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July 18, 2016

VIA U. S. AND ELECTRONIC MAIL

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

**RE: QUARTERLY UPDATE OF INVESTIGATION AND REMEDIATION OF FORMER
FARGO MANUFACTURED GAS PLANT SITE (CASE NO. PU-15-514)**

Dear Mr. Nitschke:

Northern States Power Company, doing business as Xcel Energy (“Xcel Energy”, or “the Company”), submits this 2nd quarter 2016 update of progress made in the investigation and clean-up of areas potentially impacted by a former manufactured gas plant (MGP) (the “Project Site”) that was previously operated by the Company and/or prior companies in the city of Fargo, North Dakota. This project was approved for deferred accounting, pursuant to the Commission’s motion on December 18, 2015. We provide further information below as to the status of project activities.

Investigation Results and Anticipated Next Steps

As described in our last quarterly update, we submitted proposed work plans to the North Dakota Department of Health (NDDH) and City of Fargo on April 1, 2016, for site investigation work necessary to delineate the source and extent of any MGP-related impacts in the area. The data collected from this investigation will allow us to assess potential remediation options, if any, which may be appropriate for the site. On April 22, 2016, NDDH provided its concurrence on those work plans. During the last quarter we also finalized access and license agreements to allow us to perform the additional site investigation. Work was performed in the field starting on May 16 through June 16, 2016 and all existing and newly installed permanent monitoring wells were sampled during the week of June 27, 2016. NDDH representatives were on site for portions of the investigation. The following activities were performed in the field during this time (See attached Exhibit 1 depicting property locations):

Property A

- installed approximately 42 soil borings, of which 11 were converted to temporary monitoring wells;
- installed shallow and deep permanent monitoring wells (11 wells) to characterize the

area-wide hydrogeology, vertical gradients, water quality, and temporal trends in deeper groundwater;

- performed surface soil sampling to further evaluate surficial soil quality;

Property B

- installed two soil borings;
- installed a deep monitoring well to characterize the area-wide hydrogeology, vertical gradients; water quality, and temporal trends in deeper groundwater;
- performed third round of sub-slab soil gas sampling;

Property C

- installed 18 soil borings, of which 15 were converted to temporary monitoring wells;
- installed 1 shallow monitoring well and 1 deep monitoring well to characterize the area-wide hydrogeology, vertical gradients, water quality, and temporal trends in deeper groundwater;
- performed trenching activities in and around underground MGP piping in the alleyway to the west of 12th Street North;

Property D

- performed third round of sub-slab soil gas sampling;
- collected groundwater sample from dewatering sump;

Property E

- conducted a detailed building walk-through to understand its current uses and conditions;
- reviewed historical records to better understand historical uses of the property and potential sources of impacts;
- performed sub-slab sampling in accessible building interiors to evaluate soil gas quality; and
- characterized shallow soil and groundwater quality by drilling 4 soil borings and installing and sampling 4 temporary and 1 permanent monitoring wells.

It is anticipated that the data from this most recent investigation will be received in July and will be reported in technical reports. The data will help inform the evaluation of remedial options for the site and it is anticipated that a recommended remedy will be proposed to NDDH and property owners by early fall of 2016. Access negotiations are ongoing for the installation of a vapor mitigation system at the Heartland apartment buildings (Property A). It is anticipated that initiation of construction activities for the vapor mitigation system will commence late summer or early fall of 2016.

