

CAMP UPDATE:

October 8, 2007

FEDERAL LOAN GUARANTEES AND MESABA ENERGY PROJECT

Excelsior Energy used an announcement by the U.S. Department of Energy regarding its Loan Guarantee Program to get positive media coverage for its Mesaba Project. The two media sources checked on Saturday (Channel 13 in Duluth and MPR) both noted the problems with the power purchase agreement. However, the MPR report on Sunday let Julie Jorgensen's questionable claims go unchallenged and the Grand Rapids Herald Review published Excelsior's News Release unfiltered.

Excelsior's News Release is conveniently oversimplified. It says: "the Mesaba Energy Project has been selected from 143 applicants to begin the final review process for its loan guarantee program". The DOE's News Release says that 16 project sponsors, who submitted pre-applications in the fall of 2006, have been "invited . . . to submit full applications for loan guarantees", which "will undergo disciplined and rigorous reviews". Mesaba and others have until October 30, 2007 to notify DOE that they plan to submit a full application.

Given the federal government's infatuation with the myth of "clean coal" and the IGCC technology, it is not surprising that Mesaba is among the projects selected to submit final applications. However, even the DOE's description of Mesaba states only that it "would allot space in its design for CO2 capture and storage". This should ultimately be found inadequate to meet the standards set forth in the regulations.

Excelsior's News Release also quoted Jorgensen as claiming that "the loan guarantee offers Minnesota consumers unparalleled protection from the risks of . . . innovative technologies". This ignores the determination by the Minnesota Public Utilities Commission that Excelsior's proposed power purchase agreement was too risky financially and operationally, even though the PPA already factored in the benefit of federal loan guarantee.

The Mesaba Project is a long way from achieving a federal loan guarantee. The rigors of the application and screening process will be a significant challenge. There are also monetary hurdles: in submitted comments, TXU said that the costs of securing a guarantee could be hundreds of millions of dollars; applicants must pay fees to cover DOE's administrative costs of processing the application; and before a Loan Guarantee Agreement can be finalized, applicants must pay a substantial Credit Subsidy Cost.

The DOE's News Release and a link to the regulations can be found at:
<http://www.doe.gov/news/5568.htm>

THE PROGRAM

The loan guarantee program was authorized by Title XVII of the Energy Policy Act of 2005, for up to 80% of the cost of projects that employ new or significantly improved technologies as compared to commercial technologies that are in service in the United States when guarantees are issued. The fact that Mesaba might be eligible for such a guarantee was noted in DOE's publications in the fall of 2005. The loan program could not begin to operate until the DOE established regulations to govern it, which have just been finalized. The total amount made available for the loan guarantees in 2007 was \$4 billion. Congress is currently considering DOE's request for \$9 billion for fiscal 2008. There likely will not be enough money to fund all of the projects that have been invited to submit full applications. The DOE will score and rank the applications by criteria set out in the new regulations, which are found in Part 609 of of Title 10 of the Code of Federal Regulations.

SELECTED REGULATIONS

Section 609.6 lists twenty-nine detailed requirements for submitting an application, including:

(12) An analysis of the market for any product to be produced by the project, including relevant economics justifying the analysis, and copies of any contractual agreements for the sale of these products or assurance of the revenues to be generated from sale of these products.

Problem: No Power Purchase Agreement.

(21) A preliminary credit assessment for the project without a loan guarantee from a nationally recognized rating agency for projects where the estimated total Project Costs exceed \$25 million. . .

Problem: Standard and Poors has determined that IGCC projects should be assigned a risk premium unless at least five such projects are in operation with a satisfactory record.

(22) A list showing the status of and estimated completion date of Applicant's required project-related applications or approvals for Federal, state, and local permits and authorizations to site, construct, and operate the project;

Problem: The release of the draft EIS has been delayed repeatedly and, if released, likely will point out serious impediments to the required permits.

Section 609.7 lists the factors that will be weighed in deciding which applications should receive loan guarantees. It states that greater weight will be given to applications that rely upon a smaller guarantee percentage, all else being equal.

Problem: Excelsior has always assumed, and Jorgensen is still talking about, the maximum permissible 80%.

Among the sixteen criteria to be evaluated by the DOE:

(1) To what measurable extent the project avoids, reduces, or sequesters air pollutants or anthropogenic emissions of greenhouse gases;

Problem: The Minnesota Pollution Control Agency has concluded that Mesaba will not significantly reduce air pollutants compared to other state-of-the-art coal technologies. Mesaba has no current intention of capturing and sequestering CO₂ and admits that currently available technology would enable capture of only 30% of its CO₂. This would have a prohibitive cost and reduce efficiency. Sequestration would likely increase the cost significantly and has not yet been proven feasible on a large scale or over a long time.

(7) The amount of equity commitment to the project by the Applicant and other principals involved in the project;

(9) Whether and to what extent the Applicant will rely upon other governmental assistance to support the financing . . . of the project . . . ;

Problem: Equity is defined as cash contributed by the Borrowers and other principals, not including proceeds from loans or the value of government assistance or support. The amount invested and risked by Excelsior's principals has always been questionable and kept secret. Its known financing to date is about \$40 million in public funds.

(10) The feasibility of the project and likelihood that the project will produce sufficient revenues to service the project's debt obligations over the life of the loan guarantee and assure timely repayment of Guaranteed Obligations;

Problem: No Power Purchase Agreement.

(12) The Applicant's capacity and expertise to successfully operate the project, based on factors such as financial soundness, management organization, and the nature and extent of corporate and personal experience;

Problem: Excelsior Energy has no corporate experience; Mesaba I is its first project. Nearly all of its executives were employed at NRG, which declared bankruptcy in 2003.

(14) The levels of market, regulatory, legal, financial, technological, and other risks associated with the project and their appropriateness for a loan guarantee provided by DOE;

Problem: The MPUC determined that the financial and operational risks were reasons not to approve Mesaba's proposed PPA.