Gas Company's tariff on file
20 with the Federal Energy Regulatory Commission. I have asked that AMPIP delete
21 the references and add the actual conditions or provisions. AMPIP has also
22 included a provision for "selling" excess gas needed for pipeline operations.
23 AMPIP is currently preparing a response so that Staff can determine if this service
24 should be tariffed or not. Other changes which are considered "clean up" have
25 also been suggested to AMPIP. AMPIP has expressed that they have no major
26 problems with the suggested changes.
- 27 Q I have no further questions.

AMPI Pipeline Transport Volumes Staff Exhibit __ (DAJ-1)

NG97-015

March 1998

Line Customer Class Annual Transport volumes (Mcf)

Line	Customer Class	(b)	(c)
1	(a)		
2	AMPI		
3	AMPI	144,000	
4			144,000
5	Large Commercial		
6	Customer No. 1	10,000	
7	2	8,600	
8	3	8,000	
9	4	8,000	
10	5	4,400	
11	6	1,200	
12			40,200
13	Commercial		
14	Customer No. 1	2,200	
15	2	1,100	
16	3	500	
17	4	400	
18	5	400	
19	6	400	
20	7	400	
21	8	400	
22	9	400	
23	10	400	
24	11	400	
25	12	400	
26	13	400	
27	14	400	
28	15	400	
29	16	400	
30	17	400	
31	18	400	
32	19	400	
33	20	400	
34	21	400	
35	22	400	
36	23	400	
37			11,800
38	Residential		
39	157 Furnaces @ 85 Mcf	15,895	
40	72 Water Heaters @ 30 Mcf	2,160	
41	32 Dryers or fireplaces @ 5Mc	160	
42			18,215
43			
44	Total Annual Transport Volumes (Mcf)		214,215
45	Rate (\$199,112 / 214,215)		\$ 9295 per Dkt

SOURCES

Column (a): City of Freeman Finance Officer

Column (b): lines 3, 7-11, 14-15 and 17-36: AMPI Pipeline, Inc. Sales Forecast

Column (c): line 45: Cost of Service from Staff Exhibit __ (GAR-1) divided by Staff annual throughput.

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

IN THE MATTER OF THE APPLICATION OF)	FINDINGS OF FACT AND
ASSOCIATED MILK PRODUCERS, INC.)	CONCLUSIONS OF LAW;
PIPELINE, INC. FOR APPROVAL OF CHANGE)	NOTICE OF ENTRY OF
IN AN INTRASTATE NATURAL GAS)	ORDER
TRANSPORTATION RATE)	NG97-015

On September 5, 1997, the Associated Milk Producers, Inc. Pipeline, Inc. (AMPIP), a subsidiary of Associated Milk Producers, Inc. (AMPI), filed with the Public Utilities Commission (Commission) an application requesting a revision to its natural gas transportation rate and tariff so it may serve both AMPI and a new municipal gas utility to be owned and operated by the City of Freeman, South Dakota (Freeman). No other type of service or rate will be offered on the pipeline at this time. In the future, AMPIP may add additional farm tap customers along the line, at the same rate under Schedule FT. AMPIP also requested a waiver of ARSD rules 20 10 13.04 and 20 10 13.05. AMPIP proposed an effective date of October 5, 1997.

According to its application, there are three major reasons for the rate change. First, the proposed rate is a volumetric rate per Mcf rather than the current monthly fixed charge. A volumetric rate allows more flexibility to both AMPIP and Freeman as customers are added within the municipality and volumes change over time. It also sends pricing signals to Freeman and AMPI related to their utilization of the pipeline facility. During periods of low use, customer bills will reflect that lower seasonal use, and vice versa. Second, a portion of the pipeline will be sold to the City of Freeman which changes the underlying cost data supporting the old rate. Third, after slightly more than a year of operation, more accurate cost data is now available. The proposed rate is \$0.99 per Mcf. Both AMPI and Freeman have agreed to the proposed volumetric rate.

By order dated October 3, 1997, the Commission allowed the transportation rate to go into effect on October 5, 1997, subject to refund and required AMPIP to deposit a filing fee pursuant to SDCL 49-1A-8. By amended order dated March 19, 1998, a hearing was scheduled for March 30, 1998, in Sioux Falls, South Dakota. The hearing was held as scheduled.

At its May 12, 1998, meeting, the Commission considered this matter. The Commission ruled as follows: (1) AMPIP shall use a forecasted, 45 year leveled cost of service, calculated in the same manner as found on Exhibit 4; (2) the current \$ 99 rate per Mcf shall be left in place until September 1, 2000, subject to refund at an interest rate of 9%; (3) any undercollections by AMPIP are at the risk of AMPIP; (4) depreciation on the facility shall begin when the plant was first used in March of 1996; (5) AMPIP shall refile the proposed tariffs that incorporate Staff's recommendations that AMPIP agreed to at the hearing for Staff's review; and (6) AMPIP shall submit an application for a change in the

intrastate natural gas transportation rate by March 1, 2000. Chairman Burg dissented on the charging of interest.

