



85 7TH PLACE EAST, SUITE 500
SAINT PAUL, MINNESOTA 55101-2198
MN.GOV/COMMERCE
651.539.1500 FAX: 651.539.1547
AN EQUAL OPPORTUNITY EMPLOYER

November 7, 2014

Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

RE: **Response Comments of the Minnesota Department of Commerce, Division of Energy Resources**
Docket No. E015/M-14-675

Dear Dr. Haar:

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

A Request by Minnesota Power for Approval of Light Emitting Diode Rates for Street Highway Lighting Service (*petition*).

The *Petition* was filed on August 13, 2014 by:

Marcia A. Podratz
Director, Rates
Minnesota Power
30 West Superior Street
Duluth, MN 55802

The Department recommends **approval with modification** of Minnesota Power's *Petition*. The Department is available to answer any questions the Minnesota Public Utilities Commission may have.

Sincerely,

/s/ HOLLY LAHD
Rates Analyst

HL/ja
Attachment



BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

RESPONSE COMMENTS OF THE MINNESOTA DEPARTMENT OF COMMERCE DIVISION OF ENERGY RESOURCES

DOCKET No. E015/M-14-675

I. SUMMARY OF FILINGS

On August 13, 2014, Minnesota Power (Minnesota Power or the Company) filed its request with the Minnesota Public Utilities Commission (Commission) for *Approval of Light Emitting Diode (LED) Rates for Street and Highway Lighting Service (Petition)*. The *Petition* includes a request for approval of LED street lighting rates, a proposed LED street lighting conversion process, and modifications to the existing Street and Highway Lighting Service tariff.

On October 13, 2014, the Minnesota Department of Commerce (Department) filed its *Comments* on Minnesota Power's *Petition*. In the *Comments* the Department recommended that the Commission:

1. approve Minnesota Power's proposed LED street and highway lighting service rates of \$12.88 per month for a 54W LED lamp, and \$17.04 per month for a 118W LED lamp;
2. approve Minnesota Power's request for the Street and Highway Lighting Service tariff clean up modifications included in the Company's *Petition*; and
3. require Minnesota Power to implement its LED street lighting rates 90 days after the *Petition's* filing date (November 11, 2014), or within 30 days of the Commission's Order in this matter, whichever is later.

Before making a recommendation on the Company's proposed LED street light conversion process, the Department requested that Minnesota Power provide detailed support for its proposed customer charges related to the proposed LED service conversion process.

On October 23, 2014, the Company filed *Reply Comments* with information on the Company's proposal to charge sodium vapor ("SV") fixture undepreciated costs to Option 1 customers who wish to replace SV lights that are less than 10 years old with LED fixtures.

In *Reply Comments* the Company also requested an effective date of March 1, 2015 for the new LED street lighting rates.

The Department reviewed the Company's *Reply Comments*, and offers the following analysis.

II. DEPARTMENT ANALYSIS

A. LED FIXTURE CONVERSION PROCESS

In *Reply Comments* Minnesota Power provided data on the Company's SV Street Light Fixtures (FERC Account 3730) net value asset levels. The account data shows that the average net value per fixture for pre-2005 assets ranged from \$5.32 to \$19.11; in contrast, the average value per fixture installed after 2004 ranged from \$53.69 to \$331.83. Given the low net value of the sodium vapor assets that were installed before 2005 (10 years ago), the Company reasoned it was appropriate for the Company to absorb the pre-2005 non-depreciated costs.

For SV fixtures that are less than 10 years old (i.e. installed in 2005 or later), Minnesota Power proposed that the customer would be required to pay to the Company the "remaining un-depreciated facility cost." The data provided by Minnesota Power in Attachment A to its *Reply Comments* includes a column labeled "Net Value" which reflects the difference between the original cost of each of the Company's sodium vapor fixtures and the fixture's accumulated depreciation. It is the Department's understanding that the term "un-depreciated facility cost," which MP uses in its proposed tariff language, has the same definition as "Net Value." The Department has some concerns with this proposed requirement.

