

April 15, 2021

Will Seuffert
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101

RE: **Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E017/M-20-882

Dear Mr. Seuffert:

Attached are the comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) in the following matter:

In the Matter of Otter Tail Power Company's Petition to add new service offerings to the LED Street and Area Lighting Dusk to Dawn Electric Rate Schedule.

The petition was filed on December 16, 2020 by:

Svetlana Fedje
Otter Tail Power Company
215 South Cascade Street
PO Box 496
Fergus Falls, MN 56538-0496

The Department recommends approval of Otter Tail's petition, pending the provision of more information by the company. The Department is available to answer any questions that the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ DANIELLE WINNER
Rates Analyst

DW/ja
Attachment



Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E017/M-20-882

I. INTRODUCTION

On December 16, 2020, Otter Tail Power (OTP or the Company) filed a *Petition* requesting that the Minnesota Public Utilities Commission (Commission):

- Approve OTP's proposal to add new decorative light emitting diode (LED) outdoor lighting options to the Company's LED Street and Area Lighting Dusk to Dawn Rate (Section 11.07), and;
- Approve OTP's proposal to make language clarifications to the same schedule.

Otter Tail submitted redlined and clean tariff sheets of the proposed changes and provided a marginal cost analysis for the proposed fixture additions. The Department submits these Comments in response to the Company's proposal.

II. BACKGROUND

Under Otter Tail's Company-Owned Street and Area Lighting Dusk to Dawn services (Section 11.07 for LEDs and 11.04 for non-LEDs), the customer owns the area or street to be illuminated, but the Company owns, operates, and maintains the lighting facilities. Therefore, rates under this service reflect all costs associated with these services, including capital costs of the lights and poles, operations and maintenance costs of the facilities, associated administrative and general costs, as well as energy usage costs. During a rate case proceeding, the Commission sets street lighting rates commensurate with the street lighting class's causation of these costs, adjusted for policy considerations. Put another way, street lighting rates are set during a rate case based on the street lighting class's revenue requirement.

The Section 11.07 LED tariff was developed in Docket No. E017/M-17-152. In that docket, Otter Tail filed a petition with the Commission that included tariff sheet changes and a cost recovery proposal associated with the conversion of all of Otter Tail's approximately 20,000 Company-Owned Street and Area Lights to LEDs. The Commission permitted the Company to:¹

- Open a new LED tariff (Section 11.07 Dusk to Dawn);
- Close the existing high intensity discharge (HID) tariff option to new customers (Section 11.04 Dusk to Dawn); and

¹ See Commission's December 13, 2017 *Order* in Docket E017/M-17-152.

- Recover certain costs associated with the LED program through the Conservation Cost Recovery Adjustment (CCRA).

Since this program involved the replacement of the old HID lights with the new LEDs, Otter Tail proposed to maintain its previously established revenue requirement from the old lights to calculate rates for the new LED fixtures.² The Company also submitted a marginal cost study for those new LED lights, but this appeared to be merely a reasonableness check, as the Company did not propose to base the LED rates on the marginal LED costs. This is likely because, as the Department noted at the time, the marginal costs of the new lights were actually lower than the rates derived from the revenue requirement. However, the Department concluded that OTP's proposal was still reasonable because it was consistent with ratemaking principles, stating:³

Despite these discrepancies between proposed rates and actual costs, the Department concludes that it is appropriate for the Company to maintain its revenue requirement from Section 11.04 as service through Section 11.04 is gradually eliminated and customers are transitioned into Section 11.07. Generally, a public utility may not change its rates without undergoing a general rate case in which the Commission comprehensively reviews the utility's costs and revenues. Inevitably, as in this case, changes to costs and revenues do occur between rate cases.[footnote omitted] Therefore, OTP's proposal to maintain revenue neutrality is consistent with ratemaking principals. The Department notes that recovery of any costs associated with the LED street lighting service (proposed Section 11.07) would be recorded in the appropriate Federal Energy Regulatory Commission (FERC) account and factored into the revenue requirement in the next rate case to establish new rates for Section 11.07.

The Commission's December 13, 2017 *Order* meant that Otter Tail would continue to recover the revenue requirement associated with the old lights until its next rate case, at which time the Company would incorporate the costs of the new LEDs into the revenue requirement.

