

CAMP UPDATE: September 4, 2007
PUC Issues PPA Order
CAMPers:

The Minnesota Public Utilities Commission issued its Order on August 30th, "Disapproving" the Power Purchase Agreement between Excelsior Energy and Xcel Energy. The 24-page document can be found at:

<http://www.puc.state.mn.us/docs/orders/07-0130.pdf>

The Order amplifies the PUC's earlier statement, which we sent on August 4th and we discussed further on August 21st. It contains two provisions designed to keep open the possibility that Mesaba's output might find a buyer.

PROVISIONS IN PUC'S ORDER & CAMP'S REACTION

"Excelsior and Xcel shall resume their negotiations toward a final power purchase agreement, with the assistance of the Department of Commerce and in light of the guidance provided by the Commission in this case."

It is hard to see how renewed negotiations can be productive, given the fundamental cost and risk problems that the PUC acknowledges as "legitimate barriers" that are "likely to impose unreasonable and excessive costs on Xcel's ratepayers".

"The Commission will explore the potential for a statewide market for the innovative energy project's power . . . both in the context of upcoming resource plan proceedings and in other cases in which the Commission reviews (a) requests to build or expand fossil-fuel-fired generation facilities or (b) requests to enter into power purchase agreements with those facilities for terms longer than five years."

This refers to the statutory requirement that other utilities consider Mesaba as a supply option. The PUC explains it as "spreading the . . . challenges of cost, pricing, and rates . . . among more than one set of ratepayers (to) make those challenges more manageable." The PUC promises to "explore that possibility in the months ahead".

This requirement could also be applied in the case involving new transmission facilities in Minnesota for the output of Big Stone II, a 630

MW coal-fired plant planned in South Dakota. The Administrative Law Judges recently found that the energy is needed by several Minnesota utilities and recommended that the route permits be granted. However, the ALJs also found that the utilities requesting the new lines did not adequately consider using Mesaba's output as a supply option. This case will be decided by the PUC, which could make Mesaba a serious issue.

CAMP will be watching developments in the BS II case and in the upcoming IRP proceedings at the PUC, which are referenced as follows:

"Resource plan filings are imminent from Xcel, Minnesota Power, and Great River Energy, three of the state's largest generators of electricity and purchasers of wholesale power. These resource plan proceedings should provide a good starting point for examining how Mesaba might contribute to meeting the state's intermediate and long-term power needs and how that contribution would affect rates, reliability, and other public-interest concerns."

KEY QUESTIONS & CAMP'S RESPONSES

Can a PPA be successfully negotiated that meets Excelsior's needs and overcomes Xcel's objections and the deficiencies identified by the PUC?

Highly unlikely, given the PPA's fundamental flaws and the failed efforts over the past three years.

Can the PUC force the other utilities in the state to incorporate Mesaba's output as they plan to meet their needs for new baseload generation?

Not likely, if the PUC applies a true public interest test (need, cost and risk) and takes into account Mesaba's lack of a meaningful plan to capture and sequester CO2.

How long can Excelsior Energy survive without new cash infusions?

That probably depends on how much of the \$22 million in DOE funding has not yet been spent and whether the DOE is willing to continue funding in light of the disapproved PPA.

Private investments aren't likely in the absence of an approved PPA.

We expect that no additional public funds will be provided. WE'LL BE ON THE LOOKOUT FOR THAT, TOO.