

CAMP UPDATE:

August 21, 2007

MESABA'S POWER PURCHASE AGREEMENT AT THE PUBLIC UTILITIES COMMISSION

The Minnesota Public Utilities Commission did not approve the power purchase agreement that the Mesaba Project needs with Xcel Energy because it "is not in the public interest as currently drafted".

However, rather than finally denying the PPA, the PUC "requested" that Excelsior, Xcel, and the Department of Commerce continue negotiating.

The PUC identified deficiencies in the proposed PPA to include: the absence of a fixed price at a reasonable level; inadequate ratepayer protections from operational and financial risks; and the need to further develop plans to capture and sequester carbon. These deficiencies are fundamental and will be difficult, if not impossible, to overcome.

We will need to see the PUC's order and detailed findings of fact before we can know exactly what it's doing and that may take a few more weeks. In the meantime, here's our analysis of the Project's status.

PUC'S FINDING THAT MESABA IS AN INNOVATIVE ENERGY PROJECT

The PUC's finding that Mesaba is an Innovative Energy Project reversed the ALJs' recommendations and keeps Mesaba entitled to the special benefits listed in the 2003 legislation.

One of these benefits is of increased significance because the PUC could use its authority over all new generation facilities to pressure all of the state's utilities to use Mesaba's output. However, the test would be whether that is in the best interest of ratepayers and the PUC also unanimously agreed that Mesaba's power would be too costly. It is hard to imagine what benefits the PUC might find sufficient to counterbalance this cost issue.

It is expected that as the various utilities present their Integrated Resource Plans to the PUC, they will be required to show that they "considered" Mesaba as a supply option, and to show why it is not suitable. IRPs from Xcel, Minnesota Power, and Great River Energy are due in November and December of this year. We will be watching for developments on that front.

The Hearings

The PUC met on July 31st and August 2nd to hear arguments from the parties. On the first day 40 CAMPers rode our chartered bus to St. Paul and several more met us there to create a significant presence in the room. Co-Chair Ed Anderson ably presented CAMP's perspective to the PUC. We all agreed that Excelsior's Mesaba Project did not fare well that day and its proponents appeared to be disconcerted.

By Thursday morning the Excelsior team had regrouped and was encouraging the PUC to approve the PPA in some form, even by modifying it to 450 MWs (vs. 603 MWs proposed), and delaying the production date. Excelsior emphasized that it needed some favorable word on the PPA to support its application for \$130 million in federal tax credits, which must be filed by October 1st. Without these tax credits, the costs of Mesaba's power could increase by another 10%. Nevertheless, the PUC did not set any deadline for results from negotiations with Xcel or for identifying how Mesaba's output could be marketed to all of Minnesota's utilities. This may leave the Project with a critical timing problem.

Time and Money

Since the hearing we have learned that, in addition to the deadline for applying for the federal tax credits, Excelsior had another reason for needing a 450 MW PPA. Its first interest payment on its first "loan" from Iron Range Resources was due in May 2007. Tom Micheletti requested an extension and in late July Commissioner Sandy Layman granted one until the end of 2007. She also said that an extension to the end of 2009 would be granted if, by the end of 2007, Excelsior achieved: either an approved PPA for 450 MWs; or a third-party equity investment of \$100 million. These two conditions are so interdependent that it is unlikely that Excelsior will get one without the other.

Is Excelsior running out of money and therefore time to continue promoting the Mesaba Project? Apparently the entire \$9.5 million from IRR has been spent. We don't know how much of the initial \$22 million from the Department of Energy has been spent but we do know that in order for the Agreement with DOE to continue, Excelsior needs a PPA or some other suitable agreement for selling its output. At least three-fourths of this year's \$2 million installment from the state's Renewable Development Fund in addition to two previous installments have been spent. Even though the PUC did not pronounce a death sentence for the Project, it may not survive much more delay.

The World and Micheletti Keep On Spinning

Nevertheless, Tom Micheletti continues to spin the Project as alive and doing well, as shown by his "update" to the Itasca County Commissioners on August 14th. He claimed that: the PUC is going to "force" utilities to participate in a PPA with Mesaba; the PUC wants to spread Mesaba's "benefits" statewide; Mesaba would provide baseload "desperately" needed locally; and the Project would be a low-cost alternative for the region. All this despite: Excelsior's fight to prevent the PUC from considering the need for Mesaba; and the PUC's unanimous finding that the power in the proposed PPA was too costly and the risks were too great to impose on Xcel's ratepayers.