

Memo

To: Commissioner Fedorchak, Commissioner Christmann and Commissioner Kalk

From: Sara Cardwell, Public Utility Analyst

Date: December 16, 2015

**Re: Northern States Power Company
Deferred Accounting – Fargo MGP Project
Application
Case No. PU-15-514**

Summary of Proposal: On July 9, 2015, Northern States Power Company (NSP) filed a request for deferred accounting to capture the costs related to the investigation and cleanup of the Fargo Manufactured Gas Plant Site. On October 19, 2015, the Company filed an update on the project to include information on the public open house it was holding on the following day in Fargo. On November 12, 2015 the Company provided an update on the project at its Periodic Information Exchange meeting with the Commission. On November 19, 2015, the Company filed an update of its request which describes the Company's methodology for assigning costs between Minnesota and North Dakota and its plan to offset some of the costs through earnings and defer the remaining portion of the costs.

Recommendation: I recommend approval of NSP's proposed cost allocation between North Dakota and Minnesota and its plan to offset a portion of the costs through earnings rather than deferring all project costs.

Discussion: In Case No. PU-400-00-521, the Commission approved recovery of the costs to remediate the site of a former manufactured gas plant in Grand Forks. In looking at this request, I find the Company has been earning in excess of its authorized rate of return in six out of the last seven years. The Company's current authorized rate of return on equity as determined in its 2007 case is 10.75 percent. For the purpose of this deferral, the Company has agreed to use a 9.75 percent return on equity as its benchmark. As a result, for 2015, the Company agrees to expense a portion of the investigation costs it will allocate to North Dakota such that its earnings do not exceed 9.75 percent. The Company anticipates that it may also have sufficient earning in 2016 to expense a portion of the costs such that the Company's return on equity does not exceed 9.75 percent. The Company agrees to expense a portion of the costs in 2017 such that the Company's return will not exceed 9.75 percent. However, currently the Company does not anticipate earnings over 9.75 percent in 2017.

While the Company cannot specifically state the remediation costs that it expects to incur in total, in its October update it stated that as of September 30, 2015, the Company has spent \$1,327,084 and knows that it will spend an additional \$1.4 M between 2016 and 2017 for remediation efforts identified currently. However, because the Company cannot currently identify the total costs, having the ability to defer costs will allow the Company to request recovery once the final costs are known. The Company is also planning to pursue insurance coverage for the Fargo remediation costs which could reduce the final amount that would need to be recovered from customers.

As an illustrative example of how this proposal works, assume the Company would earn a 10 percent return for 2015 in ND absent the consideration of the gas plant remediation costs. The Company would then write off a portion of its expenditures such that the earnings would be at 9.75 percent versus 10 percent. The Company would do the same in 2016 and 2017 if earnings are such that the Company can offset expenditures in those years as well.

Once the final remediation costs are known after subtracting the amounts written off and any realized or anticipated insurance settlements, the Company will then request recovery of the costs. In the previous case of the Grand Forks plant, the Company amortized the costs and recovered them over an eight year period through the Company's Cost of Gas Rider. In this case, recovery could be through the Cost of Gas Rider or requested in a general rate case filing. This proposal only allows the Company to defer costs. The Commission will still have the ability to determine how much and how the Company can recover any deferred amounts. Below I also provide further background of the previous manufactured gas plant recovery cases which demonstrates that this proposal is not inconsistent with previous cases.

In its general rate case (Case No. PU-400-00-521), NSP was authorized to amortize the \$2.9 million associated with the Grand Forks Manufactured Gas Plant remediation over eight years with no rate base treatment of the unamortized balance or the accumulated deferred income taxes. The annual amortization amount of \$360,000 was recovered through the Company's cost of gas rider with the exception of the transportation customers that were not subject to the cost of gas rider. For the transportation customers, the applicable rate schedule was modified to include a provision to recover the costs from these customers on a per therm basis. The Company was able to discontinue recovery about three months early as a result of final costs being \$65,000

less than originally anticipated. The Company did not file claims for recovery of the Grand Forks plant with its insurance providers.

Montana-Dakota Utilities Co. also requested amortization for remediation costs associated with a manufactured gas plant in Bismarck in PU-10-589. The Commission's order in that case allowed for cost deferral and recovery if the Company filed for a rate increase before the costs were fully amortized. The Company was allowed to amortize the costs over ten years beginning in 2008 with no interest or rate base treatment. With the Commission's order in Case No. PU-13-803, the Company began recovering annual amortized costs in 2014.