In June we were informed that the City of Fargo was planning to install a storm sewer system in the alleyway south of Property B. The line runs down the centerline of the alleyway to an existing storm sewer running along the east edge of 12th Street North. This route is close to what appears to be two

historic MGP pipes that supplied gas to the gas holder formerly located at Property B. The June field investigation borings also indicated impacted soils in the same area. During the investigation work we excavated a test trench in the alleyway to determine the condition of the 12- inch supply pipes and removed the pipes in the area that would conflict with the installation of the new storm sewer. Based on the soil borings in 12th street and the limited pipe excavation we decided it was prudent to remove impacted soils in the storm sewer corridor at the end of July and transport the soils offsite for proper disposal to provide a clean corridor for utility workers to work in before they dig in this area (See attached Exhibit 1 for location). While mobilized in the field, we also intend to seal the two historic MGP pipes that may be serving as preferential pathways for contaminated material to migrate offsite from the Heartland property. The pipes will be sealed by pumping cement grout into the pipes at an access point in Property A and vented out in the alleyway where the pipes terminate. The anticipated cost of this work is approximately \$120,000.

Ownership and Operational History

We are continuing to investigate whether there may be other potentially responsible parties that may have played an important role at the Project Site.

Cost Summary

With respect to actual costs incurred, as of June 30, 2016, \$719,885 was initially spent on soil and pipeline removal work in the streets. Since then, \$2,484,085 has been incurred on Project Site investigation activities and some preliminary remediation work. In addition, \$219,578 has been spent on insurance recovery efforts. Total expenditures through June are \$3,423,548.

At this time we have also accrued \$1,690,000 for future investigation, mitigation, and limited excavation and restoration costs, which we anticipate will be incurred primarily in 2016 and 2017 based on currently known information. These estimates are likely to increase, however, as they are fully dependent on the results of our additional investigation efforts and further discussions with other stakeholders, including the NDDH, the City of Fargo, and property owners in the area. At this point, we are not able to develop a reliable longer-term forecast of the total project cost because there are still many unknowns that cannot be quantified until more information is available and a remediation plan has been finalized. We anticipate that by early fall of 2016, a recommended remedy will be proposed for the site.

We would note that approximately 12 percent of the project costs summarized above will be allocated to our Minnesota jurisdiction. In addition, project costs could potentially be partially offset by any insurance recoveries, as discussed further below.

Insurance Recovery

While we continue to investigate other potential sources of contamination in the area and other potentially responsible parties, we are also seeking insurance recovery for our investigation and remediation costs. In October of 2015, the Company initiated insurance recovery litigation in state court in North Dakota against Associated Electric and Gas Insurance Service, Ltd. (AEGIS). AEGIS subsequently removed the litigation to federal court, in the United States District Court, District of North Dakota and also cross-claimed against 10 additional insurance companies. In February the United States District Court agreed to stay the litigation until July 1, 2016, to allow for further investigation activities to occur at the Project Site this spring and early summer before establishing a scheduling order for the case. On June 30, 2016 the Court agreed to further stay the

litigation until November 1, 2016 at the request of the parties. The parties requested an additional stay, because the information from the investigation described above, once received and evaluated, will assist the parties in better understanding the scope and magnitude of potential remediation costs that may ultimately be incurred for this project.

