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January 23, 2017

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 4th 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.

Investigation Results and Next Steps for Site Remediation

During this last quarter, we prepared and submitted a Remedial Investigation/Focused Feasibility Study (RI/FFS) report documenting our findings and recommended next steps for the project Site. The RI/FFS report was submitted to the North Dakota Department of Health (NDDH) and City of Fargo and issued for a 30-day public comment period on December 1, 2016. As described in the report, we determined that the best remedial approach for the Site 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, we plan to install a vapor mitigation system at the Heartland property for any existing buildings, once access is provided by the current property owner (unless the property owner determines that it intends to construct new structures on the property, in which case we will instead perform additional demolition and removal activities at the Site).

On January 20, 2016, the NDDH approved our proposed cleanup plan for the Site (approval letter attached as **Attachment A**). It is our understanding that the NDDH will issue the Company a *No Further Remediation* and/or a *No Further Action* determination once the Company completes the remediation and monitoring activities that are described in the RI/FFS report. We are currently working with the property owners at the Site to negotiate access agreements that will allow us to perform remediation on their properties and to resolve any alleged claims for damages.

It is anticipated that the proposed excavation, mitigation, and restoration work will occur in 2017 and/or 2018, depending on access negotiations, potential redevelopment activities and street upgrades that may be undertaken in the area, and the commercial process for retaining contractors to perform the work.

Ownership and Operational History

We continue to investigate whether other potentially responsible parties may have played an important role at the Project Site. This includes 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 December 31, 2016, about \$4,982,254 has been spent on the initial investigation, remediation and related defense work. In addition, \$315,434 has been spent on insurance recovery efforts. Our forecast of future investigation, remediation, restoration, and related defense costs remains essentially unchanged from our last report. We project an additional \$11.3-\$17.3 million in remediation costs based on the proposed remediation approach described in our RI/FFS, bringing our projected total project costs to approximately \$22.3 million. The Commission should note that this cost estimate is conceptual in nature and subject to change depending the result of: 1) negotiations with the property owners of the Site, 2) a detailed engineering design that will be developed now that the remediation approach is approved, and 3) receipt of formal bids to perform the work from potential contractors. We are hopeful that we will be able to reach agreement soon with all of the property owners regarding access to their respective properties so that we can begin to refine and finalize the projected remediation budget.

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 North Dakota customers and be efficient to administrate and monitor.

Insurance Recovery

We continue to seek insurance recovery for our investigation, remediation, restoration, and related defense costs. In 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 multiple additional insurance companies. The United States District Court granted a stay of the litigation at the request of the parties, which is currently in effect until February 1, 2016, to allow for further investigation activities to occur at the Project Site. The parties currently intend to request an additional 90-day stay from the Court to allow time for potential settlement discussions.

Next Update

As previously indicated, we will 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 prior to our next quarterly update, please let me know. Thank you.

Sincerely,

A handwritten signature in blue ink that reads "David H. Sederquist". The signature is written in a cursive, flowing style.

David H. Sederquist
Sr. Regulatory Consultant
Northern States Power Company

Cc: Patrick Fahn
Sara Cardwell



ENVIRONMENTAL HEALTH SECTION
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File: Uncontrolled Sites – Town Gas Sites - Fargo

January 20, 2017

Mark Nisbet, Principal Manager
Xcel Energy – North Dakota
2302 Great Northern Drive
Fargo, ND 58102

Terry Coss
Xcel Energy
414 Nicollet Mall
Minneapolis MN 55401-1993

Dear Sirs:

Subject: RI/FSS Report, Fargo MGP

The Department has reviewed the Remedial Investigation and Focused Feasibility Report for the Fargo, North Dakota, Manufactured Gas Plant and vicinity dated November 29, 2016.

The Department concurs with the risk evaluation and remedial action alternatives proposed for each of the affected properties (Heartland Apartments, United Refrigeration, Historic Union and City Rights of Way) by Xcel Energy.

All of the affected properties are developed with buildings and other structures. The existence of these structures prohibits all of the contamination being removed; and, even if there were no structures, it would be virtually impossible to remove all contaminated media (soil and groundwater). Targeted source removal along with institutional and/or engineering controls and a monitoring program for the groundwater and soil gas at the affected properties is the Department's preferred approach for protection of human health and the environment. Remediation of these properties is contingent upon access to the properties and cooperation by the various property owners. The Department expects that property access will be allowed as remediation of these properties would remove contamination which could benefit the owner's employees, tenants and future redevelopment activities.

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Mark Nisbet, Principle Manager
Terry Coss

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January 20, 2017

The Department believes that a vapor mitigation system for the Heartland Apartments is a necessary component of the remedial action alternatives for the protection of the health of current and future tenants and utility workers because, even though source removal is being undertaken at the site, not all contaminated media will be removed, and there will still be a potential for vapor intrusion.

In addition the following comments are provided:

Chapter 3, Section 3.1.3 Work Plan Deviations and Data Quality Third Paragraph: The data from the June 28, 2016 sampling event were available in the August 30, 2016 Technical Memorandum, City Rights-of-Way Investigation Results. Although the report was stamped draft, the data was considered valid and should have been included in this document.

Chapter 5, Section 5.2.1 Data Management and Selection of Contamination of Potential Concern, fourth bullet: The data from the June 28, 2016 sampling event were available in the August 30, 2016 Technical Memorandum, City Rights-of-Way Investigation Results. Although the report was stamped draft, the data was considered valid and should have been included in the risk calculations.

Appendix D, Section D.1.4 Exposure Point Concentrations for COPCs, first paragraph: change "upper confidence level on the meal" to read "upper confidence level on the mean".

Should you have any questions regarding this letter, please feel free to contact Christine Roob at 701.499.5207 or me at 701.328.5166.

Sincerely,



Curt Erickson, Manager
Hazardous Waste Program
Division of Waste Management

CLE:CKR:mkg