

March 14, 2019

Daniel P. Wolf
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. E002/M-18-729

Dear Mr. Wolf:

Attached are the response comments of the Minnesota Department of Commerce, Division of Energy Resources (Department) to the February 1, 2019 reply comments of Northern States Power Company dba Xcel Energy (Xcel) in the following matter:

In the Matter of Northern States Power Company dba Xcel Energy-Electric Petition for Approval of Lighting Tariff Revisions to Include Light Emitting Diode (LED) Options.

The Petition was filed on November 21, 2018 by:

Lisa Peterson
Xcel Energy
414 Nicollet Mall, 401 – 7th Floor
Minneapolis, MN 55401
(612) 330-7681

The Department recommends that the Public Utilities Commission (Commission) **approve Xcel's petition, with modifications.** The Department is available to answer any questions that the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ DANIELLE WINNER
Rates Analyst

/s/ NANCY CAMPBELL
Financial Analyst

DW/NC/ja
Attachment



Before the Minnesota Public Utilities Commission

Comments of the Minnesota Department of Commerce Division of Energy Resources

Docket No. E002/M-18-729

I. BACKGROUND

On November 21, 2018, Northern States Power dba Xcel Energy- Electric (Xcel or the Company) filed a Petition requesting that the Minnesota Public Utilities Commission (Commission):

- Approve Xcel's proposal to add Light Emitting Diode (LED) service options to the Company's Automatic Protective Lighting Service (Rate Code A07);
- Approve Xcel's proposal to add LED service options to the Company's Street Lighting Energy Service (Closed) (Rate Code A32), and;
- Approve Xcel's proposal to close the Street Lighting Service- City of St. Paul (Closed) (Rate Code A37) to new fixtures.

On January 11, 2019, the Commerce Department, Division of Energy Resources (Department), submitted Reply Comments in which it requested that the Company provide:

- A discussion addressing concerns raised by the Suburban Rate Authority and the City of Minneapolis in Xcel's 2015 Rate Case;
- A clarification as to why the peak, transmission, and distribution costs were different between the A07 and A30 calculations,
- An updated calculation of incremental capital costs reflecting a pre-tax rate of return of 7.00 percent and;
- Demonstration that Xcel fully informed the City of Saint Paul regarding the proposal to close A37 to new lights, specifically noting whether Saint Paul was informed about the future costs of metering lights and LED lighting options.

The Department also suggested that the Suburban Rate Authority (SRA) and the City of Minneapolis weigh in on the street lighting issues addressed in Xcel's 2015 Rate Case. The Department stated that it would provide final recommendations in supplemental comments, but expected to recommend that the Commission:

- Approve Xcel's proposed Automatic Protective Lighting (A07) LED additions, once the Company provides a reasonable estimate for avoided Relamp Maintenance Costs and overall rate of return of 7.00 percent (pre-tax);
- Approve Xcel's proposed addition of LED options to the Street Lighting Energy Service (A32) rate, using the rates proposed by the Department in Table 4 [of the January 22, 2019 Comments];

- Add an additional LED option to the Street Lighting Energy Service (A32) rate for 200W equivalent lamps.

On January 25, 2019, St. Paul resident John Purdy submitted Comments supporting the Department's Comments, specifically noting the need to adequately capture cost savings associated with LEDs in the A32 rate codes.

On February 1, 2019, the SRA submitted Comments stating that it was generally not concerned with Xcel's proposal, but agreed with the Department's recommendations that the pre-tax rate of return should be set at 7.00 percent, and that Xcel should validate proper peak, transmission, and distribution demand costs for the A07 pricing.

On February 1, 2019, Xcel submitted Reply Comments addressing each of the Department's concerns and requests. The Department submits these Response Comments to respond to the Company.