Next Update

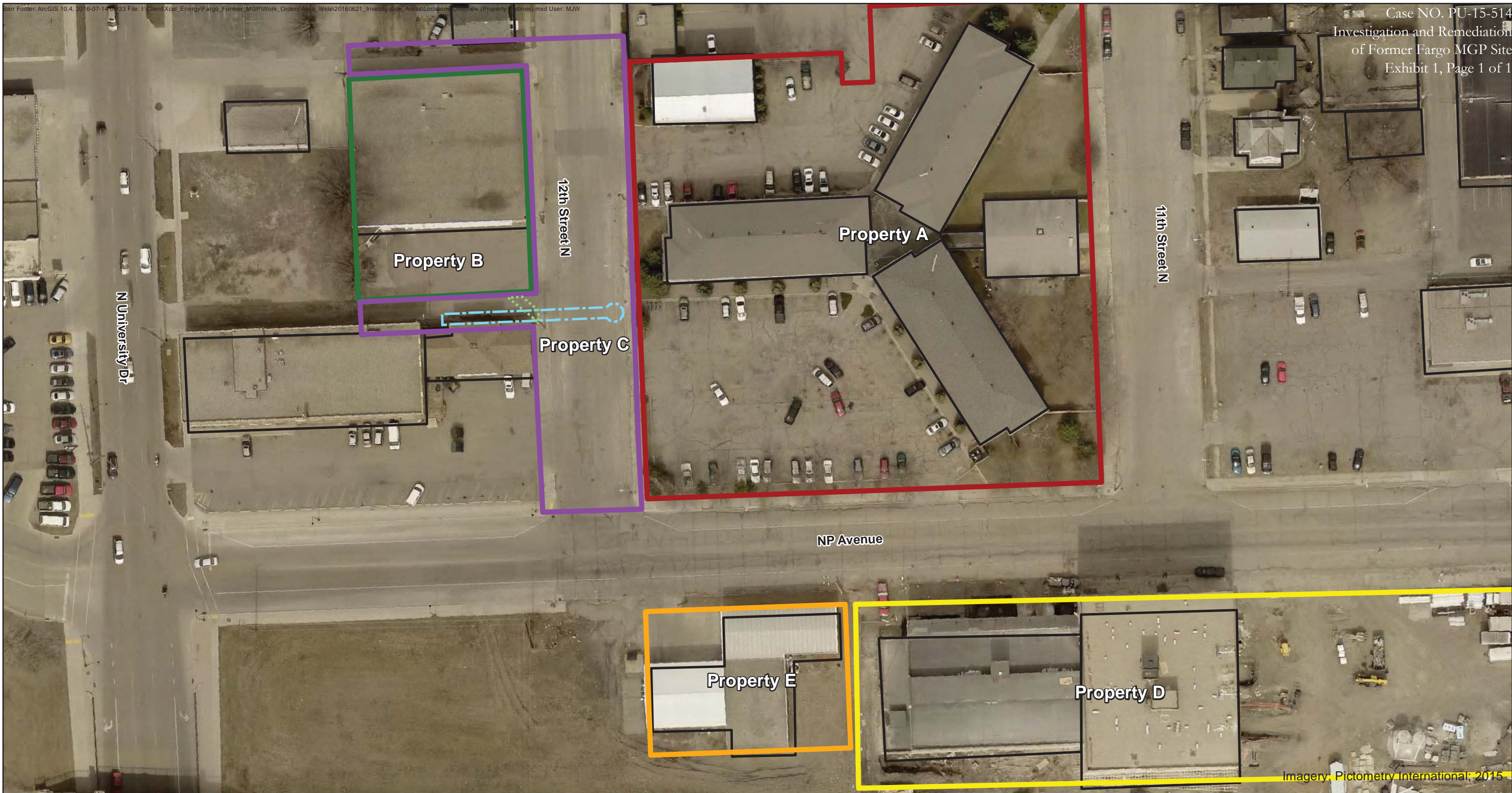
As previously indicated, we intend to keep the Commission informed of the project status on a quarterly basis. If any material and significant events occur before the end of the quarter, we will provide additional updates as necessary. If the Commission would like any further information about the project, please let me know. Thank you.

Sincerely,






A handwritten signature in blue ink that reads "David H. Sedergunt". The signature is written in a cursive style with a large initial "D".

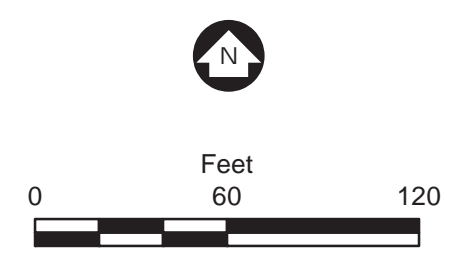
Sr. Regulatory Consultant
Xcel Energy

Cc: Mike Diller
Patrick Fahn
Sara Cardwell



Imagery: Pictometry International, 2015

-  Property A
-  Property B
-  Property C
-  Property D
-  Property E
-  Existing Buildings
-  Clean Corridor Excavation
-  Test Trench



LOCATIONS OVERVIEW
Fargo, North Dakota