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November 19, 2015

**VIA U. S. AND ELECTRONIC MAIL**

Mr. Darrell Nitschke, Executive Secretary  
North Dakota Public Service Commission  
State Capitol Building – 12<sup>th</sup> Floor  
Bismarck, North Dakota 58505

RE: FARGO FORMER MANUFACTURED GAS PLANT SITE REMEDIATION  
JURISDICTIONAL COST ALLOCATION AND PARTIAL FUNDING PROPOSAL  
(CASE NO. PU-15-514)

Dear Mr. Nitschke:

Northern States Power Company, doing business as Xcel Energy (“Xcel Energy”, or “the Company”), submits this proposal relating to the jurisdictional allocation and partial funding of the costs of investigation and clean-up of a manufactured gas plant (MGP) site that was previously operated by the Company and predecessor companies in the city of Fargo, North Dakota from 1885 to 1960.

On July 9, 2015 the Company sought Commission approval for deferred accounting to capture the costs of investigation and remediation (net of any insurance proceeds), affording time for the Company and Commission to consider various options for addressing cost recovery in the future, after final cost estimates are determined. On October 19, 2015 we submitted a written update of progress on the project and also notified the Commission of our Public Information Open House that was held on October 20, 2015. On November 12 we gave a presentation on the project at our Periodic Information Exchange with the Commission.

In this filing, we provide 1) the determination of our proposed cost allocation between North Dakota and Minnesota jurisdictions, and 2) a description of a proposed plan to partially offset the project costs with potential earnings sufficiencies in 2015 and 2016. We have worked with Staff to develop these proposals, and respectfully request that the Commission approve our request for deferred accounting in light of these ideas for assigning and offsetting costs.

## **Jurisdictional Allocation of Costs**

The Fargo, North Dakota MGP produced gas from coal for retail heating, cooking, and lighting in the city of Fargo from 1885 to 1960. This MGP also began providing service to Moorhead, Minnesota in 1914, so it is reasonable to allocate some of the investigatory and remediation costs associated with this MGP to the Minnesota regulatory jurisdiction.

To determine the appropriate jurisdictional assignment of costs, the Company proposed that the volumes of manufactured gas consumed in each state throughout the time the plant was in operation be used as the basis for developing an allocation factor. We have compiled all available historical gas sales data from 1885, when the plant began operations, to 1960, the last year the plant produced gas. Because service to customers in Minnesota did not commence until 29 years after the plant went into operation, and because it is not possible to know specifically the years any plant byproducts were produced or at what rate, we felt it reasonable to account for *all* years of the 76 year history of the MGP in a uniform manner, thereby developing a single allocation factor.

The Company searched its internal archives as well as other external reporting sources for historical sales information and was able to locate monthly sales and customer reports for the period 1924 through 1958. While we were also able to find overall sales data for the years prior to 1924 from external sources, these sources were not helpful in differentiating between Fargo and Moorhead sales. However, we were able to determine -- from a review of our system maps and sketches included in our "as built" files -- that pipes were constructed across the Red River to bring gas service into Moorhead in 1914. Based on this information, we developed a reasonable estimate of sales for the period over which we had no record: sales made in Fargo from 1885 through 1923, and sales made in Moorhead from 1914 through 1923.

To efficiently calculate an allocation factor from historical sales, we selected both a winter month (January) and a summer month (July) to represent each year's relative sales split between the states. For each year of actual sales data, we calculated a weighted winter and summer average monthly percentage split between North Dakota and Minnesota. The allocation splits for each year of the 35 year period for which we have actual data showed a relatively narrow band of variance; the North Dakota average allocation ranging from a low of 82.5 percent to a high of 86.9 percent each year.

Since we did not have data to suggest a variable annual growth trajectory, we opted to model sales in Fargo for the 1885 – 1923 period by assuming a constant, linear cubic foot sales growth pattern for each half year from the plant's inception in 1885 (assuming 0 sales in January) to the 9,969,900 cubic feet (or 99,699 CCF or therms) of sales actually recorded in Fargo in January 1924. We took the same linear approach to estimating the Moorhead sales from the inception of service in 1914 (again, assuming 0 sales in January) to the 1,634,800 cubic feet (or 16,348 CCF or therms) of sales actually recorded in Moorhead in January 1924. This interpolation of the unknown values is highlighted in yellow on Attachment A, pages 1 and 2.

There were two other years for which actual, reported data was unavailable - 1959 and 1960. To estimate the sales for January and July in these years, we used a linear regression approach (sum of least squares) to extend a linear trend of each season from the prior ten year period (1949-1958). This is also shown on Attachment A, page 3 in yellow highlighting.