By requiring customers to pay the un-depreciated facility cost for these assets, the Company is implying that when these fixtures are taken out of service, they are no longer useful and therefore have no value to either the Company or any third party that might be interested in purchasing SV fixtures. If it is the case that once taken out of service, these SV fixtures become useless, the Company's proposed requirement is reasonable as MP would lose the opportunity to recover the net value of the fixture. The Department notes, however, that these fixtures are assumed to have a 27-year averages service life, and thus fixtures which are 10 years old or younger could reasonably be expected to have 17 or more years of useful life left.

If Minnesota Power is able to remove a 10-year old fixture, retain it, and then reinstall it for use by a different customer, no compensation would be required from the customer requesting the LED conversion, except perhaps for some additional removal costs.¹ If Minnesota Power is able to reinstall the fixture for use by another customer following an LED conversion, depreciation expense would recommence upon reinstallation and the Company would double-recover the fixture's net value at the time of the conversion, once via proposed

¹ If Minnesota Power were to reinstall the fixture, it would incur removal costs twice, once upon the LED conversion, and then once upon final retirement after the fixture was reinstalled. Minnesota Power's current salvage rates include an adjustment for removal costs, but assume removal costs will be incurred only once.

payment from customer requesting the LED conversion, and once via depreciation expense which would be reflected in the rate paid by the second, non-LED customer. Similarly, if Minnesota Power is able to remove these fixtures and sell them to third parties, the proceeds of those sales should be used to offset the required payments from the customer requesting LED conversions in order to avoid double-recovery.

The Department notes that Minnesota Power's current depreciation rate for these assets includes an adjustment for expected net salvage. However, this assumed salvage rate may not be appropriate in this context because it reflects the Company's historical experience with retiring fixtures that were generally at or near the end of their useful lives. In this Docket, the Company is contemplating taking fixtures out of service that may have significant useful life remaining, and therefore have a much higher salvage value than the Company's historical experience would indicate.

Based on this, the Department recommends that Minnesota Power's proposed tariff language be amended as follows:

7. Existing Option 1 Customer who wish to replace Sodium Vapor fixtures that are less than ten years old and not in need of significant maintenance or repair with LED street lights will pay the Company the remaining un-depreciated facility cost, less salvage value. Under Option 2, Customers who convert to LED street lights will be assessed a removal fee of \$50 if the mast arm is left up and reused or \$100 if the mast arm is removed and not reused. Under Option 3, the Company's Compatible Unit Estimator (CUE) will be used to estimate the removal fee with a true-up of actual costs once the work is completed.

Based on the information provided in the Company's *Reply Comments*, the Department recommends approval of Minnesota Power's proposed LED fixture conversion process, as modified above to offset by the salvage value of the facilities the undepreciated facility cost to be paid by Option 1 customers who wish to replace SV lights that are less than 10 years old with LED fixtures,.

B. RATE EFFECTIVE DATE

In initial *Comments* the Department recommended that Minnesota Power's LED street lighting rates be implemented 90 days after the *Petition's* filing date (November 11, 2014), or within 30 days of the Commission's Order, whichever is later. In *Reply Comments* the Company requested an effective date of March 1, 2015 to allow time to complete new LED rate implementation plans. The Department does not object to the Company's proposed effective date.

III. DEPARTMENT RECOMMENDATIONS

For administrative ease, below are the Department's final recommendations, including the recommendations offered in our October 13, 2014 initial *Comments*.

The Department recommends that the Commission:

1. approve Minnesota Power's request for approval of its proposed LED street and highway lighting service rates of \$12.88 per month for a 54W LED lamp, and \$17.04 per month for a 118W LED lamp;
2. approve Minnesota Power's request for the Street and Highway Lighting Service tariff clean up modifications included in the Company's *Petition*;
3. modify Minnesota Power's plan to charge sodium vapor fixture undepreciated costs to Option 1 customers who wish to replace SV lights that are less than 10 years old with LED fixtures by reducing the undepreciated costs by the salvage value of the facilities; and
4. require Minnesota Power to implement its LED street lighting rates by March 1, 2015, or within 30 days of the Commission's Order in this matter, whichever is later.

