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September 28, 2017



Daniel P. Wolf
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

**RE: In the Matter of Otter Tail Power Company's Petition for Approval of the Company's proposed LED Street and Area Lighting rate schedule 11.07 and associated LED implementation plan.
Docket No. E017/M-17-152
Reply Comments**

Dear Mr. Wolf:

Otter Tail Power Company (Otter Tail) hereby submits Reply Comments to the Minnesota Public Utilities Commission (Commission) in the above referenced matter.

Otter Tail has electronically filed this document with the Commission and is serving a copy on all persons on the official service list for this docket. A Certificate of Service is also enclosed.

If you have any questions regarding this filing, please contact me at 218-739-8639 or at jgrenier@otpc.com.

Sincerely,

/S/ JASON A. GRENIER
Jason A. Grenier
Manager, Market Planning

JAG:kaw
Enclosures
By electronic filing
c: Service List

**STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION**

In the Matter of Otter Tail Power Company's
Petition for Approval of the Company's
proposed LED Street and Area Lighting rate
schedule 11.07 and associated LED
implementation plan.

Docket No. E017/M-17-152

**REPLY COMMENTS OF
OTTER TAIL POWER COMPANY**

I. BACKGROUND

Otter Tail Power Company (Otter Tail or the Company) files these Reply Comments in response to the Minnesota Department of Commerce's (Department) Comments filed in this matter on August 31, 2017.

Otter Tail originally set two goals for the 5-year LED Street and Area Lighting project. The first, and most important, is to provide our customers a modern street and area lighting solution which saves energy, offers superior performance, and is aesthetically pleasing. The second is to complete the project without a significant negative financial impact to the Company. In reviewing the Department's comments, the Company believes the two parties have made a great deal of progress to accomplish the project's goals. The Company and the Department have worked hard modifying the Company's proposed cost recovery strategies to utilize the Company's Conservation Improvement Program (CIP) rate rider for recovery of expenses, while safeguarding customers from double recovery of expenses. Allowing the Company to recover these expenses impacts the rate at which the Company can fully implement the LED street lighting plan providing customers a modern street and area lighting experience.

The Company appreciates the Department's review and commitment to this docket. Based on the Department's August 31, 2017 recommendation, the two parties agree on nearly all items in this docket. The parties agree on the following items from page 8 of those comments:

- Otter Tail's proposed LED Street and Area Lighting rate schedule 11.07 and closure of the existing 11.04 Lighting schedule to new customers.
- Recovery of the following annual costs for five years through the CIP tracker;
 - CIP Program Evaluation: \$3,000 annual spending cap
 - CIP Rebate: \$178,572 annual spending cap
 - Retirement and Disposal Costs (less salvage value): \$432,803 annual spending cap

In the following reply comments, the Company addresses three important areas which need further discussion to add clarity to the record. These additional three areas are very important for successful and timely implementation of the street and area lighting project:

1. The Company will provide clarity for its proposal to allow labor from the Company's CIP team to be included as administration labor.
2. The Company will discuss its support for a rate of return on the incremental costs of new materials being capitalized.
3. The Company will clarify its timeline for a five-year project starting in 2017 or 2018 once Minnesota Public Utilities Commission (MPUC) approval is given.

II. PROPOSAL OF ADMINISTRATIVE COST RECOVERY

The Department addressed administrative cost recovery in its August 31, 2017 comments with the following:

“The Department supports recovery of incremental costs resulting from the addition of personnel (or additional labor hours), but to recover a portion of administration costs currently being recovered through base rates would constitute double recovery.”

Since the project has been approved by the Deputy Commissioner of the Department's Division of Energy Resources as part of the Company's 2017-2019 CIP triennial plan, the Company proposes to use existing CIP labor for a small portion of administrative costs. These costs primarily consist of labor associated with working with city administrators and general communication (advertising) of the lighting project within these communities. Including CIP labor would not add incremental costs to CIP since the labor would come from a separate CIP program. Most administrative costs for this program will be from Otter Tail's Operations team. These costs are not being requested for recovery since they are either being recovered in rates or will be included as capital labor in a future rate case.

In the Company's July 7, 2017 reply comments, the Company requested \$64,460 for CIP labor and \$100,000 annually for the use of a vendor sourcing material. The Company would like to take this opportunity to update this request. As stated above, the Company plans to use minimal CIP labor and for general communication of the program to participating cities and customers. The Company proposes to update the labor amount to an annual spending cap of \$20,000 and a general communications annual spending cap of \$25,000. These amounts are more consistent with other CIP program administration and advertising budgets. Again, the CIP labor is only a shift of labor from other CIP programs and general communications are an incremental cost not currently being recovered.

The Company and the Department agree on an allowed cap of \$100,000 annually if the Company needs to rely on a vendor for sourcing of material. The Company plans to manage all administrative costs closely to ensure cost-effectiveness for CIP reporting. Table 1 below summarizes the Company's latest proposal:

Table 1

Administration Expenses	Expense Amount
Dedicated CIP Employees Labor	\$20,000
Incremental General Communications/Advertising	\$25,000
Vendor for Sourcing Material	\$100,000
Total Administration Expense	\$145,000

III. PROPOSAL TO RECOVER A RETURN ON MATERIALS CAPITALIZED

The Company proposes to earn a rate of return on the material costs of the new lights as they are installed, minus accumulated depreciation. The Department stated in their August 31, 2017 comments

“the Department would not oppose allowing Otter Tail recovery of its rate of return on the incremental cost of the new LED light over the undepreciated value of the old, less efficient lights including the now known cost overruns).”