II. DEPARTMENT ANALYSIS

A. Department's request that the Company provide a discussion addressing concerns raised by the Suburban Rate Authority and the City of Minneapolis in Xcel's 2015 Rate Case

The Department requested this discussion because it was concerned that parties may encounter the same problem as it did in the 2015 rate case; that certain lighting rates would be set in a miscellaneous docket (Docket No. E002/M-15-920), then promptly re-calculated in a rate case (Docket No. E002/GR-15-826). The Company reiterated that the 2015 settlement only applied to the A30 rates (not the A07 or A32 rates), and that it was not aware of any concerns of the SRA in the instant docket. The SRA also filed comments stating that it was not concerned with the proposal, and noted that SRA cities generally have very few A07 lights compared with A30 lights.¹

The Department is satisfied that recalculating the A07 rates now will likely not cause problems for parties when A07 rates are recalculated in the Company's upcoming rate case.

B. Department's request that the Company provide a clarification as to why the peak, transmission, and distribution costs were different between the A07 and A30 calculations

In its January 22, 2019 Comments, the Department noted that the Company used different demand cost assumptions for the A07 lights versus the A30 lights (calculated in Docket No.

¹ Suburban Rate Authority Comments, February 1, page 1.

E002/M-15-920). The SRA agreed that proper demand costs should be captured in this calculation. The Company clarified that this difference in assumptions was largely due to timing. Since the A30 lights were calculated prior to the 2015 rate case, those calculations relied on 2013 rate case assumptions (from Docket No. E002/GR-13-868). The A07 lights were based off assumptions from the 2015 rate case.

The Department is satisfied with this response and thanks the Company for clarifying.

C. Department's request that the Company provide an updated calculation of incremental capital costs reflecting a pre-tax rate of return of 7.00 percent

In its January 22, 2019 Comments, the Department argued that it did not agree with the Company's use of a pre-tax rate of return of 7.08 percent for the A07 lights. The Department argued that instead the pre-tax rate of return should be set at 7.00 percent, which reflects the Department's revenue requirement calculation in the 2015 rate case. The SRA agreed with this assessment.

The Company provided the requested calculation in Attachment A to its February 1, 2019 Reply Comments, but noted that the decrease in A07 rates was \$0.01 per month. The Company continued to support the 7.08 percent pre-tax rate of return.

The Department thanks the Company for the calculation, and continues to recommend that the Commission require the Company to use the 7.00 percent pre-tax rate of return.

D. Department's request for a demonstration that Xcel fully informed the City of Saint Paul regarding the proposal to close A37 to new lights, specifically noting whether Saint Paul was informed about the future costs of metering lights and LED lighting options.

The Department noted in its January 22, 2019 Comments that it was not clear who would pay for the cost of future metering costs for the City of Saint Paul's lights, and it was not clear whether Xcel fully informed the City that, if Saint Paul wished to pursue LED lighting, it would be required to switch from the A37 tariff to the A30 tariff. In response, the Company noted that a representative of the Public Works division of the City of Saint Paul was informed. Xcel also stated that the City has not requested to install any LED lights on the A37 tariff "because they install metered lighting systems and convert them to LED as they do street upgrades each year."² The lighting is then switched to the Street Lighting Energy Serviced- Metered (Rate Code A34) tariff. Over the past ten years, the City has reduced the number of A37 lights from 2,400 to 1,700; the Department presumes that the majority of these are switched to the A34 rate code.

² Xcel February 1, 2019 Reply Comments, page 3.

The Department notes that simply stating that the City of Saint Paul has been informed is not a “demonstration,” as the Department requested. However, given that the City does appear to be moving the direction of metering its lights as it converts to LEDs, as demonstrated by the reduction in A37 lights over the past ten years, the City appears to be willing to move along with the Company’s proposed changes.

Therefore, the Department is not opposed to the Company’s proposal to close the A37 rate code to new fixtures.

E. Department’s expected recommendation that the Commission approve Xcel’s proposed Automatic Protective Lighting (A07) LED additions, once the Company provides a reasonable estimate for avoided Relamp Maintenance Costs

The Department noted that it was unclear why the Company assumed an avoided relamp maintenance cost of \$0/light for A07 lights but \$4.57/light for A30 lights. The Department concluded that while relamp maintenance costs may be different for the two sets of lights, \$0 is not a reasonable assumption, and so absent another value, the Company should use the A30 relamp maintenance assumption for the A07 lights.

