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Millions in public money spent, but Iron Range power plant still just a dream

DNT investigation, part 1 of 2: When Excelsior Energy launched its ambitious, clean energy project in 2001, the company touted it as a way to bring much-needed jobs and investment to the Iron Range. But after nearly a decade and receiving more than \$40 million in public money, Excelsior has little to show.

By: **Peter Passi**, Duluth News Tribune

When Excelsior Energy launched its ambitious, clean energy project in 2001, the company touted it as a way to bring much-needed jobs and investment to the Iron Range at a time when local residents were still stinging from the closure of LTV Steel Mining Co. The innovative, state-of-the-art coal gasification plant also would enable the nation to more effectively tap domestic coal reserves with minimal harm to the environment.

But after nearly a decade and receiving more than \$40 million in public money, Excelsior has little to show. While significant work has gone into developing site plans and engineering work and garnering permits, the company has yet to move a shovelful of dirt to build its would-be 2,000-megawatt, \$2.1 billion power plant.

And despite receiving virtually all of its backing from the public trough, the company's spending records, including its officers' paychecks, remain under wraps.

"At the end of the day, this is a project that has not hired one full-time worker on the Iron Range. Only lawyers, lobbyists and professional meeting attenders have gotten jobs," said Rep. Tom Anzelc, D-Balsam Township, the only Iron Range legislator who has opposed the project. "And it has all been financed by the public."

Behind the delay

Heading Excelsior are two seasoned energy professionals: Tom Micheletti, a Hibbing native and former Northern States Power executive, and his wife, Julie Jorgensen, former CEO of CogenAmerica and VP of NRG Energy Inc.

Supporting them is another Iron Range legislator, Sen. Tom Bakk, D-Cook, who argues that cleaner ways of turning abundant domestic supplies of coal into electricity are greatly needed.

Bakk blames the development's delay on Xcel Energy's refusal to do business with Excelsior, with the established energy company intimating that power from the new plant could be too expensive and could drive up customer rates.

"There was clear legislative intent that Xcel would purchase their power, but Xcel has been unwilling to enter an agreement," Bakk said. "Without an out-take agreement, the project has not been bankable."

Excelsior has made repeated efforts to persuade the Minnesota Public Utilities Commission to compel Xcel to buy its power, but has so far been unsuccessful.

Micheletti, who serves jointly with his wife as Excelsior Energy's president and CEO, also said the project has suffered from unfortunate timing and the effects of a recession.

"Hardly anything is being built right now," said Micheletti. "Load growth has come to a standstill, so there's not a great deal of need for new facilities right now."

Regulatory uncertainties facing the power industry have further complicated the plant's outlook, Micheletti said, though he added that tougher regulation could help the project if it leads to the shutdown of older, dirtier coal-burning power plants or a shift away from nuclear energy.

Yet Micheletti said he's stopped making predictions as to when Excelsior will build its first plant.

"It bothers me that, given the current economic situation, we're not where we thought we'd be," he said. "By now, 3,000 people would be working on the site if things had gone the way we thought."

Public funding

From the start, Excelsior has relied primarily on public support, according to a 2008 audit by the Minnesota Office of the Legislative Auditor. The agency noted that excluding a small sum of private seed money, "the company initially relied mainly on Iron Range Resources loans for many basic costs it needed to operate, such as office space, desks and computers."

In 2001, Excelsior borrowed \$1.5 million from the Iron Range Resources and Rehabilitation Board. Additional loans have brought that company's IRRRB debt to \$9.5 million

In August 2010, Excelsior was to begin repayment of its IRRRB loans, but the agency extended the timeline to 2017, in light of project delays.

The company also received \$10 million in state aid through the Minnesota Public Utility Commission's Renewable Development Fund, despite objections

from environmental groups about spending such funds on a plant designed to run on fossil fuel.

The U.S. Department of Energy contributed another \$22 million, intended to cover half of the preliminary design costs.

The only public record of private equity in Excelsior occurred at its inception, when Micheletti and Jorgensen made a combined investment of \$60,000.

Shuttered windows

Tracing where all Excelsior's public money went and how it has been used is not easily accomplished, particularly after state lawmakers voted to restrict public access to Excelsior's financial statements. Before 2008, reports the company is required to submit to the IRRRB as part of its loan agreement had been publicly available.