Additionally, since these lighting costs were incurred for purposes of meeting the Otter Tail's Conservation Incentive Program (CIP) goals, Otter Tail was also permitted to recover some of the LED costs through the CCRA, a CIP-specific recovery mechanism. The Commission specified that recoveries through the CCRA were not to exceed a budgeted \$4.2 million over a five-year

² The street lighting class revenue requirement used was from the Company's 2015 rate case, Docket No. E017/GR-15-1033. For further discussion on this methodology, see Department's June 5, 2017 Comments in Docket No. E017/M-17-152, pages 5-7.

³ Department's June 5, 2017 Comments in Docket No. E017/M-17-152, pages 6-7.

period and comprised the following categories: program evaluation, CIP rebates, non-labor administrative costs, retirement and disposal costs, and a rate of return on the incremental cost of the new lights over the old lights.⁴ Further, although Otter Tail projected a budget of \$4.2 million over five years, the Commission directed the Company to only include actual, rather than budgeted costs in the CCRA calculation.

In 2018 and 2019, Otter Tail reported costs totaling \$386,327 and \$643,674, respectively, to be recovered through the CCRA.⁵ The Department expects that the Company will continue to report and recover LED program costs through the CCRA for CIP filings covering the 2020, 2021, and 2022 years.

On November 20, 2020, Otter Tail filed a rate case with the Commission.⁶ Otter Tail used 2021 for the Company's rate case test year, and projected that all of the Company-Owned Street and Area Lights will be converted to LEDs by the end of 2021. As such, Otter Tail included proposed revenues from no HID lights (Section 11.04) and all 19,391 LED lights (Section 11.07), reflecting the full fleet conversion.⁷

III. OTP'S PETITION

A. PROPOSED LIGHTING ADDITIONS

Since the implementation of Section 11.07 and the initial LED options, the Company found that many customers were interested in more decorative pole and fixture options, which prompted the instant filing. Therefore, Otter Tail Power proposed adding three new decorative LED fixtures into its tariff, to be effective March 1, 2021 or on the first day of the month following Commission approval. The following table is taken from Otter Tail's proposed tariff, and more information about the specifications of the lighting fixtures can be found in Attachment 1 of the Company's *Petition*.

<u>DECORATIVE LIGHTS</u>	<u>Approximate Lumens</u>	<u>Approximate Wattage</u>	<u>Monthly Charge</u>
<u>DLEDA7 (Arlington)</u>	<u>5837</u>	<u>66</u>	<u>\$87.77</u>
<u>DLEDG7 (Granville)</u>	<u>7440</u>	<u>68</u>	<u>\$86.11</u>
<u>DLEDE17 (Esplanade)</u>	<u>20000</u>	<u>170</u>	<u>\$110.56</u>

⁴ For further discussion of these costs and the justifications behind their inclusion, see all Department Comments in Docket 17-152.

⁵ See OTP's Filing in Docket No. E017/M-19-256, pp. 39-40 and Docket No. E017/M-20-451, pp. 37-38.

⁶ Docket No. E017/GR-20-719.

⁷ See Docket No. E017/GR-20-719, Otter Tail's November 2, 2020 Initial Filing, Volume 3, Schedule E2.

Otter Tail has a pending rate case⁸ in which these newly proposed service options were not incorporated. Therefore, as proposed by the Company, the non-decorative LED rates would be based off the revenue requirement from the rate case, while the decorative LED rates would be based off of the marginal cost of service study submitted in the *Petition*.

To calculate the total monthly fixture cost for an underground decorative fixture, Otter Tail used a method represented in the following calculation:⁹

$$\begin{array}{l} \text{Annualized Cost of Lights} \\ + \text{Annual Lighting O\&M with A\&G Loading (non-plant related)} \\ + \text{Revenue Requirement for Working Capital} \\ + \text{Annualized Feeder cost (underground connection)} \\ \hline \text{Total Annual Marginal Distribution cost (underground)} \\ \div 12 \text{ Months} \\ \hline \text{Total Monthly Marginal Distribution Cost} \\ + \text{Monthly kWh Charge} \\ \hline \text{Monthly Charge (\$2021/fixture/month)} \end{array}$$