Based on the evidence received at the hearing, the Commission makes the following Findings of Fact and Conclusions of Law.

FINDINGS OF FACT

1. On September 5, 1997, AMPIP filed an application requesting a revision to its natural gas transportation rate and tariff so it may serve both AMPIP and a new municipal gas utility to be owned and operated by Freeman. Exhibit 1.

2. Although AMPIP's calculations indicated a rate of \$945 per Mcf, AMPIP requested that its current \$99 rate per Mcf be left in place until September 1, 2000, subject to refund. Tr. at 5, 18. AMPIP believed that the rate was reasonable since sales projections are less than anticipated in the near term and the pipeline is being operated just to recover costs. Tr. at 29. AMPIP further stated that any undercollections would be at the risk of the pipeline company. Tr. at 18.

3. AMPIP disagreed with Staff's recommendation that set the date in service back 18 months from AMPIP's proposed date in service. Tr. at 15. The effect of Staff's recommendation was that depreciation would begin earlier. Staff's recommendation was based on when the pipeline began operating, which was March of 1996. Tr. at 47-48.

4. Staff recommended a rate of \$9295 per Mcf based on a levelized cost of service of \$199.112.00. Tr. at 34, 37, Exhibit 4, Exhibit 5. Staff recommended an interest rate of 9% for any refund, which is AMPIP's debt cost. Tr. at 44.

5. Staff recommended changes to AMPIP's proposed tariff which AMPIP agreed to at the hearing. Tr. at 24-25.

6. The mayor of Freeman stated that the city agrees with leaving the \$99 cent rate per Mcf until the year 2000. Tr. at 61.

7. The Commission finds that it will allow AMPIP to continue to charge its current rate of \$99 per Mcf until September 1, 2000, subject to refund at an interest rate of 9%. The Commission will allow this since any overcollections will be refunded with interest.

8. The Commission finds that AMPIP shall use a forecasted, 45 year levelized cost of service, calculated in the same manner as found on Exhibit 4.

9. The Commission finds that any undercollections by AMPIP are at the risk of AMPIP.

10 The Commission finds that depreciation on the facility will be calculated from the time the plant started being used in March of 1996.

11 The Commission finds that AMPIP shall refile the proposed tariffs that incorporates Staff's recommendations that AMPIP agreed to at the hearing. The revised tariffs shall be reviewed by Staff.

12 The Commission finds that AMPIP shall submit an application for a change in the intrastate natural gas transportation rate by March 1, 2000.

CONCLUSIONS OF LAW

1 The Commission has jurisdiction over this matter pursuant to SDCL Chapters 1-26 and 49-34A, specifically 1-26-17 1, 49-34A-4, 49-34A-6, 49-34A-8, 49-34A-10, 49-34A-11, 49-34A-12, 49-34A-13, 49-34A-13 1, 49-34A-17, 49-34A-19, and 49-34A-21.

2 The Commission concludes that allowing AMPIP to continue to charge its current rate of \$ 99 per Mcf until September 1, 2000, subject to refund at an interest rate of 9% is fair and reasonable. AMPIP shall also comply with the Commission's Findings of Fact 7 through 12, inclusive.

It is therefore

ORDERED, that AMPIP may continue to charge its current rate of \$ 99 per Mcf until September 1, 2000, subject to refund at an interest rate of 9%; and it is

FURTHER ORDERED, that AMPIP shall use a forecasted, 45 year levelized cost of service, calculated in the same manner as found on Exhibit 4; and it is

FURTHER ORDERED, that any undercollections by AMPIP are at the risk of AMPIP, and it is

FURTHER ORDERED, that depreciation on the facility will be calculated from the time the plant started being used in March of 1996, and it is

FURTHER ORDERED, that AMPIP shall refile the proposed tariffs that incorporate Staff's recommendations that AMPIP agreed to at the hearing and the revised tariffs shall be reviewed by Staff, and it is

FURTHER ORDERED, that AMPIP shall submit an application for a change in the intrastate natural gas transportation rate by March 1, 2000.

NOTICE OF ENTRY OF ORDER

PLEASE TAKE NOTICE that this Order was duly entered on the 2nd day of June, 1998 Pursuant to SDCL 1-26-32, this Order will take effect 10 days after the date of receipt or failure to accept delivery of the decision by the parties.

Dated at Pierre, South Dakota, this 2nd day of June, 1998.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile or by first class mail, in properly addressed envelopes, with charges prepaid thereon.

By Nelson Kato

Date 6/2/98

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

James A. Burg
JAMES A. BURG, Chairman
(dissented on the charging of interest)

Pam Nelson
PAM NELSON, Commissioner

Laska Schoenfelder
LASKA SCHOENFELDER, Commissioner