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Iron Range energy project seeks lifeline in more funding, new fuel source

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By: [Peter Passi](#), Duluth News Tribune

Despite receiving more than \$40 million in federal and state government money, Excelsior Energy risks running out of gas if it cannot attract additional investment from the public or private sector soon.

Gone are state funds, including:

- About \$9.5 million in loans it received from the Iron Range Resources and Rehabilitation Board, and
- \$10 million from the Minnesota Renewable Development Fund.

Soon, Excelsior will burn through the more than \$22 million in federal funding the Department of Energy earmarked to help develop its clean coal project on the Iron Range, according to financial records obtained through the Freedom of Information Act and analyzed by the News Tribune.

Those records show that as of Sept. 30, 2010, Excelsior had only about \$1.9 million in unobligated DOE funds still available. The company had already spent more than 90 percent of the federal funding approved for project development.

And at what was then the company's expenditure rate — consuming an average of \$418,000 in grant funding per quarter in 2010 — Excelsior would exhaust the last of its federal aid before the end of this calendar year.

Tom Micheletti, Excelsior's co-president and CEO, refused to discuss how much money the company has left or where it will turn next. Yet his confidence remained intact.

"We've got staying power to see our way through this," he said.

Rep. Tom Anzelc, D-Balsam Township, said he expects Excelsior will turn again to the IRRRB for more support. But IRRRB Commissioner Tony Sertich said there have been no discussions about providing aid to Excelsior beyond the loans that it already has received.

"I don't anticipate any further request from them," he said. "We're watching to see what happens next, just like everyone else."

Refueling

Unable to move ahead with plans to build a \$2.1 billion power plant that would run on gasified coal, Excelsior received authorization from the Minnesota Legislature this past session to proceed initially with a plant fueled by natural gas.

Sen. Tom Bakk, D-Cook, supported Excelsior's request.

"I think that if we allow Excelsior to start as a natural gas plant, it substantially increases the chance that it (the coal plant) will be built," he said.

Bakk noted that a natural gas-fueled plant would rely on pre-existing rather than relatively untested technology.

"There's much less risk from an investor standpoint," he said.

Anzelc was the only Iron Range legislator to oppose the idea of allowing Excelsior to shift gears and build a natural gas plant instead of one running on gasified coal. He sees the change of plans as a last-ditch effort to throw Excelsior a lifeline.

"The majority of the Range delegation and the governor believe that this is the only way to get any of the \$9.5 million in IRRRB funds back. You need to have an actual project that has permits and is constructed. You need a real company that makes a profit," he said.

Nevertheless, as hard as it may be to accept the loss, Anzelc contends that walking away from Excelsior is the responsible thing to do.

At present, natural gas prices are comparatively low, making it a competitive fuel for power generation, said Julie Jorgensen, Excelsior's co-president and CEO. Still, Excelsior needs to consider the long-term price outlook for both gas and coal, and Micheletti said the company is weighing its options.

"Do we go slow on one and faster with the other or vice-versa?" he asked. "Or do we proceed with both at once?"

Micheletti estimates a couple of 600-megawatt natural gas-powered units could be built for about \$900 million. That's less than half the anticipated cost of Excelsior's proposed gasified coal plant. Also, permits for natural gas-fired generators are typically easier to obtain than for coal-burning plants.

One roadblock is that Department of Energy money earmarked for "clean coal" technology probably could not be used to help develop a natural gas plant, Micheletti said. Regardless, he said, Excelsior is in a unique position to push a power plant along quickly.

"Right now, we have the only viable new site for an energy plant in the Midwest because of all the work we've done," he said.

But Anzelc said Excelsior still lacks one essential: a customer.

"To my knowledge, no one in the power business is supportive of this project," he said.

Search for customers

While Micheletti said he could not discuss specifics because of confidentiality concerns, he said Excelsior is in active talks with potential customers. He said the company will push ahead with a project only when markets justify the investment.

"A lot of companies went bankrupt building on spec. We're not going to build without a customer," he said.

Pat Mullen, Minnesota Power's vice president of marketing and public affairs, isn't surprised that Excelsior is looking at alternatives to its plan for a gasified coal plant.

"Their original project was way too expensive, and it didn't get any traction," he said. "We didn't want it and neither did Xcel."

Xcel and Minnesota Power objected to the project, warning that it would drive up their customers' rates.

Excelsior sought to compel Xcel to buy power from its plant through a power purchase agreement, but the Public Utilities Commission refused.

Even the revamped natural gas plant plan could be a tough sell, however.

Minnesota Power spokeswoman Amy Rutledge said her company has been diversifying its energy portfolio to meet a state mandate that 25 percent of its power come from renewable sources by 2025. The company recently signed a deal to purchase another 250 megawatts of power from Manitoba Hydro in 2020. But new fossil fuel energy is not in Minnesota Power's plans.

"We've looked at the energy needs of our customers," Rutledge said, "and it is clear we have no need for additional power from Excelsior."

Xcel Energy has plans to retire two coal-burning units at its Black Dog plant in Burnsville, Minn., and replace them with natural gas units. To obtain permits for that project, the company was required to seek alternative proposals to supply 435 megawatts of power by 2016 or 2017.

But the July deadline has come and gone, and Patti Nystuen, an Xcel spokeswoman, said Excelsior did not submit a proposal and Xcel anticipates no need for additional generation.

Minnesota Power's Mullen described what he considers "a flat market" for power generation,

But he's not counting Excelsior out.

"You have to give them credit for their tenacity," Mullen said.

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