We then combined our actual and estimated sales data for the 1885 – 1960 time frame for each city. We computed an average January and July sales for each year and city, then summed these values up for the full 76 history of the MGP (including those earliest years when service was only provided to Fargo). These sums were then used to determine the weighted overall allocation factors for the life of the plant of 87.9 percent for Fargo and 12.1 percent for Moorhead. These are shown in light green on Attachment A, page 3.

As a result, we propose that 87.9 percent of the final costs of investigation and remediation of the former MGP be assigned to the North Dakota jurisdiction, and the remaining 12.1 percent allocable to our Minnesota jurisdiction

### **Short-Term Earnings Funding Proposal**

At the request of Staff, the Company developed a proposal to help offset the costs of the MGP investigation and remediation by writing off portions of the cost while the remediation project is underway in 2015 and 2016, and potentially 2017. The amounts to be expensed would be equivalent to the pre-tax portion of any annual earnings that exceed an allowable threshold. The rationale behind this approach is that any earnings defined as “excess” for this purpose could be used toward the project - thereby mitigating the total project cost that would be subject to deferral and future amortization - while at the same preserving the Company’s opportunity to earn a fair return.

The Company’s authorized Return on Equity (ROE) is currently 10.75 percent. However, the Company has not filed a natural gas rate case since 2007, and since that time authorized ROEs have generally been near 10 percent. For purposes of this MGP funding proposal, the Company and Staff are both willing to compromise and support the use of – in this unique circumstance - a 9.75 percent “baseline ROE”. While this level may be slightly higher than what the Commission authorized in a recent natural gas rate docket, the parties acknowledge that, because there have not been any recent findings on ROE for the Company and the Company is volunteering to accept this lower ROE for the purpose of establishing the deferral, it is a fair compromise.

The Company has reviewed its near-term forecasts of natural gas earnings in North Dakota relative to the baseline, and there appears to be the potential to fund a write-off of a portion of the MGP project costs in 2015; beyond that the prospects for exceeding the baseline are fairly low. Even so, the Company would still apply the same approach in 2016 and beyond if earnings are sufficient to support an additional write-off.

We are hopeful that we will be able to complete the MGP remediation project by the end of 2017<sup>1</sup>. Assuming that the Commission has approved our request for deferred accounting of the costs, we would at that time plan to report to the Commission the final balance (or a close approximation) of project costs, net of any realized or anticipated insurance recoveries. We would then submit a plan to amortize those costs over an extended (but finite) period of years and seek Commission approval for corresponding cost recovery beginning in 2018. The Commission approved an 8 year amortization for an MGP project in Grand Forks in 1999<sup>2</sup> and, in that instance, the recovery was achieved through temporary inclusion of the annual amortization amount in the North Dakota Cost of Gas Rider.

### **Conclusion**

With this additional information regarding the allocation and partial funding of costs, Xcel Energy respectfully requests the Commission authorize deferred accounting for this project. As initially proposed in our July 9 submittal, the accounting would apply to Fargo MGP investigation and remediation costs, including legal fees, incurred on and after May 1, 2015<sup>3</sup> until such time that project costs are known and an amortization schedule is in effect, which is anticipated to be 2018. Future recovery of these amortized costs in either retail natural gas base rates or a rider would remain subject to Commission review in a future Xcel Energy general rate case or other recovery request proceeding.

If you have any questions concerning this request, please contact me.

Sincerely,



David H. Sederquist

Sr. Regulatory Consultant

cc: Mike Diller  
Sara Cardwell

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<sup>1</sup> Ultimately, completion of the project will depend on many factors, some of which are outside of the Company's direct control, such as obtaining timely property access, the outcomes of future site testing, the role of federal, state, and local officials in making remediation decisions, and the duration of certain remediation actions,

<sup>2</sup> Case No. PU-400-00-521

<sup>3</sup> Less any amounts funded from earnings during the project and prior to the establishment of a final amortization amount.

