



May 7, 2010

Darrell Nitschke, Executive Director
North Dakota Public Service Commission
State Capitol Building, Dept. 408
600 East Boulevard
Bismarck, ND 58505-0480

SUBJECT: Xcel Energy Response to April 1, 2010 Notice of Probable Violations and Proposed Compliance Order (Case No. GS-08-765)

Dear Mr. Nitschke:

Enclosed with this letter is the response of Northern States Power Co., a Minnesota Corporation ("Xcel Energy" or "the Company") to the Staff's April 1, 2010 Notice of Probable Violation ("NPV") and Proposed Compliance Order in Case No. GS-08-765.

While we believe that our emergency plans and procedures were followed during and after the September 2, 2008 event, Staff's investigation and our own internal reviews have helped us identify opportunities for improvement, examples of which are discussed in our attached response. Most importantly, though organizational changes occurring at both Xcel Energy and the Commission during the investigation made the communication process more challenging, we are addressing some of our information-sharing gaps that prevented us from better understanding the Staff's concerns and from conveying our emergency response efforts.

For example, meeting with Staff on April 22, 2010 to discuss and better understand the Staff's NPV and Warning Letter ("WL") was very constructive. We gained a better sense of the Staff's perspective regarding the lab testing process that occurred after this event. That understanding helped us to better explain in this response our testing procedures, but more importantly it showed us what we can do differently to improve communication going forward.

Providing a safe and reliable natural gas system is our top priority. I believe our enclosed response reflects our commitment to public safety during and after the September 2008 incident, and demonstrates our commitment to work with the Commission to make our emergency procedures even more effective.

If you need further information or clarification regarding the enclosed response, please contact me or Lisa Kallberg at 651-229-2282.

Sincerely,

A handwritten signature in black ink, appearing to read 'William L. Kaphing'.

William L. Kaphing
Vice President, Control Center

STATE OF NORTH DAKOTA
BEFORE THE
NORTH DAKOTA PUBLIC SERVICE COMMISSION

Kevin Cramer
Tony Clark
Brian Kalk

Chairman
Commissioner
Commissioner

IN THE MATTER OF THE RESPONSE OF
NORTHERN STATES POWER COMPANY,
A MINNESOTA CORPORATION (“XCEL
ENERGY”) TO COMMISSION STAFF’S
NOTICE OF PROBABLE VIOLATIONS
AND PROPOSED COMPLIANCE ORDER.

CASE No. GS-08-765

**NATURAL GAS SAFETY
INVESTIGATION**

INTRODUCTION

Northern States Power Company, a Minnesota corporation (“Xcel Energy” or “the Company”) hereby submits to the North Dakota Public Service Commission (“Commission”) our response to the Staff’s April 1, 2010 Notice of Probable Violation (“NPV”) and Proposed Compliance Order in Case No. GS-08-765.

For the reasons outlined in the response, the Company believes that it followed its natural gas emergency plans and procedures and complied with relevant gas standards. However, Commission Staff and internal reviews have revealed opportunities for improving our practices. In addition, Xcel Energy acknowledges our obligation to reimburse the Commission for any laboratory testing costs it incurred.

RESPONSE

I. Probable Violation No. 1:

- No later than May 7, 2010, NSP shall:
- “Provide to the Commission a written explanation of why NSP did not perform a failure investigation of this incident.”

Xcel Energy's Response: After the September 2, 2008 Incident, Xcel Energy complied with our Faulty Materials procedures, and as part of our investigation we participated in and reviewed the materials failure analysis completed by CRT Laboratories, Inc. ("CRT").

A central aspect of Xcel Energy's material failure investigations is the testing of the failed material by an external laboratory agreed to by the parties of interest, and analysis of the results of the testing by that laboratory. In this case, while the steps in the testing process were somewhat different for us, we believe that they were handled appropriately and that our review and participation in the third-party analysis constituted the necessary investigation. Therefore, we believe that we did not neglect to perform a failure investigation, and that, as is customary; the central part of our investigation was the testing, analysis, and report issued by CRT, which we reviewed and accepted.

