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November 9, 2017



Daniel P. Wolf  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7<sup>th</sup> 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 or the Company) files these Reply Comments in response to the Minnesota Department of Commerce's (Department) response comments filed in this matter on October 31, 2017. Otter Tail takes this opportunity to address two issues which need clarification in this docket. First, Otter Tail clarifies its proposal for recovery of administrative costs for the LED street light project. Secondly, as requested by the Department, Otter Tail includes a table (Attachment 1) listing the proposed recovery of the incremental costs of the material, including the impacts of time on both new and old lights.

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](mailto:jgrenier@otpc.com).

Sincerely,

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

jch  
Enclosures  
By electronic filing  
c: Service List

*An Equal Opportunity Employer*

**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) response comments filed in this matter on October 31, 2017. Otter Tail takes this opportunity to address two issues which need clarification in this docket. First, Otter Tail clarifies its proposal for recovery of administrative costs for the LED street light project. Secondly, as requested by the Department, Otter Tail includes a table (Attachment 1) listing the proposed recovery of the incremental costs of the material, including the impacts of time on both new and old lights.

**II. PROPOSAL OF ADMINISTRATIVE COST RECOVERY**

In the Department's October 31, 2017 response comments, the Department recommended the Commission deny Otter Tail's request to recover \$20,000/year for administrative labor through the CIP tracker mechanism. While Otter Tail believes recovering this amount through CIP is justified, Otter Tail no longer requests recovery of this amount in this proceeding. Otter Tail believes a more appropriate avenue to address the administrative costs for a CIP program is through the Company's CIP triennial proceeding, Docket No. E017/CIP-16-116. A modification to Otter Tail's CIP triennial plan would provide an opportunity for the Company to propose to adjust administrative budgets in other programs to account for the increase in administrative cost for the CIP LED Street Lighting program. Otter Tail respectfully requests the issue of recovering \$20,000/year in employee labor through CIP to be withdrawn from this proceeding.

**III. PROPOSAL TO RECOVER A RETURN ON CAPITALIZED MATERIALS**

Otter Tail included a plan for recovery of a return on the capitalized materials in its September 28, 2017 reply comments. The Department responded in their October 31, 2017 response comments stating,

*"the Department notes that to find the true incremental cost of the new lights over the old lights, OTP's calculations should also account for the passage of time for both sets of*

*lights. The Department therefore requests that Otter Tail rerun its calculation, accounting for the effect of time on both the new lights and old lights, and provide its final result in a table in response to these comments.”*

Otter Tail has included Attachment 1 to these comments which provides a table accounting for the effect of time on both the new and old lights. To account for impact of time on the new and old lights, Otter Tail applied the weighted depreciation rate for accounts 371.20 Other Private Lighting, and 373.00 Street Lighting and Signal Systems from Otter Tail’s 2016 Depreciation Study. A summary of these accounts was provided to the Department previously and included as an attachment to the Departments October 31, 2017 response comments.

#### **IV. 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 general communication of project to customers and 3<sup>rd</sup> party sourcing of materials,
  - d. Retirement and Disposal Costs (less salvage value)
  - e. A return on incremental capitalized material investment

These costs are summarized in Table 1 below, including annual spending caps.

**Table 1**

<b>Summary of Proposed Cost Recovery</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Year 5</b>	<b>5-Year Total</b>
CIP Program Evaluation	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000	<b>\$15,000</b>
CIP Rebate	\$178,572	\$178,572	\$178,572	\$178,572	\$178,572	<b>\$892,860</b>
Administrative Costs (non-labor)	\$125,000	\$125,000	\$125,000	\$125,000	\$125,000	<b>\$625,000</b>
Retirement and Disposal Costs	\$432,803	\$432,803	\$432,803	\$432,803	\$432,803	<b>\$2,164,015</b>
Return on Incremental Costs of New Lights	\$36,108	\$71,530	\$106,952	\$142,374	\$177,795	<b>\$534,758</b>
Total Recovery through CIP Tracker	<b>\$775,483</b>	<b>\$810,905</b>	<b>\$846,327</b>	<b>\$881,749</b>	<b>\$917,170</b>	<b>\$4,231,633</b>

Respectfully submitted,

/s/JASON GRENIER

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Manager, Market Planning  
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November 9, 2017

		Year 1	Year 2	Year 3	Year 4
	<b>Cost of New Lights, Cumulative</b>	\$1,017,927	\$2,035,854	\$3,053,780	\$4,071,707
	Annual Depreciation				
	Year 1	\$18,974	\$37,949	\$37,949	\$37,949
	Year 2		\$18,974	\$37,949	\$37,949
	Year 3			\$18,974	\$37,949
	Year 4				\$18,974
	Year 5				
	Total Depreciation	\$18,974	\$56,923	\$94,872	\$132,821
<b>A</b>	<b>Cumulative Net Cost of new Lights</b>	<b>\$998,952</b>	<b>\$1,978,930</b>	<b>\$2,958,908</b>	<b>\$3,938,886</b>
	<b>Value of Retired Lights, Cumulative</b>	\$527,711	\$1,055,423	\$1,583,134	\$2,110,846
	Annual Depreciation				
	Year 1	\$9,837	\$19,673	\$19,673	\$19,673
	Year 2		\$9,837	\$19,673	\$19,673
	Year 3			\$9,837	\$19,673
	Year 4				\$9,837
	Year 5				
	Total Depreciation	\$9,837	\$29,510	\$49,183	\$68,857
<b>B</b>	<b>Cumulative Net Value of Retired Lights</b>	<b>\$517,875</b>	<b>\$1,025,913</b>	<b>\$1,533,951</b>	<b>\$2,041,989</b>
<b>C [A-B]</b>	<b>Incremental Cost of New Lights</b>	<b>\$481,078</b>	<b>\$953,018</b>	<b>\$1,424,958</b>	<b>\$1,896,897</b>
<b>D</b>	Rate Return	7.5056%	7.5056%	7.5056%	7.5056%
<b>E [C*D]</b>	<b>Rate of Return on Incremental Costs of New Lights</b>	<b>\$36,108</b>	<b>\$71,530</b>	<b>\$106,952</b>	<b>\$142,374</b>
	Depreciation rate	3.7280%			

Year 5
\$5,089,634
\$37,949
\$37,949
\$37,949
\$37,949
\$18,974
\$170,769
\$4,918,864
\$2,638,557
\$19,673
\$19,673
\$19,673
\$19,673
\$9,837
\$88,530
\$2,550,027
\$2,368,837
7.5056%
\$177,795

## **CERTIFICATE OF SERVICE**

**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, Jana Hrdlicka, 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 **9th** day of **November, 2017**.

/s/ JANA HRDLICKA

Jana Hrdlicka, Regulatory Filing Coordinator  
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