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**PUBLIC DOCUMENT –
PRIVILEGED DATA EXCISED**

**VIA FEDERAL EXPRESS
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 2018 update of progress made in the investigation and clean-up of the former Fargo manufactured gas plant (MGP) and surrounding properties (the “Project Site”). The Commission approved deferred accounting for this project on December 18, 2015.

On August 27, 2018 the Company filed a pending Settlement Agreement in the Commission’s investigation into the impact of the 2017 Tax Cuts and Jobs Act on the Company’s natural gas rates (Case No. PU-18-156). The Settlement proposed a path for the recovery of the North Dakota portion of the remediation costs.

We provide further information below as to the status of project activities

Project Site Remediation

As previously reported, in January 2017 the North Dakota Department of Health approved the remediation plan for the Project Site and subsequently approved remedial action work plans for all properties at the Project Site.

Notably, since our last quarterly update in June 2018, we mobilized and performed the majority of the remediation work at the Project Site, including the razing of the

Heartland property and removal of contamination to depths of at least 5 - 12 feet and in some cases deeper across the property. We are happy to report that we will complete the active remediation/construction work this week. Additional restoration work will be performed in the Spring of 2019, and we will be performing groundwater and other monitoring activities at the Project Site for the next few years.

Cost Summary

As of September 31, 2017, about \$17.2 million has been spent on the initial investigation, remediation, insurance recovery, and related legal defense work. We are currently projecting an additional \$6.4 million in future project costs, bringing our forecast of total project costs to approximately \$23.6 million, or about \$1.0 million more than reported in our 2nd quarter update. The increase from prior estimates is based on increased accruals for future litigation with the insurers and field conditions encountered while performing the work. This cost estimate is subject to further change depending on 1) the potential for field condition changes and future monitoring outcomes, and 2) negotiations and litigation with the Company’s insurers. As stated in previous updates, with 12.1 percent of the project costs allocated to our Minnesota natural gas jurisdiction, the estimated project cost attributable to our North Dakota jurisdiction is about \$20.7 million (see Table 1 below).

Table 1 – Forecasted Costs (000’s)

Item	Fargo MGP	ND Jur. (87.9%)
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We anticipate this amount will be offset by insurance recoveries as discussed later in this update.

The Heartland Apartment Purchase

As previously reported in prior updates, and in response to questions from the Commission at the October 31 Informal Hearing in Case No. PU-18-156, the costs incurred for this project include costs to purchase the Heartland property for **[PROTECTED DATA BEGINS... ...PROTECTED DATA ENDS]**. This amount is consistent with independent and confidential appraisals from SRF

Consulting Inc., which concluded that the pre-demolition/pre-purchase value of the property was [PROTECTED DATA BEGINS... ... PROTECTED DATA ENDS] under a sales comparison approach and a value of [PROTECTED DATA BEGINS... ...PROTECTED DATA ENDS] under a cost approach. It should be noted that the purchase agreement with Heartland also included [PROTECTED DATA BEGINS... ...PROTECTED DATA ENDS].

Under this confidential purchase and settlement agreement, [PROTECTED DATA BEGINS...

...PROTECTED DATA ENDS]. Our appraisal from SRF Consulting Inc. concluded that the post-demolition value of the property or land value is [PROTECTED DATA BEGINS...

...PROTECTED DATA ENDS]. The proceeds from any sale will be used to offset the project cost deferral for the benefit of our customers.

In summary, our current cost estimate for the Fargo MGP project reflects a [PROTECTED DATA BEGINS... ...PROTECTED DATA ENDS] cost to purchase the property¹ offset by an anticipated sale price of [PROTECTED DATA BEGINS... ...PROTECTED DATA ENDS].

Insurance Recovery

We continue to seek insurance recovery for our investigation, remediation, restoration, and related legal 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 brought cross-claims (lawsuits) against multiple additional insurance companies.

There has been much progress made in recent months, and we anticipate finalizing settlement agreements with several insurers in the next few weeks. [PROTECTED DATA BEGINS...

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¹ In addition, there are taxes and other transaction fees involved with the purchase of the property and costs of property ownership not reflected in the purchase price.

This will bring down the estimated total Fargo MGP project cost of [PROTECTED DATA BEGINS... ..PROTECTED DATA ENDS], and reduce the North Dakota share to approximately [PROTECTED DATA BEGINS... ..PROTECTED DATA ENDS] (see Table 2 below).

Table 2 – Project Cost Net of Insurance Proceeds (000’s)

Item	Fargo MGP	ND Jur. (87.9%)
Total Project Costs	\$23,588	\$20,734
	[PROTECTED DATA BEGINS...]	[PROTECTED DATA BEGINS...]
Insurance Proceeds		
Net Project Cost		

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Because we have been unable to reach settlement with all of the insurers, litigation is proceeding against the other non-settling insurers. We have increased our accruals to allow for litigation costs up to trial. A trial date has been scheduled for Spring of 2020.

Next Update

We intend to file our 4th quarter project update in January of 2019. As always, please feel free to contact me at any time if you have questions. Thank you.

Sincerely,

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

cc: Pat Fahn