The Department's comments recognize a desire to avoid “single-issue ratemaking” or allowing a utility to earn a rate of return on newly installed assets between rate cases. However, in this instance the LED streetlighting project is a conservation project driving energy savings and net benefits for customers. In addition, the CIP rider is an existing rider designed to recover a utility's investments in conservation. With all proposed costs included, the project is still expected to provide net benefits to customers. The Department references Minnesota Statute §216B.03, which states, “the Commission shall set rates to encourage energy conservation.”

The Company is estimating the total cost of new LED fixture for the project to be about \$5.1 million. This is approximately \$1,017,927 annually over each of the five years in new material investment. The Company's lighting accounts reflect \$2,638,557 in Net Book Value (undepreciated value) as of June 30, 2016¹. Through the proposed project, approximately

¹ Otter Tail used June 30, 2016 net book values to reflect amounts very close to those included in the Company's 2016 test year for General Rate Case E017/GR-15-1033. Distribution assets, which include these lighting accounts, are depreciated by total distribution and not by individual asset. Using quantities and dollar amounts as of June 30, 2016, should be considered reasonable for these purposes.

\$527,711 of existing lighting will be retired each year. The annual difference between the new material costs of \$1,017,927 (new) and the existing lighting material \$527,711 (existing retired) equals \$490,216 (Incremental). The Company proposes a rate of return of 7.5056 percent on this estimated incremental amount. This equates to approximately \$36,794 for the first year of the project, growing to approximately \$183,968 in year five. These numbers are an estimate, if approved the Company would only receive a return on the incremental difference between actual cost of the material installed and the retired lights for each LED unit.

Allowing the Company a rate of return on the additional incremental cost from the cost of the old light to the new light asset does not create double recovery, it is fairly straight-forward to account for through the CIP tracker, supports the Company's plan to complete the project in a five-year timeline, and produces incremental benefits to our customers which will ultimately save customers energy and money. With the timing of a future General Rate Case unknown, this recovery method is essential to the project's timely success.

IV. TIMELINE OF STREETLIGHTING PROJECT

Otter Tail still hopes all street and area lights can be changed out to LEDs over a five-year period and hopes. the MPUC grants approval of the proposed project in 2017 with implementation beginning soon after. If project approval occurs in late November or December of 2017, implementation likely will not occur until 2018. The Company needs the flexibility to start the five-year project in either 2017 or 2018 depending upon timing of the MPUC's final decision.

V. CONCLUSION

In conclusion, Otter Tail's current proposal before the MPUC requests approval of:

1. The proposed LED Street and Area Lighting rate schedule 11.07.
2. The closure to installation of its Outdoor Lighting Dusk to Dawn rate schedule 11.04.
3. The recovery of associated program expenses through the CIP tracker including:
 - a. CIP Evaluation Expenses
 - b. CIP Rebates
 - c. Administration expenses for CIP labor for general communication of project to customers, and 3rd party sourcing of materials,
 - d. Retirement and Disposal Costs (less salvage value)
 - e. A return on incremental material investment

These costs are summarized in Table 2 below, including annual spending caps.

Table 2

Summary of Proposed Recovery Budget	Year 1	Year 2	Year 3	Year 4	Year 5	5 Year Total
CIP Program Evaluation Expenses	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	\$15,000
CIP Rebate	\$178,572	\$178,572	\$178,572	\$178,572	\$178,572	\$892,859
Retirement and Disposal Costs	\$432,803	\$432,803	\$432,803	\$432,803	\$432,803	\$2,164,014
CIP Administration Costs						
CIP Labor	\$20,000	\$20,000	\$20,000	\$20,000	\$20,000	\$100,000
Program Communications/Advertising	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$125,000
3rd Party Sourcing	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$500,000
Rate of Return on Incremental Material Investment	\$36,794	\$73,587	\$110,381	\$147,174	\$183,968	\$551,904
Total Proposed Recovery Through CIP	\$796,168	\$832,962	\$869,755	\$906,549	\$943,343	\$4,348,777

The Company included all these costs in its latest evaluation of the proposed project. Including all benefits from energy saved, and all costs, the proposed project is very cost effective from the Societal test with a score of 1.63, producing net benefits for customers of \$2,098,147 for year one of the project. The project scores a 0.71 utility test, but the Company is confident it can manage the program closer to a score of 1.00. With strong societal test results and the resulting implementation of a modern lighting solution for the customer, the project is a win-win for customers and communities.

Respectfully submitted,

/s/JASON GRENIER

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September 28, 2017

CERTIFICATE OF SERVICE

**RE: RE: In the Matter of Otter Tail Power Company's Petition for Approval of the Company's proposed LED Street and Area Lighting rate schedule 11.07 and associated LED implementation plan.
Docket No. E017/M-17-152**

I, Kim Ward, hereby certify that I have this day served a copy of the following, or a summary thereof, on Daniel P. Wolf and Sharon Ferguson by e-filing, and to all other persons on the attached service list by electronic service or by First Class Mail.

**Otter Tail Power Company
Reply Comments**

Dated this **28th** day of **September, 2017**.

/s/ Kim Ward
Kim Ward, Regulatory Filing Coordinator
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