The steps in the testing process were somewhat different than our previous experience partly because Commission Staff took the initiative to select and direct the laboratory that performed the materials failure analysis. However, we do not understand that difference to form the basis for any violation under 49 C.F.R. § 192.617 or 49 C.F.R. § 192.605 because an investigation was performed, and because there was agreement by the parties to conduct testing and to use CRT and FEC.

In the fall of 2008, while we were in the process of determining the approach to testing the failed pipe, scheduling conflicts arose among the involved parties. Some of those conflicts arose as a result of the litigation pending at the time, as we attempted to coordinate with Plaintiffs' counsel. Since it was the Company's intention from the start to lead and coordinate the testing efforts, we had begun working towards resolution of these conflicts. . . Consistent with our customary faulty materials procedures, our testing plan was to:

1. notify all involved parties of the intent to further examine materials;
2. develop and agree to the testing protocols with those parties;
3. agree to the lab that would be used, including whether it would be internal or external; and
4. agree to the date of testing.

In short, we wanted to be very deliberate in ensuring that all interested parties had the opportunity to participate fully in the selection of the testing lab and the development of the testing protocols. Our belief was that this coordination, while not typically accomplished very quickly, is critical when preparing to engage in destructive material testing because there is no second

opportunity to “get it right”. Commission Staff took the initiative, however, to identify an external laboratory on its own, and eventually entered into a contract with CRT for the testing. We came to understand later that Staff likely took this action out of frustration, as they felt that Xcel Energy’s process was too slow. In hindsight, we recognize we could have done more to communicate with Staff why it was taking time for us to proceed with the testing, which may have helped improve Staff’s confidence that testing would in fact commence. We regret the misunderstanding that resulted from this oversight.

On February 2, 2009, Xcel Energy sent the sample pipe material for failure analysis to CRT. We cooperated fully in the testing and analysis of the failed material at CRT, with the forensic work carried out by Forensic Engineering Consultants, LLC (“FEC”) under CRT’s supervision. Our Pipeline Compliance & Standards (“PC&S”) team is very involved with investigating and determining corrective actions to prevent recurrence of faulty material situations. 49 CFR Part 192.617 requires that the operator identify which materials need to be examined to determine the cause of failure. We believed that we complied with that requirement by removing and storing the material in a secure location. During CRT’s testing, we retained a third-party plastic pipe Subject Matter Expert (“SME”) to attend the testing. After receiving the CRT and FEC Reports dated April 29, 2009, Xcel Energy reviewed the analysis and conclusions. We found no reason to dispute the results and findings of the CRT and FEC experts, or to initiate further testing. As discussed with Commission Staff, while the intent of testing is to determine the root cause, in some cases the specific cause cannot be determined.

As explained in some of our prior responses to Information Requests, with this incident there was no single action that could have been taken to prevent recurrence. Xcel Energy initiated a very aggressive \$7.2 million pipe replacement project and, within one year, completed the replacement of approximately 22.2 miles of main and 2,345 service lines manufactured by Century Utility Products, Inc. (“Century Pipe”). This significant project was in addition to our on-going maintenance and daily operations work including, among other things, conducting leak surveys, pressure testing prior to putting facilities in service, and injecting odorant into the natural gas, all to ensure public safety and the safety of our customers. We believe these on-going activities and the aggressive Century Pipe replacement effort satisfied our obligations under Part 192.617 to minimize the likelihood of recurrence.

As we explained at our meeting on April 22, 2010, we have a formal 8 Discipline (“8D”) Faulty Material Process Flowchart and Material Analysis Form that is used for all faulty materials, especially those involved in a

reportable incident, and have been making improvements to it. (See Attachments A and B, respectively.) At the meeting, Staff responded favorably to these improvements, and we intend on expanding our documentation further.

In conclusion, Xcel Energy believes that it did in fact perform an investigation into the cause of failure primarily by participating in, reviewing, and accepting the analysis, and results of the investigation performed by CRT and FEC. Subsequent to that, we embarked on a comprehensive and aggressive recurrence mitigation plan to replace, on our North Dakota system, all pipe of the same type of material that failed in the September 2008 incident. We believe such action greatly improved the safety and reliability of our system.

