



CAMP

Citizens Against the Mesaba Project

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MPUC DENIES PPA FOR MESABA PROJECT

Excelsior Energy's Mesaba Project suffered another setback on Thursday when the Minnesota Public Utilities Commission decided that its proposal is "not in the public interest". Excelsior plans to build two coal-gasification power plants using IGCC technology near the Scenic Highway north of Taconite, known as the Mesaba Energy Project (MEP). Excelsior filed a petition to force Xcel Energy to purchase the 603 MWs of electrical output from Mesaba Unit I. Whether Xcel should be forced into this power purchase agreement (PPA) was supposed to be decided by the Minnesota Public Utilities Commission (MPUC) after hearing arguments from the parties on July 31st and August 2nd.

Arguing against the PPA were Xcel Energy, Minnesota Power, Manitoba Hydro, Minnesota Chamber of Commerce, Minnesota Center for Environmental Advocacy, and mncoalgasplant.com - an organization of property owners near the proposed site. The Minnesota Department of Commerce agreed that the Project is not in the public interest.

Xcel's basic argument is that it doesn't need the power and it is so expensive that it would cost Xcel's ratepayers \$1.5 billion more than the power Xcel can get from other sources. Another key argument is that the Project does not plan to capture and sequester carbon dioxide even though this capability is touted as a primary benefit of the IGCC technology. Capturing only 30% of the CO2 and piping it to a possible sequestration site in western North Dakota or Canada could increase the cost by an estimated \$1 billion and significantly reduce the plant's efficiency, making the power even more expensive.

The PPA with Xcel is critical to Excelsior's ability to receive additional federal financial support, and attract private funding. Although the PUC unanimously decided not to approve the terms of the PPA as currently proposed, it left open the possibility that somehow a mutually acceptable PPA might yet be negotiated. The Commissioners did not establish any particular time for the end of negotiations. It seems unlikely that Excelsior can modify its proposal sufficiently to overcome Xcel's objections.

Time is a serious concern for Excelsior, particularly the deadline of October 1, 2007, for applying for about \$130 million in federal tax credits. Its chances of being awarded these credits will be reduced if it doesn't have an approved PPA. Without the credits, its power will be even more costly, making the Project even more untenable.

It is difficult to see how the PUC expects the parties to overcome the obstacles to a mutually agreeable PPA. It is expected to issue a detailed order with findings in a few weeks.

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