**Development of the Fargo MGP Jurisdictional Allocation Factor**  
(Using Therm Sales)

Year	WINTER (JAN)			SUMMER (JULY)			AVERAGE (JAN, JULY)				
	ND	MN %	MN	ND	MN %	MN	ND	MN %	MN	ND %	MN %
1885	0		0	1,278		0	639		0	100.0%	0.0%
1886	2,556	100.0%	0	3,835	0.0%	0	3,195	100.0%	0	100.0%	0.0%
1887	5,113	100.0%	0	6,391	0.0%	0	5,752	100.0%	0	100.0%	0.0%
1888	7,669	100.0%	0	8,947	0.0%	0	8,308	100.0%	0	100.0%	0.0%
1889	10,226	100.0%	0	11,504	0.0%	0	10,865	100.0%	0	100.0%	0.0%
1890	12,782	100.0%	0	14,060	0.0%	0	13,421	100.0%	0	100.0%	0.0%
1891	15,338	100.0%	0	16,617	0.0%	0	15,977	100.0%	0	100.0%	0.0%
1892	17,895	100.0%	0	19,173	0.0%	0	18,534	100.0%	0	100.0%	0.0%
1893	20,451	100.0%	0	21,729	0.0%	0	21,090	100.0%	0	100.0%	0.0%
1894	23,007	100.0%	0	24,286	0.0%	0	23,647	100.0%	0	100.0%	0.0%
1895	25,564	100.0%	0	26,842	0.0%	0	26,203	100.0%	0	100.0%	0.0%
1896	28,120	100.0%	0	29,398	0.0%	0	28,759	100.0%	0	100.0%	0.0%
1897	30,677	100.0%	0	31,955	0.0%	0	31,316	100.0%	0	100.0%	0.0%
1898	33,233	100.0%	0	34,511	0.0%	0	33,872	100.0%	0	100.0%	0.0%
1899	35,789	100.0%	0	37,068	0.0%	0	36,428	100.0%	0	100.0%	0.0%
1900	38,346	100.0%	0	39,624	0.0%	0	38,985	100.0%	0	100.0%	0.0%
1901	40,902	100.0%	0	42,180	0.0%	0	41,541	100.0%	0	100.0%	0.0%
1902	43,459	100.0%	0	44,737	0.0%	0	44,098	100.0%	0	100.0%	0.0%
1903	46,015	100.0%	0	47,293	0.0%	0	46,654	100.0%	0	100.0%	0.0%
1904	48,571	100.0%	0	49,850	0.0%	0	49,210	100.0%	0	100.0%	0.0%
1905	51,128	100.0%	0	52,406	0.0%	0	51,767	100.0%	0	100.0%	0.0%
1906	53,684	100.0%	0	54,962	0.0%	0	54,323	100.0%	0	100.0%	0.0%
1907	56,240	100.0%	0	57,519	0.0%	0	56,880	100.0%	0	100.0%	0.0%
1908	58,797	100.0%	0	60,075	0.0%	0	59,436	100.0%	0	100.0%	0.0%
1909	61,353	100.0%	0	62,631	0.0%	0	61,992	100.0%	0	100.0%	0.0%
1910	63,910	100.0%	0	65,188	0.0%	0	64,549	100.0%	0	100.0%	0.0%
1911	66,466	100.0%	0	67,744	0.0%	0	67,105	100.0%	0	100.0%	0.0%
1912	69,022	100.0%	0	70,301	0.0%	0	69,661	100.0%	0	100.0%	0.0%
1913	71,579	100.0%	0	72,857	0.0%	0	72,218	100.0%	0	100.0%	0.0%
1914	74,135	100.0%	0	75,413	0.0%	817	74,774	99.5%	409	99.5%	0.5%
1915	76,692	97.9%	1,635	77,970	2.1%	2,452	77,331	97.4%	2,044	97.4%	2.6%
1916	79,248	96.0%	3,270	80,526	4.0%	4,087	79,887	95.6%	3,678	95.6%	4.4%
1917	81,804	94.3%	4,904	83,083	5.7%	5,722	82,443	93.9%	5,313	93.9%	6.1%
1918	84,361	92.8%	6,539	85,639	7.2%	7,357	85,000	92.4%	6,948	92.4%	7.6%