The Annualized Cost of Lights cost component was determined using a method represented by the following calculation:¹⁰

$$\begin{array}{l} \text{Light Fixture, including fixture arms and electrical outlet (Cost + Labor)} \\ + \text{Pole (Cost + Labor)} \\ + \text{Hardware (Cost + Labor)} \\ + \text{Conductor and Directional Boring Cost (\$/ft) 200 feet} \\ + \text{Contractor service work} \\ \hline \text{Installed Fixture Cost} \\ + \text{General Plant Loading} \\ \hline \text{Fixture Cost + Allocated Plant Cost} \\ \times \text{Total Carrying Charges (\%)} \\ \hline \text{Annualized Cost of Lights (\$)} \end{array}$$

Otter Tail provided additional detailed calculations for the following components from the above calculations: Annualized Cost of Lights, Revenue Requirement for Working Capital, Conductor and Directional Boring Costs, and Monthly kWh Charge.

⁸ Docket No. E017/GR-20-719.

⁹ See Attachment 4, Page 1 of the *Petition*.

¹⁰ See Attachment 2, Page 1 of the *Petition*.

B. PROPOSED TARIFF LANGUAGE CHANGES

Following the inclusion of the new decorative lighting service options, Otter Tail also proposed the following redlined tariff language changes for Section 11.07 as a whole:

SEASONAL CUSTOMERS: Seasonal Customers will be billed at the same rate as year-around Customers, except as follows:

A fixed charge of \$32.79 will be billed each Seasonal Customer once per season per fixture in addition to the rate provided above. The fixed charge will be included in the first bill rendered for each season.

Each Seasonal Customer will be billed for the number of months each season that the outdoor lighting fixture is in use, but not less than a minimum of four months, plus the seasonal fixed charge.

Seasonal rate is not offered for the Decorative LED.

UNDERGROUND SERVICE SUPPLIED BY THE COMPANY:

If the Customer requests underground service to any outdoor lighting unit, excluding Post Top, Aluminum Alloy Post and Decorative Lighting, the Company will supply up to 200 feet of wire and add an additional \$2.52 to the monthly rate specified above. If overhead service is not available, there is no additional charge. There is no additional charge, up to 200 feet, for LED5PT or LED3PT fixtures, or fixtures mounted on Aluminum Alloy Standards.

For any new installation, requiring an underground conductor extended over 200 feet per fixture, the customer will be charged a monthly rate of \$0.11 per foot. If there are multiple fixtures installed any additionally installed length of conductor shall be combined in one monthly charge.

EQUIPMENT AND OVERHEAD SERVICE SUPPLIED BY THE

COMPANY: The light shall be mounted on a suitable new or existing Company-owned pole. Any extension beyond an average installation length of 150'150 feet of wire will be at the expense of the Customer.

The Company will install, own and operate, and have discretion to replace or upgrade a high intensity discharge an LED light including

suitable reflector or a flood light including a lamp, or a bracket for mounting on wood poles with overhead wiring and photo-electric or other device to control operating hours. Customers provided with pole top fixtures on fiberglass poles and fixtures mounted on Aluminum Alloy Standards will not receive overhead power supply. The light shall operate from dusk to dawn. The Company will supply the necessary electricity and maintenance for the unit.

SERVICE CONDITIONS: Lighting will not be mounted on Customer-owned property. The light shall be mounted upon a suitable new or existing Company-owned facility. The Company shall own, operate, and maintain the lighting unit including the pole, fixture, lamp, ~~ballast~~, photoelectric control, mounting brackets, fixture arrester, LED driver and all necessary wiring using the Company's standard street lighting equipment as described herein. The Company shall furnish all electric Energy required for operation of the unit.

In cases of vandalism or damages, the Company has the discretion to discontinue service and remove Company equipment.

While many of the Company's proposed changes to Section 11.07 appear to be clarifications, from Department's understanding, the more substantive proposed tariff changes within the redlined language are:

- Seasonal rates will not be available for decorative LED service;
- OTP offers to connect new lights through underground service for a simple \$2.52/month charge, up to 200 feet; however, this service is not available for Post Top, Aluminum Alloy Post, and Decorative Lighting services, and;
- For service to new lights beyond the initial 200 feet of wiring, customers will pay \$0.11/foot per month.