- “Perform an investigation of this failure to determine the causes of the failure and to determine action for minimizing the possibility of recurrence with the written report of the findings with the commission.”

Xcel Energy’s Response: As described above, Xcel Energy performed an investigation regarding the September 2, 2008, natural gas incident in Fargo, North Dakota. CRT and FEC performed the destructive testing and forensic lab analysis of the material from this incident. Xcel Energy participated in this testing and analyses, thoroughly reviewed the CRT and FEC reports, and accepted the analysis and findings. We note that further testing of this material would be nearly impossible and irrelevant as the destructive testing already performed by CRT modified the material from the condition it was in immediately after the incident.

In addition to our investigation, we have minimized the possibility of recurrence by replacing natural gas mains and service lines that were of Century Pipe material. This effort was completed in a very short timeframe of one calendar year (2009). It should also be noted that this replacement project also greatly reduced the type of socket fusions that were installed in the same timeframe as Century Pipe as described in the FEC report.

II. Probable Violation No. 2:

No later than May 7, 2010, NSP shall:

- “Provide to the Commission a written explanation of why NSP did not perform an employee activities review of this emergency.”

Xcel Energy's Response: Xcel Energy performed an employee activities review on October 18, 2008. As we discussed during our April 22, 2010, meeting, after we submitted our response to the records request on November 13, 2009, we found additional documentation, inadvertently omitted from our response, confirming that a review of employee activities as well as the emergency plan was performed. We believed we had previously found and provided to Commission Staff all responsive documents. This was, however, an oversight on our part and we apologize for the misunderstanding this caused.

The new documentation, provided as Attachment C, demonstrates that the appropriate Company personnel completed their review of the employee activities and emergency plan on October 18, 2008. The operations manager and his staff determined the activities and procedures were followed and did not recommend any revisions to our policies and procedures. As stated in the Executive Summary of Staff's Incident Investigation Report, Commission Staff previously found that "Emergency response actions taken by NSP personnel were consistent with company's manual for responding to a level 1 emergency (attachment 6)." With this additional documentation, we believe we have clarified an unfortunate misunderstanding and demonstrated that we complied with procedures outlined in 49 CFR 192.615(b)(3) and page 18.13.1 of our Gas Standards manual.

- "Perform an employee activities review and file the written report with the commission."

Xcel Energy's Response: As required by Section 18.13.1 and Section 18.13.2, the employee activities and the emergency plan were reviewed on October 18, 2008 with appropriate Company personnel. The written report is reflected in Attachment C. The operations manager and his staff determined that the emergency plan procedures were followed and did not recommend any emergency procedure revisions to the PC&S team.

III. Probable Violation No. 3:

- No later than May 7, 2010, [NSP] shall:
- "Provide to the Commission a written explanation of why NSP did not perform an emergency plan review of this emergency."

Xcel Energy's Response: The review performed on Oct 18, 2008, as described in the response to Probable Violation No. 2 above, also constituted an emergency plan review. During the meeting, we reviewed the conduct of employees after the incident as well as the components of the emergency plan itself. See the Company's response to Probable Violation No. 2 for more details.

- “Perform an emergency plan review and file the written report of the findings with the commission.”

Xcel Energy's Response: See Xcel Energy's response to Probable Violation No. 2 above.

IV. Testing Fees

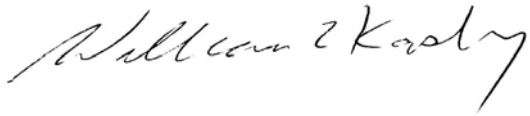
No later than May 7, 2010, NSP shall:

- “pay to the Commission \$5,310 for the costs of laboratory analysis of the failed pipe.”

Xcel Energy's Response: Based on the discussion with Staff on April 22, 2010, the Company acknowledges that its previous commitment to pay the costs of the lab testing and forensics analysis could have been more clearly communicated to the Staff earlier in the process of determining when and how the testing would be conducted. This may have averted confusion later in the investigation regarding the payment of such fees by the utility. We regret that we weren't clearer on this matter.