/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
Response to Reply Comments**

Docket No. E015/M-14-675

Dated this 7th day of November 2014

/s/Sharon Ferguson

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Christopher	Anderson	canderson@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022191	Electronic Service	No	OFF_SL_14-675_M-14-675
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_14-675_M-14-675
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_14-675_M-14-675
Elizabeth	Goodpaster	bgoodpaster@mncenter.org	MN Center for Environmental Advocacy	Suite 206 26 East Exchange Street St. Paul, MN 551011667	Electronic Service	No	OFF_SL_14-675_M-14-675
Burl W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_14-675_M-14-675
Margaret	Hodnik	mhodnik@mnpower.com	Minnesota Power	30 West Superior Street Duluth, MN 55802	Electronic Service	No	OFF_SL_14-675_M-14-675
Lori	Hoyum	lhoyum@mnpower.com	Minnesota Power	30 West Superior Street Duluth, MN 55802	Electronic Service	No	OFF_SL_14-675_M-14-675
Michael	Krikava	mkrikava@briggs.com	Briggs And Morgan, P.A.	2200 IDS Center 80 S 8th St Minneapolis, MN 55402	Electronic Service	No	OFF_SL_14-675_M-14-675
Douglas	Larson	dlarson@dakotaelectric.com	Dakota Electric Association	4300 220th St W Farmington, MN 55024	Electronic Service	No	OFF_SL_14-675_M-14-675
James D.	Larson	james.larson@avantenergy.com	Avant Energy Services	220 S 6th St Ste 1300 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_14-675_M-14-675
John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_14-675_M-14-675

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Susan	Ludwig	sludwig@mnpower.com	Minnesota Power	30 West Superior Street Duluth, MN 55802	Electronic Service	No	OFF_SL_14-675_M-14-675
Pam	Marshall	pam@energycents.org	Energy CENTS Coalition	823 7th St E St. Paul, MN 55106	Electronic Service	No	OFF_SL_14-675_M-14-675
Herbert	Minke	hminke@allete.com	Minnesota Power	30 W Superior St Duluth, MN 55802	Electronic Service	No	OFF_SL_14-675_M-14-675
David	Moeller	dmoeller@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022093	Electronic Service	Yes	OFF_SL_14-675_M-14-675
Andrew	Moratzka	apmoratzka@stoel.com	Stoel Rives LLP	33 South Sixth Street Suite 4200 Minneapolis, MN 55402	Electronic Service	No	OFF_SL_14-675_M-14-675
Jennifer	Peterson	jjpeterson@mnpower.com	Minnesota Power	30 West Superior Street Duluth, MN 55802	Electronic Service	No	OFF_SL_14-675_M-14-675
Marcia	Podratz	mpodratz@mnpower.com	Minnesota Power	30 W Superior S Duluth, MN 55802	Electronic Service	No	OFF_SL_14-675_M-14-675
Thomas	Scharff	thomas.scharff@newpagecorp.com	New Page Corporation	P.O. Box 8050 610 High Street Wisconsin Rapids, WI 544958050	Electronic Service	No	OFF_SL_14-675_M-14-675
Ron	Spangler, Jr.	rlspangler@otpc.com	Otter Tail Power Company	215 So. Cascade St. PO Box 496 Fergus Falls, MN 565380496	Electronic Service	No	OFF_SL_14-675_M-14-675
Eric	Swanson	eswanson@winthrop.com	Winthrop Weinstine	225 S 6th St Ste 3500 Capella Tower Minneapolis, MN 554024629	Electronic Service	No	OFF_SL_14-675_M-14-675

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Karen	Turnboom	karen.turnboom@newpagecorp.com	NewPage Corporation	100 Central Avenue Duluth, MN 55807	Electronic Service	No	OFF_SL_14-675_M-14-675