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October 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 3rd quarter 2016 update of progress made in the investigation and clean-up of a former manufactured gas plant (MGP) and surrounding properties (the “Project Site”). The MGP 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.

***July 2016 Limited Remediation Activities***

As reported in our last quarterly update, we performed limited soil removal in an alleyway along 12<sup>th</sup> Street, to provide a clean corridor for city workers to safely work on a sewer upgrade project. While performing the excavation work, we sealed 2 historic MGP pipes that appeared to be serving as a preferential pathway for the migration of MGP wastes. The work was completed in July on time and on budget.

***Investigation Results and Next Steps for Site Remediation***

As described in our last quarterly update, we undertook an investigation of the Project Site in the spring and summer of 2016, under the oversight of the North Dakota Department of Health (NDDH) and City of Fargo, to delineate the source and extent of MGP-related impacts in the area. Based on the data collected from this investigation, we have assessed potential remediation options for the Site. A full range of options from doing nothing, to full source removal were evaluated using EPA’s remedy selection criteria, which includes an assessment of the following factors:

- Overall protection of human health and the environment;
- Compliance with applicable federal and state environmental laws;
- Short term and long-term and effectiveness and permanence;
- Reduction of toxicity, mobility, or volume of waste;
- Implementability;
- Cost; and,
- State and Community acceptance.

Based on this assessment, and given current uses of the various properties that are located within the Project Site, we have determined that the best remedial approach involves targeted source removal on discrete properties where MGP impacts have been identified, followed by restoration, post-removal groundwater and vapor monitoring, and the use of institutional controls to address any residual impacts including those that are currently inaccessible. In addition and as previously reported in past quarterly updates, we plan to install a vapor mitigation system at the Heartland property once access is provided by the current property owner.

Our proposed remediation approach is subject to further input from the State of North Dakota, City of Fargo, the property owners, and the public, and is dependent on further negotiations for access with the applicable property owners. On October 12, we initiated discussions with the NDDH, the City, and certain property owners to discuss this proposed remediation approach for the Project Site. We are further preparing a Remedial Investigation/Focused Feasibility Study (RI/FFS) documenting our findings and recommended next steps. We anticipate this RI/FFS report will be submitted to the NDDH and City and issued for public comment before the end of 2016.

Once the proposed remedial approach is approved and the needed access agreements are reached with the property owners, we intend to develop a final design for the remediation work and to select a contractor to perform the fieldwork. It is anticipated that most of the proposed excavation and restoration work will occur in the summer of 2017, although a partial mitigation system may be installed at Heartland in the first quarter of 2017. Some limited excavation activities in 12<sup>th</sup> Street are not expected to occur until at least 2018<sup>1</sup>. The Company plans to seek a *No Further Remediation* and/or a *No Further Action* determination from NDDH at the conclusion of the remediation and monitoring activities.

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<sup>1</sup> The Company intends to coordinate its excavation work with street upgrades the City plans to undertake in the future.

### *Ownership and Operational History*

We are continuing to investigate whether other potentially responsible parties may have played an important role at the Project Site, including railroad entities that may have transported feedstock and MGP byproducts to and from the Site.

### *Cost Summary*

With respect to actual costs incurred, as of September 31, 2016, about \$4,064,000 has been spent on the initial investigation, remediation and related defense work. In addition, just over \$250,000 has been spent on insurance recovery efforts. At this time we anticipate that future investigation, remediation, restoration and related defense costs will be in the range of \$12-18 million based on the proposed remediation approach discussed above. This cost estimate is conceptual in nature and subject to change depending on approvals or additional requirements that may be imposed by the NDDH, or as the result of 1) negotiations with the property owners of the Site, 2) a detailed engineering design that will be developed once the remediation approach is approved, and 3) receipt of formal bids to perform the work from potential contractors.

As stated in previous updates, approximately 12 percent of the project costs will be allocated to our Minnesota jurisdiction. In addition, project costs could potentially be offset by any insurance recoveries, as discussed further below. Ultimately, the Company intends on working with Commission staff to develop and file an amortization schedule and recovery plan with the Commission that would mitigate the rate impacts to customers and be efficient to administrate and monitor.

### *Insurance Recovery*

We are seeking insurance recovery for our investigation, remediation, restoration, and related defense costs. In October 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. The United States District Court granted a stay of the litigation at the request of the parties, currently in effect until November 1, 2016, to allow for further investigation activities to occur at the Project Site. The parties are currently evaluating whether to request an additional stay from the Court to allow time for potential settlement discussions.

### *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. We are planning to provide a verbal update to the Commission at a fall Periodic Information Exchange meeting in November or December, but we have not yet confirmed a date for that meeting. If the

Commission would like any further information about the project prior to that, please let me know. Thank you.



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