Finally, the Company includes in its tariff its tariff a proposed rate code denoting decorative lighting as follows:

DESCRIPTION	RATE CODE
LED Outdoor Lighting	M730
<u>Decorative Lighting</u>	<u>M730a</u>

The Company intends for this temporary rate code to remain in place through the duration of OTP's rate case. Once interim rate refunds have been issued to the LED Outdoor Lighting customers, the decorative LED customers will be coded as M730.

IV. DEPARTMENT ANALYSIS

A. MINNESOTA STATUTES AND RULES

Otter Tail Power filed its Petition pursuant to Minn. Rules 7829.0100, subpart 11, which states:

Miscellaneous filing.

"Miscellaneous filing" means a request or notice that does not require determination of a utility's revenue requirement.

A miscellaneous filing includes a filing involving a new service offering; a change in a utility's rates, services, terms, or conditions of service; a change in a utility's corporate structure, assigned service area, or capital structure, when conducted separately from a general rate proceeding; filings made under the rules governing automatic adjustment of charges in chapter 7825; or any related matter.

The inclusion of a particular type of filing in this list does not require a filing that would not otherwise be required or confer jurisdiction that would not otherwise be present.

The "Miscellaneous Filing" Rule's statutory authority comes from Minn. Stat. § 216A.05: Commission Functions and Powers. The Department agrees that Otter Tail's proposal can be considered a request for "a change in a utility's rates, services, terms, or conditions of service."

As with all filings that include rate changes, Minn. Stat. § 216B.03 applies, which requires that rates must be just and reasonable, and that any doubt as to reasonableness should be resolved in favor of the consumer.

B. OTP'S PROPOSED DECORATIVE LED RATES

The Department reviewed Otter Tail's rate calculations for the proposed decorative LED options as well as the proposed tariff language changes.

From a general standpoint, the Department agrees that OTP's rate calculation methodology is reasonable. The decorative LEDs, in large part, will be replacing older existing lights, which means that the revenues from the old lights will simply be displaced by the revenues from the new lights. Therefore, it is appropriate that the Company include costs associated with the old

lights and represented in base rates, such as allocated costs and a return on capital investments.

From the Department's perspective, the total annual carrying charge in Otter Tail's calculation operates as a functional stand-in for a rate of return on capital investments. While the Department agrees that a return on capital investments is an appropriate element to include in the calculation, it's unclear how the Company's proposed carrying charge rate was derived.

The Department is also unclear about elements of the conductor and directional boring costs. It is logical that these costs would have been incurred when the underground-wired lights were first installed or subsequently updated. However, this appears to the Department to be a capital cost associated with the old lights that may already be fully depreciated. Unless the Company needs to run new conductor or perform new directional boring activities for replacing existing poles and lights, it's unclear how this cost is truly incremental to costs previously incurred.

The Department asks that in Reply Comments, Otter Tail Power address how it derived its carrying charge rate and whether the new lights necessitate new conductor and boring activities.

C. PROPOSED TARIFF LANGUAGE

The Department is generally supportive of Otter Tail's proposed tariff language changes.

Otter Tail includes a provision that "If the Customer requests underground service to an outdoor lighting unit, excluding Post Top, Aluminum Alloy Post and Decorative Lighting, the Company will supply up to 200 feet of wire and add an additional \$2.52 to the monthly rate specified above." The Department reads this provision as indicating a customer requesting *new* underground service to a new lighting unit, although would appreciate clarification from the Company.

The Department notes that Otter Tail does not specify how the excluded services (Post Top, Aluminum Alloy Post, and Decorative Lighting) will pay for new underground service. The Department also observes that for the decorative LEDs, the rate calculations include conductor and directional boring costs up to 200 feet, indicating that decorative lighting customers would be exempt from fees for new underground service. However, as previously discussed, the Department is unclear whether these conductor and boring costs are appropriate to include in the decorative LED rates in the first place. In any case, the Department recommends that the Company clarify its tariff language to specify how these excluded customers should pay for new underground lighting service.

