# MINNESOTA PUBLIC UTILITIES COMMISSION

# **Staff Briefing Papers**

Meeting Date	November 30, 2017		Agenda Item *2
Company	Otter Tail Power Company		
Docket No.	E017/M-17-152		
		Power Company's Petition for proposed LED Street and Area 7 and associated LED	
Issue	<ol> <li>Should the Commission approve Otter Tail's Petition for approval of the Company's LED Street and Area Lighting rate schedule 11.07 as modified?</li> </ol>		
Staff	Marc Fournier <u>M</u>	arc.Fournier@state.mn.us	651-201-2214
✓ Relevant Documents			Date
Initial Filing-2017 Light Emitting Diode (LED) Street Lighting Rate			February 23, 2017

Comments of the Minnesota Department of Commerce Division of June 5, 2017 Energy Resources

July 10, 2017

Reply Comments Otter Tail Power Company

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✓ Relevant Documents	Date
Response to Reply Comments of the Minnesota Department of Commerce Division of Energy Resources.	August 31, 2017
Reply Comments Otter Tail Power Company	September 28, 2017
Response to Reply Comments of the Minnesota Department of Commerce Division of Energy Resources	October 31, 2017
Supplemental Comments Otter Tail Power Company	November 1, 2017
Reply Comments Otter Tail Power Company	November 9, 2017

# I. Statement of the Issues

Should the Commission approve Otter Tail's Petition for approval of the Company's LED Street and Area Lighting rate schedule 11.07 as modified?

## II. Background

On February 22, 2017, Otter Tail Power (Otter Tail, OTP or the Company) filed with the Minnesota Public Utilities Commission (Commission) its Petition for Approval of the Company's LED Street and Area Lighting Rate Schedule 11.07 and Associated LED Implementation Plan (Petition).

On June 5, 2017, the Minnesota Department of Commerce, Division of Energy Resources (Department) filed Comments supporting Otter Tail's proposed rates for the LED lights. On July 10, 2017, Otter Tail filed Reply Comments. In those Comments, Otter Tail changed its proposal to address the Department's concerns.

On August 31, 2017, the Department recommended filed Response Comments, where the Department recommended that the Company be allowed to recover their unexpected retirement and disposal cost overruns, similar to what was permitted for Xcel Energy in the retirement of the Black Dog coal plant in Xcel's 2012 General Rate Case (Docket No. E002/GR-12-961).

On September 28, 2017, Otter Tail filed Response Comments. In those Comments, Otter Tail updated its internal administrative costs. On October 31, 2017, filed response comments which recommended approval of Otter Tail's petition with modifications. On November 9, 2017 Otter Tail filed additional response comments providing clarifications to two issues raised by the DOC.

### III. Parties' Comments

**OtterTail:** 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.

As such, 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 3rd 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 on page 2 of Otter Tail's November 9, 2017 reply comments. The values in this table includes annual spending caps.

**DOC:** The Department concludes that the Company's proposal is reasonable, save the \$20,000/year of existing employee labor, and the methodology used to calculate the incremental cost between the old and new lights. Therefore, the Department recommends that the Commission deny the Company's request to earn \$20,000/year for existing employee labor and approve the Company's request to earn a rate of return on the incremental costs of the new lights over the old lights, once the calculation is modified to account for the passage of time.

These updates mean that the Department recommends that the Commission approve Otter Tail's proposed LED Street and Area Lighting rate schedule 11.07, modified to allow recovery of the costs through the CIP tracker as identified in Table 1 on page 2 of Otter Tail's November 9, 2017 reply comments.

In addition, the DOC recommends that the Commission condition its approval on the following:

- This approval is capped at dollar amounts and time periods shown in Table 1 on page 2 of Otter Tail's November 9, 2017 reply comments; and
- OTP must track and report these costs in the Company's annual CIP tracker filings, and must account for the CIP tracker recovery of the retirement and disposal costs in its depreciation studies and next rate case.

### IV. Staff Analysis

Staff agrees with the recommendations of the DOC and Otter Tail that the Commission approve:

- 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 3rd party sourcing of materials,
  - d. Retirement and Disposal Costs (less salvage value)
  - e. A return on incremental capitalized material investment

In addition, the Commission should condition its approval on the following:

- This approval is capped at dollar amounts and time periods shown in Table 1 on page 2 of Otter Tail's November 9, 2017 reply comments; and
- OTP must track and report these costs in the Company's annual CIP tracker filings, and must account for the CIP tracker recovery of the retirement and disposal costs in its depreciation studies and next rate case.

### V. Decision Options

- 1. Approve Otter Tail's Petition for approval of the Company's LED Street and Area Lighting rate Schedule 11.07 as modified in later party comments.
- 2. Do not approve Otter Tail's Petition for approval of the Company's LED Street and Area Lighting rate Schedule 11.07 as modified.