**Development of the Fargo MGP Jurisdictional Allocation Factor**  
(Using Therm Sales)

Year	WINTER (JAN)			SUMMER (JULY)			AVERAGE (JAN, JULY)			
	ND	MN %	MN	ND	ND %	MN	ND	ND %	MN	MN %
1919	86,917	91.4%	8,174	88,195	90.7%	8,991	87,556	91.1%	8,583	8.9%
1920	89,473	90.1%	9,809	90,752	89.5%	10,626	90,113	89.8%	10,218	10.2%
1921	92,030	88.9%	11,444	93,308	88.4%	12,261	92,669	88.7%	11,852	11.3%
1922	94,586	87.9%	13,078	95,864	87.3%	13,896	95,225	87.6%	13,487	12.4%
1923	97,143	86.8%	14,713	98,421	86.4%	15,531	97,782	86.6%	15,122	13.4%
1924	99,699	85.9%	16,348	103,318	84.9%	18,312	101,509	85.4%	17,330	14.6%
1925	105,467	86.0%	17,188	104,271	85.4%	17,877	104,869	85.7%	17,533	14.3%
1926	108,237	85.5%	18,385	113,674	85.3%	19,534	110,956	85.4%	18,960	14.6%
1927	118,824	85.4%	20,355	120,836	84.8%	21,733	119,830	85.1%	21,044	14.9%
1928	122,959	85.5%	20,861	129,361	84.9%	23,018	126,160	85.2%	21,940	14.8%
1929	130,367	84.9%	23,242	136,065	84.5%	24,876	133,216	84.7%	24,059	15.3%
1930	140,860	85.5%	23,841	142,814	85.5%	24,238	141,837	85.5%	24,040	14.5%
1931	133,585	83.9%	25,716	132,750	83.2%	26,837	133,168	83.5%	26,277	16.5%
1932	139,636	83.3%	28,015	135,263	83.1%	27,443	137,450	83.2%	27,729	16.8%
1933	126,968	83.2%	25,595	115,883	82.0%	25,379	121,426	82.7%	25,487	17.3%
1934	122,044	83.7%	23,758	122,211	82.8%	25,326	122,128	83.3%	24,542	16.7%
1935	126,680	81.7%	28,303	124,837	83.3%	25,054	125,759	82.5%	26,679	17.5%
1936	121,101	83.4%	24,105	120,732	82.8%	25,002	120,917	83.1%	24,554	16.9%
1937	121,293	83.4%	24,129	127,098	83.7%	24,694	124,196	83.6%	24,412	16.4%
1938	124,212	84.7%	22,406	132,239	83.7%	25,760	128,226	84.2%	24,083	15.8%
1939	126,905	84.8%	22,666	132,454	84.5%	24,341	129,680	84.7%	23,504	15.3%
1940	130,175	85.9%	21,415	136,678	85.8%	22,575	133,427	85.8%	21,995	14.2%
1941	131,640	85.9%	21,566	134,856	87.3%	19,546	133,248	86.6%	20,556	13.4%
1942	137,728	86.4%	21,659	134,548	87.0%	20,176	136,138	86.7%	20,918	13.3%
1943	132,963	86.0%	21,706	131,847	87.8%	18,340	132,405	86.9%	20,023	13.1%
1944	143,119	86.6%	22,107	139,003	86.3%	22,037	141,061	86.5%	22,072	13.5%
1945	155,912	85.7%	25,944	172,934	87.1%	25,628	164,423	86.4%	25,786	13.6%
1946	175,869	86.9%	26,560	180,030	85.7%	29,978	177,950	86.3%	28,269	13.7%
1947	181,327	81.8%	40,469	207,633	85.1%	36,413	194,480	83.5%	38,441	16.5%
1948	215,127	83.5%	42,383	202,721	84.4%	37,338	208,924	84.0%	39,861	16.0%
1949	122,754	84.9%	21,863	111,176	86.3%	17,632	116,965	85.6%	19,748	14.4%
1950	125,779	86.3%	19,886	105,622	84.9%	18,718	115,701	85.7%	19,302	14.3%
1951	120,321	84.9%	21,407	100,518	84.2%	18,799	110,420	84.6%	20,103	15.4%
1952	119,086	85.6%	19,998	99,938	84.7%	18,041	109,512	85.2%	19,020	14.8%

**Development of the Fargo MGP Jurisdictional Allocation Factor**  
(Using Therm Sales)

Year	WINTER (JAN)			SUMMER (JULY)			AVERAGE (JAN, JULY)		
	ND	MN %	MN	ND %	MN	ND	ND %	MN	MN %
1953	119,789	83.9%	22,990	100,205	18,181	109,997	84.2%	20,586	15.8%
1954	125,472	86.2%	20,160	98,865	18,560	112,169	85.3%	19,360	14.7%
1955	124,345	86.6%	19,301	102,035	18,056	113,190	85.8%	18,679	14.2%
1956	131,938	86.7%	20,199	105,716	19,738	118,827	85.6%	19,969	14.4%
1957	131,840	84.8%	23,636	111,935	19,555	121,888	84.9%	21,596	15.1%
1958	135,968	85.2%	23,619	121,436	19,108	128,702	85.8%	21,364	14.2%
1959	133,759	85.7%	22,342	111,327	19,448	122,543	85.4%	20,895	14.6%
1960	136,178	85.6%	22,905	115,008	19,503	125,593	85.6%	21,204	14.4%
Totals	6,794,207	87.8%	940,595	6,661,968	918,533	6,728,087	87.9%	929,564	12.1%

Proposed Allocation Factors:

Notes:

- 1885-1923 sales are estimated based on a constant, linear increase from 0 sales in Jan 1885 to known sales of 99,699 in Jan 1924 (for ND jurisdiction) and 0 sales in Jan 1914 to known sales of 16,348 in Jan 1924 (for MN jurisdiction).
- 1959-1960 sales are estimated for both ND and MN using a linear trend of known sales during the previous 10 year period (1949-1958).
- Numbers in light blue reflect known and inputted raw numbers from archived records; all others are interpolated or computed.
- Use of a single overall weighted allocation factor assumes by-products were generally produced at a consistent rate over the life of the MGP facility from 1885 - 1960.