Further, it's not entirely clear to the Department what constitutes "Post Top" and "Aluminum Alloy Post," as no earlier part of the tariff uses this exact language. For clarity, the Department suggests incorporating more information about new underground service for these customers and matching exact language from other parts of the tariff.

The Department also suggests the following four edits (redlined) as follows:

UNDERGROUND SERVICE SUPPLIED BY THE COMPANY:

If the Customer requests underground service to an outdoor lighting unit, excluding Post Top, ~~Aluminim~~Aluminum Alloy Post, and Decorative Lighting, the Company will supply up to 200 feet of wire and add an additional \$2.52 to the monthly rate specified above. If overhead service is not available, there is no additional charge. There is no additional charge, up to 200 feet, for LED5PT or LED3PT fixtures, or fixtures mounted on Aluminum Alloy Standards.

For any new installation, requiring an underground conductor extended over 200 feet per fixture, the customer will be charged a monthly rate of \$0.11 per foot. If there are multiple fixtures installed any additionally installed length of conductor shall be combined in one monthly charge.

EQUIPMENT AND OVERHEAD SERVICE SUPPLIED BY THE COMPANY: The light shall be mounted on a suitable new or existing Company-owned pole. Any extension beyond an average installation length of 150 feet of wire will be at the expense of the Customer.

The Company will install, own and operate, and have discretion to replace or upgrade a LED light including suitable reflector or a flood light including a lamp, or a bracket for mounting on wood poles with overhead wiring and photo-electric or other device to control operating hours.

Finally, the Department is supportive of the Company's proposed temporary rate code use.

V. DEPARTMENT CONCLUSIONS AND RECOMMENDATIONS

The Department concludes that Otter Tail's proposal is generally reasonable, but requests some clarifications from Otter Tail. In regards to the rate calculations, the Department would like to know how the carrying charge rate was derived and whether 200 feet of new conductor and directional boring costs will actually be incurred to replace the old lights with the new. The

Department also recommends that the Company clarify its tariff language surrounding new underground customer service requests.

Pending the receipt of this information, the Department recommends that the Commission:

- Approve OTP's proposal to add new decorative light emitting diode (LED) outdoor lighting options to the Company's LED Street and Area Lighting Dusk to Dawn Rate (Section 11.07), and;
- Approve OTP's proposal to make language clarifications to the same schedule.

/ja

CERTIFICATE OF SERVICE

I, Sharon Ferguson, hereby certify that I have this day, served copies of the following document on the attached list of persons by electronic filing, certified mail, e-mail, or by depositing a true and correct copy thereof properly enveloped with postage paid in the United States Mail at St. Paul, Minnesota.

**Minnesota Department of Commerce
Comments**

Docket No. E017/M-20-882

Dated this 15th day of April 2021

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Generic Notice	Commerce Attorneys	commerce.attorneys@ag.state.mn.us	Office of the Attorney General-DOC	445 Minnesota Street Suite 1400 St. Paul, MN 55101	Electronic Service	Yes	OFF_SL_20-882_M-20-882
Jon	Fabre	jfabre@otpc.com	Otter Tail Power Company	215 S Cascade St Fergus Falls, MN 56538-0496	Electronic Service	No	OFF_SL_20-882_M-20-882
Svetlana	Fedje	sfedje@otpc.com	Otter Tail Power Company	215 S Cascade St Fergus Falls, MN 56537	Electronic Service	Yes	OFF_SL_20-882_M-20-882
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 280 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_20-882_M-20-882
David G.	Prazak	dprazak@otpc.com	Otter Tail Power Company	P.O. Box 496 215 South Cascade Street Fergus Falls, MN 565380496	Electronic Service	Yes	OFF_SL_20-882_M-20-882
Generic Notice	Residential Utilities Division	residential.utilities@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012131	Electronic Service	Yes	OFF_SL_20-882_M-20-882
Will	Seuffert	Will.Seuffert@state.mn.us	Public Utilities Commission	121 7th PI E Ste 350 Saint Paul, MN 55101	Electronic Service	Yes	OFF_SL_20-882_M-20-882
Cary	Stephenson	cStephenson@otpc.com	Otter Tail Power Company	215 South Cascade Street Fergus Falls, MN 56537	Electronic Service	Yes	OFF_SL_20-882_M-20-882