Xcel Energy maintains its offer to pay the full costs associated with the external lab tests and analysis. We previously paid a portion of the costs, and have since confirmed with Staff that there were costs paid by the Commission as well. We have confirmed the amount (\$5,310) of those costs with Staff, and are enclosing a check in that amount with our mailing of this Response.

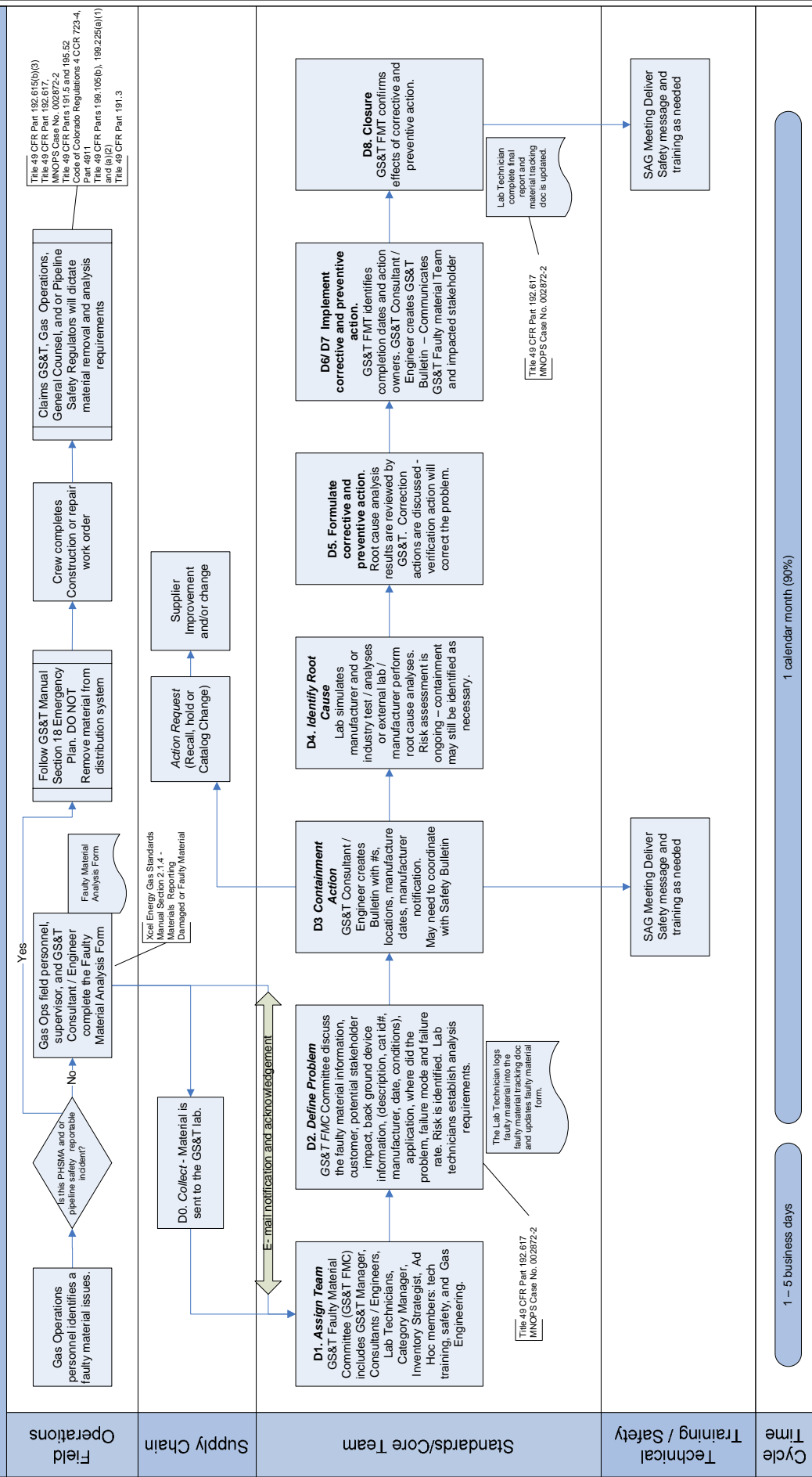
RESPECTFULLY SUBMITTED,

A handwritten signature in cursive script, appearing to read "William L. Kaphing, Jr.", written in black ink.