But that year, the Minnesota Legislature changed the state law, with a conference committee inserting language into an omnibus tax bill to classify financial disclosures made to the IRRRB.

Bakk, a member of that committee and also of the IRRRB's board of directors, told the News Tribune he had no recollection of inserting the language and suggested the IRRRB itself may have requested the change.

Sheryl Kochevar, an IRRRB spokeswoman, confirmed that, justifying it to say the agency's aid recipients should have "privacy protections that are similar to those a business would expect and receive when it is dealing with a bank."

Kochevar said the IRRRB must approve all its loans and investments in a public meeting. After that, however, she said the agency will not disclose "nonpublic data about the business that it uses to monitor and protect its loan to or investment in the business."

Bakk defended the IRRRB's rationale, saying that if the agency required total transparency of the companies it assists, some might shun its aid, causing the Range to miss out on potential economic development opportunities.

But there is nothing stopping Excelsior itself from disclosing what it does with the public money it receives. Micheletti, however, refused to release that information.

"We do not and have never disclosed confidential private financial information, so that subject is off limits," he told the News Tribune.

Charlotte Neigh, co-chair of Citizens Against the Mesaba Project, a group opposed to the plant, said the Legislature's secrecy provision came on the heels of a complaint her group made about some of Excelsior's uses of IRRRB funds that touched off an examination by the Office of the Legislative Auditor.

The auditors found Excelsior had indeed used some IRRRB loan funds for inappropriate purposes, including lobbying. The company subsequently was required to repay \$40,161.

Anzelc contends that any entity that has received so much public assistance ought to be more forthright about how it has spent taxpayer money.

"I believe they should tell us exactly what they've done with all the public dollars they have secured," he said.

Limited view

Even when Excelsior's financial reports to the IRRRB were still public, they sometimes provided scant detail.

A 2004 letter to the IRRRB Board of Directors from Freeberg & Freeberg Certified Public Accountants acknowledged gaps in Excelsior's reporting.

"Management has elected to omit substantially all of the disclosures and the statements of cash flows and retained earnings required by generally accepted accounting principles," the report said.

Still, the reports provided a limited view into how the company was spending its funds. As of the end of 2006 — the last year for which financial reports are public — Excelsior had spent \$9.6 million on engineering and site development, \$8.2 million on permits and regulatory work, \$6.9 million on commercial, financial and administrative services and \$7.9 million on in-house staff and consulting expenses since the project's inception.

Some of these expenses were in the form of unpaid bills to be settled at a later date. A significant portion of that debt was owed to the husband-and-wife team at Excelsior's core.

State funds from the IRRRB and the Renewable Development Fund could not be used to compensate Micheletti and Jorgensen. Even though they could not collect paychecks for the first several years of Excelsior's existence, Micheletti's and Jorgensen's salaries were carried on the company's books with the understanding that payments would be made when appropriate funds became available.

According to records, in 2001, the two drew a combined \$125,000 in deferred pay. In August 2002, the deferred annual salary of each was increased to \$250,000, or \$500,000 for the pair. In 2003, they each received another \$50,000 raise, bringing their combined annual pay to \$600,000, where it remained through 2006, at the last time of public disclosure.

The first indication that Excelsior actually cut paychecks for Micheletti and Jorgensen can be found in 2006, when Department of Energy funds became available for the project. As of 2005, Excelsior owed the pair \$2.49 million jointly. In 2006, that debt was reduced by \$600,000.

Micheletti's and Jorgensen's deferred annual salaries totaled \$600,000 each of the previous three years. And unless the co-presidents took a cut, Excelsior actually would have had to pay them \$1.2 million in 2006 to reduce their total deferred pay by \$600,000 in a single year.

How much more pay Micheletti and Jorgensen have received since 2006 has not been publicly disclosed.

Micheletti refused the News Tribune's request to disclose how much Excelsior has paid its officers, saying, "As I have indicated to you many times before, our company, like all others, does not disclose confidential information, including confidential financial information."

Coming Monday

After spending most of its more than \$40 million in state and federal money, Excelsior Energy risks running out of funds if it cannot attract additional investment from the public or private sector soon. The company also is eyeing a change in its power plant plans.

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