

Memo

To: Commissioner Christmann, Commissioner Fedorchak and Commissioner Kroshus

From: Sara Cardwell, Public Utility Analyst

Date: April 26, 2017

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

On July 9, 2015, Northern States Power Company (NSP or Company) filed a request for deferred accounting to capture the costs related to the investigation and cleanup of the Fargo Manufactured Gas Plant (MGP) Site. In its filing, the Company stated that the Fargo MGP produced gas from coal for retail heating, cooking, and lighting in the city of Fargo from the mid-1880's (and also the city of Moorhead, MN beginning in 1914) to around 1960. The plant was located on the north side of Northern Pacific Avenue (NP Avenue) just west of downtown Fargo, between University Drive and 11th Street North. After the plant was no longer in use, the facilities were removed and the property was sold to private parties. One parcel to the west of 12th Street North was sold in 1966 and redeveloped into a commercial building. The main plant site was sold in 1969 and redeveloped into a residential apartment building.

In 2015, the City of Fargo began reconstructing NP Avenue. Several abandoned MGP distribution pipes were located within the street project corridor. These MGP pipes were in conflict with the underground utility work required for the reconstruction. In early May, the Company excavated a test trench to confirm the location of the pipes for eventual removal.

The Company requested deferred accounting because the costs of remediation were not yet clear and the Company would be seeking insurance monies to pay for at least some portion of the remediation costs. On November 19, 2015, the Company filed an update on its deferred accounting proposal for the project. Because the Company earned in excess of its authorized rate of return in 2008, 2010, 2011, 2012, 2013 and 2014, Staff believed the Company should finance some of the costs through excess earnings. Therefore, the November 2015 proposal stated that the Company would defer costs as long as those costs did not result in a return on equity in excess of 9.75%. In other words, the Company was to fund remediation costs until the return did not exceed this amount.

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Public Service Commission Staff

Sara Cardwell

The Commission approved the Company's request at its December 18, 2015 meeting. The Company reported an actual return on equity of 7.87% and a weather adjusted return on equity of 8.87% in 2015. While we have not yet received the Company's 2016 earnings report, the Company has indicated that 2016 earnings are even less than those in 2015. Since the time of the filing, the Company has been providing quarterly reports to update the Commission as to the investigation activities and the costs of the investigation and remediation. Because of the under earning situation, its North Dakota customers will eventually be asked to pay for their jurisdictional share (87.9 percent) of all the investigative, insurance recovery, and partial remediation costs incurred to date as well as future remediation costs. Below is a table of the costs as reported quarterly.

	Preliminary Costs*		Full Remediation	Total Project
	Incurred	Future	Future	Forecast
Q2 2015	\$500,000	\$1,700,000	TBD	TBD
Q3 2015	\$1,327,084	\$1,400,000	TBD	TBD
Q4 2015	\$2,091,744	\$2,725,000	TBD	TBD
Q1 2016	\$2,740,825	\$2,155,000	TBD	TBD
Q2 2016	\$3,423,548	\$1,690,000	TBD	TBD
Q3 2016	\$4,314,000		\$12.0 to \$18.0 M	\$16.3 to \$22.3 M
Q4 2017	\$5,297,688		\$11.3 to \$17.3 M	\$16.6 to \$22.6 M
Q1 2017	\$5,608,708		\$11.2 to \$17.2 M	\$16.8 to \$22.8 M

* Investigatory, partial remediation, insurance recovery, etc.

In its April 2017 update, the Company stated that they anticipate that the proposed excavation, mitigation, and restoration work will occur in 2017 and 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. The Company further stated that the cost estimate is still subject to change depending on: 1) negotiations with the property owners of the Project Site, 2) detailed engineering designs yet to be developed for affected properties, 3) receipt of formal bids to perform the work from potential contractors, and 4) negotiations and potential litigation with the Company's insurers. The Company is hoping to finalize the remediation budget in the near future.

Please let me know if you have any questions.