WILLIAM L. KAPHING, JR.
VICE PRESIDENT, CONTROL CENTER

May 7, 2010

Gas Pipeline Compliance & Standards Faulty Material – “8D” Process Flow



Faulty Material Log #

Gas Faulty Material Analysis Form

| | | | |
|--|--|--|--|
| Originator: | | Date received from OpCo: | |
| Originator's Phone #: | | Material description: | |
| Operating Area: | | Cat ID: | |
| Was faulty material removed? <input type="checkbox"/> YES <input type="checkbox"/> NO | | Manufacturer: | |
| | | Lot #: | |
| Address where faulty material was installed: | | | |
| Description of defect: | | | |
| Consultants: Please make sure everything above this line is completely filled out!! | | | |
| Date Received by GS&T: | | | |
| Assign Faulty Material Log # (Jim DeBelle) | | | |
| D1 Identify Faulty Material Team: Check as appropriate. | | Date: | |
| <input type="checkbox"/> GS & T Mgr, Consultants, Engineers | <input type="checkbox"/> GT Lab Technicians | <input type="checkbox"/> Category Mgr. | <input type="checkbox"/> Inventory Strategist |
| <input type="checkbox"/> Tech. Training | <input type="checkbox"/> Safety | <input type="checkbox"/> Gas Engineering | |
| Comments: | | | |
| D2 Define Problem: | | | |
| Previous Problem <input type="checkbox"/> YES <input type="checkbox"/> NO | | Count of same problem | |
| Previous Analysis <input type="checkbox"/> YES <input type="checkbox"/> NO | | Result of previous analysis: | |
| Should analysis be performed by? (Check) | <input type="checkbox"/> GT Lab | <input type="checkbox"/> Manufacturer: Name: | <input type="checkbox"/> Third party Lab: Name: |
| Date Request sent: | | | |
| Date Report Received: | | | |
| Comments: | | | |
| D3 Containment Action | | | |
| GS&T Bulletin <input type="checkbox"/> YES <input type="checkbox"/> NO | Date of Bulletin: | SAG Delivery <input type="checkbox"/> YES <input type="checkbox"/> NO | Date SAG Delivery: |
| AR <input type="checkbox"/> YES <input type="checkbox"/> NO | Date of AR: | | |
| Comments: | | | |
| D4 Identify Root Cause | | | |
| Date: | | | |
| Brief Description of cause: | | | |
| D5 Formulate corrective and preventative action | | | |
| Date: | | | |
| Brief Description of action plan: | | | |

| | | | | | | | | |
|--|------------------------------|-----------------------------|---------------------------|---|------------------------------|-----------------------------|-------|--|
| D6 / D7 Implement Action Plan | | | Proposed Completion Date: | | | Responsibly Party: | | |
| Comments: | | | | | | | | |
| Communications: | | | | | | | | |
| Newsletter | <input type="checkbox"/> YES | <input type="checkbox"/> NO | Date: | Bulletin | <input type="checkbox"/> YES | <input type="checkbox"/> NO | Date: | |
| Safety | <input type="checkbox"/> YES | <input type="checkbox"/> NO | Date: | Training | <input type="checkbox"/> YES | <input type="checkbox"/> NO | Date: | |
| Construction | <input type="checkbox"/> YES | <input type="checkbox"/> NO | Date: | Manufacture | <input type="checkbox"/> YES | <input type="checkbox"/> NO | Date: | |
| Purchasing | <input type="checkbox"/> YES | <input type="checkbox"/> NO | Date: | Originator | <input type="checkbox"/> YES | <input type="checkbox"/> NO | Date: | |
| AR – Gas | <input type="checkbox"/> YES | <input type="checkbox"/> NO | Date: | | | | | |
| Comments: | | | | | | | | |
| D8 Closure - Review the effectiveness of corrective and preventative actions | | | | | | | | |
| Was corrective action effective? <input type="checkbox"/> YES <input type="checkbox"/> NO | | | | Date Faulty Material Analysis was closed: | | | | |
| Is SAG meeting delivery necessary? <input type="checkbox"/> YES <input type="checkbox"/> NO | | | | Date of SAG meeting delivery: | | | | |
| Comments: | | | | | | | | |