The Company responded that this difference in costs is due to the fact that the A30 lights were expected to be replaced *en masse*, prior to their expected replacement date. By contrast, the A07 lights are expected to be replaced once the existing light has failed. The Department can understand how this assumption would make a difference for the avoided relamp replacement cost in the transitional period as lamps are being replaced. However, this difference does not account for the ongoing maintenance cost savings produced by LEDs, once all lights have been replaced. Since an LED will necessarily incur fewer relamp maintenance costs over the course of its life compared to a non-LED, this avoided cost should be reflected in LED rates; it does not matter whether the light is an A07 LED or an A30 LED.

Therefore, the Department concludes that, while the Company may avoid different relamp maintenance costs for A07 and A30 lights due to the difference in shorter term replacement schedules, both types of LED lights produce similar avoided relamp maintenance costs on an ongoing basis. The Department continues to conclude that absent another value, the Company should use the A30 relamp assumption for the A07 lights.

F. Department’s expected recommendation that the Commission approve Xcel’s proposed addition of LED options to the Street Lighting Energy Service (A32) rate, using the rates proposed by the Department in Table 4 of its January 22, 2019 Comments

In its January 22, 2019 Comments, the Department noted that the Company did not capture cost savings attributable to LEDs in its proposed A32 LED additions. The Department provided

alternative rates to capture these cost savings, using the Company's calculation methodology.³ These alternative rates were supported by Saint Paul resident John Purdy, who pays taxes to the City for street lighting.

The Company responded that using the Department's proposed A32 rates would reduce the Company's opportunity to meet its authorized lighting revenue requirement without a corresponding cost reduction. The Department agrees that typically, it does not support making changes to rates as many changes to a utility's system occur between rate cases. However, the Company proposed different rates for non-LEDs and LEDs in both the A30 and A07 rates; only for the A32 rate does the Company propose to keep non-LED and LED rates the same. This proposal is not a consistent application of treatment of street lighting rates.

The Department concludes that the Company has not justified treating the A32 lights differently than the A30 or A07 lights, and that the Company should use the Department's proposed A32 rates, as they are consistent with other lighting rate treatments and also capture cost savings associated with LED lighting.

G. Department's expected recommendation that the Commission approve an additional LED option to the Street Lighting Energy Service (A32) rate for 200W equivalent lamps

The Department noted that there was a gap in rate offerings between the A32 LEDs ranging from 50-75W and 110-165W. The Department concluded that a rate should be calculated to fill this gap, using the same methodology as the Department used in other A32 lights. The Company responded that this addition would be necessary or appropriate, noting that as lighting wattage decreases with LED technology, so too does the wattage range. Further, the Company notes that only 3 percent A32 lights are 200W non-LEDs.

The Department accepts Xcel's response at this time and notes that if experience shows that changes are needed to incorporate more LED ranges, the Company should petition the Commission to add those LED options into the tariff.

III. RECOMMENDATIONS

The Department recommends that the Commission:

- Approve Xcel's proposed Automatic Protective Lighting (A07) LED additions, using a pre-tax rate of return of 7.00 percent and an avoided relamp maintenance value of \$4.57/light;

³ These results were calculated in Attachment D to the Department's January 22, 2019 Comments and are summarized in Table 4 of those Comments.

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Analysts Assigned: Danielle Winner/Nancy Campbell

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- Approve Xcel's proposed addition of LED options to the Street Lighting Energy Service (A32) rate, using the rates proposed by the Department in Table 4 of the Department's January 22, 2019 Comments, and;
- Approve Xcel's proposal to close its City of Saint Paul (A37) rate to new lights.

/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. E002/M-18-729

Dated this 14th day of March 2019

/s/Sharon Ferguson

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