Training: Safety / Staff Meeting - REVIEWED 9/2/08 INCIDENT VIDEO - TRUST YOUR INSTINCT

Training Location Fargo Training Date 10/18/08

| Name Please print clearly to receive credit | Employee ID (eg, 001234 or MRPL99) | Signature |
|--|---------------------------------------|---------------------------|
| 1. Anthony P Coronato | | <i>Anthony P Coronato</i> |
| 2. DAVID M KARTES | | <i>David M Kartes</i> |
| 3. PAUL E MOREHEAD | | <i>Paul Morehead</i> |
| 4. Mike Kaminski | | <i>Mike Kaminski</i> |
| 5. Mike McManus | | <i>Mike McManus</i> |
| 6. SCOTT LADWIG | | <i>Scott Ladwig</i> |
| 7. Terry McLeod | | <i>Terry McLeod</i> |
| 8. TOM SUTHER | | <i>Tom Suther</i> |
| 9. KEITH WELSER | | <i>Keith Welsler</i> |
| 10. Paul Amstrup | | <i>Paul Amstrup</i> |
| 11. Ken Simonson | | <i>Ken Simonson</i> |
| 12. Carey Gleason | | <i>Carey Gleason</i> |
| 13. Larry Bohler | | <i>Larry Bohler</i> |
| 14. | | |
| 15. | | |
| 16. | | |
| 17. | | |
| 18. | | |
| 19. | | |
| 20. | | |

Please ensure that this form is filled out completely and legibly and return it to:

Organization Development
414 Nicollet Mall GO 5
Minneapolis, MN 55401

Whom may we contact with questions about this form?

Name RAW JABLONSKI
Phone # 21-291-7621

Received by OD: _____
Entered by: _____



Training: Safety / Staff Meeting

REVISWS/9/2/08 INCIDENT

VIDEO: JAV
YOUNG
INSTRUCTS

Training Location Fargo

Training Date 10/18/08

| Name Please print clearly to receive credit | Employee ID (eg, 001234 or MRPL99) | Signature |
|--|---------------------------------------|-------------------------|
| 1. Justin Boen | | <i>Justin Boen</i> |
| 2. Jason D Sweetmont | | <i>JDS</i> |
| 3. Alex Trosen | | <i>Alex Trosen</i> |
| 4. Lukas Kringen | | <i>Lukas Kringen</i> |
| 5. Matt Fowler | | <i>Matt Fowler</i> |
| 6. Cole Coetzal | | <i>Cole Coetzal</i> |
| 7. Jeff Anderson | | <i>Jeff Anderson</i> |
| 8. Thomas W. Gehrig | | <i>Thomas W. Gehrig</i> |
| 9. Corey Bermick | | <i>Corey Bermick</i> |
| 10. Steve Biegler | | <i>Steve Biegler</i> |
| 11. Mark Olson | | <i>Mark Olson</i> |
| 12. Daryle Teske | | <i>Daryle Teske</i> |
| 13. Tom Ihle | | <i>Tom Ihle</i> |
| 14. John M Larsen | | <i>John M Larsen</i> |
| 15. Terence DASH | | <i>Terence DASH</i> |
| 16. | | |
| 17. | | |
| 18. | | |
| 19. | | |
| 20. | | |

Please ensure that this form is filled out completely and legibly and return it to:

Organization Development
414 Nicollet Mall GO 5
Minneapolis, MN 55401

Whom may we contact with questions about this form?

Name RON JABLINSKO

Phone # 701-241-8621

Received by OD: _____
Entered by: _____

