Public Document –
Trade Secret Data Has Been Excised

MPUC Docket No. E-6472-/M-05-1993
OAH Docket No. 12-2500-17260-2

BEFORE THE
MINNESOTA OFFICE OF ADMINISTRATIVE HEARINGS
100 Washington Square, Suite 1700
Minneapolis, Minnesota 55401-2138

FOR THE
MINNESOTA PUBLIC UTILITIES COMMISSION
127 7th Place East, Suite 350
St. Paul, Minnesota 55101-2147

In the Matter of the Petition of Excelsior Energy Inc. and Its Wholly-Owned Subsidiary MEP-I, LLC For Approval of Terms and Conditions For The Sale of Power From Its Innovative Energy Project Using Clean Energy Technology Under Minn. Stat. § 216B.1694 and a Determination That the Clean Energy Technology Is Or Is Likely To Be a Least-Cost Alternative Under Minn. Stat. § 216B.1693

PREPARED SUPPLEMENTAL TESTIMONY AND EXHIBITS OF EXCELSIOR ENERGY INC.

Renee J. Sass

SEPTEMBER 5, 2006

EXCELSIOR ENERGY, INC.

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

PREPARED SUPPLEMENTAL TESTIMONY OF

RENEE J. SASS

Q Please state your name, current employment position and business address.

A Renee J. Sass. I am a Senior Vice President and Chief Financial Officer for Excelsior Energy Inc. My business address is Excelsior Energy Inc., Crescent Ridge Corporate Center, 11100 Wayzata Boulevard, Suite 305, Minnetonka, Minnesota 55305.

Q On whose behalf are you testifying?

A I am testifying on behalf of Excelsior Energy Inc. ("Excelsior").

Scope and Summary

Q What is the purpose of your supplemental testimony in this proceeding?

A The purpose of my testimony is to sponsor and incorporate the following Supplemental Filings to the Minnesota Public Utilities Commission: (1) "East Range PPA"; (2) "450 MW PPA: West and East Range"; (3) "Summary of Key Cost Data for Base Case and Alternative PPAs, and SCPC"; and (4) "Pricing Sensitivities under the Proposed Power Purchase Agreement" with respect to Excelsior's proposed Mesaba Unit One Project currently before the Commission in this docket (the "Project"). On behalf of Excelsior, I supervised and engaged in the preparation of these Supplemental Filings, and I am available to answer any questions about them. These Supplemental

Filings are appended to my testimony as Exhibits RJS-2, RJS-3, RJS-4, and RJS-5 respectively.

East Range PPA

Q Please briefly describe the information contained in Exhibit RJS-2, "East Range PPA."

A This filing reflects what the price of electricity would be, and what the terms of the PPA would be, if the Project were to be located on the East Range Site. The pricing summary employs the same methodology described in Section III of the Mesaba Project Report originally filed by Excelsior on December 27, 2005, and later incorporated in my original testimony, filed on June 19, 2006. All information respecting the methodology can be found in Section III of the Mesaba Project Report.

Q What conclusions are reflected in "East Range PPA" with respect to the Project pricing?

A On a direct tariff basis (Present Value of Revenue Requirement (PVRR/MWh)), the cost of electricity under a 598 MW PPA respecting the East Range Site would be **[Trade Secret Data Begins] [Trade Secret Data Ends]** than the cost under the originally submitted 603 MW PPA representing the West Range Site and **[Trade Secret Data Begins] [Trade Secret Data Ends]** than the cost under the alternative 600 MW Super Critical Pulverized Coal ("SCPC") plant.

Taking into account all environmental externalities, even at the more expensive East Range Site, the total Present Value of Social Costs (PVSC/MWh) for the electricity from the

East Range Site would be **[Trade Secret Data Begins] [Trade Secret Data Ends]** than the PVSC/MWh for the alternative 600 MW SCPC plant.

Q Why is the cost of electricity higher at the East Range Site than at the West Range Site?

A The primary differences between the East Range Site and the West Range Site that impact costs are: (1) the East Range Site requires a longer radial transmission line to the point of interconnection at Forbes than the West Range Site radial line to Blackberry, resulting in higher capital costs and approximately 3.5 MW of incremental line losses; (2) the longer rail haul from the Powder River Basin and the interchange with the Canadian National Railway required to reach the East Range Site result in a higher delivered cost of fuel at the East Range Site; (3) the Zero Liquid Discharge treatment system for cooling tower blowdown water required at the East Range Site results in additional station power use, additional engineering, procurement and construction costs and a higher heat rate at the East Range Site; and (4) the natural gas pipeline interconnection is longer at the East Range Site than at the West Range Site, resulting in higher capital costs.

Q Why is the East Range PPA for 598 MW while the originally filed PPA for the West Range Site is for 603 MW?

A The East Range PPA contemplates 598 MW delivered to the point of interconnect at the Forbes substation. The output to the point of interconnect from the East Range Site (598 MW at the Forbes substation) is less than the output to the point of interconnect from the West Range Site (603 MW at the Blackberry substation)

primarily due to the increased station use and increased distance (and consequent increased line losses) to the point of interconnect at the East Range Site.

450 MW PPA: West and East Range

Q Please briefly describe the information contained in Exhibit RJS-3, "450 MW PPA: West and East Range."

A This filing reflects what the price of electricity would be, and what the terms of the PPA would be, if the Project only sells 450 MW of electricity to Northern States Power ("NSP"), rather than the full 603 MW output of the plant as reflected in Excelsior's original filing. The pricing analysis in this filing employs the same methodology described in Section III of the Mesaba Project Report.

Q What conclusion is reflected in "450 MW PPA: West and East Range" with respect to the Project pricing?

A On a direct tariff basis (PVRR/MWh) at the West Range Site, the cost of electricity per MWh under the 450 MW PPA—West Range Site is **[Trade Secret Data Begins] [Trade Secret Data Ends]** than under the originally submitted 603 MW PPA, and **[Trade Secret Data Begins] [Trade Secret Data Ends]** than under the 600 MW SCPC plant alternative.

Taking into account all environmental externalities, due to the superior environmental profile of the Mesaba Project, even under the 450 MW PPA—West Range Site, the total PVSC/MWh is within **[Trade Secret Data Begins] [Trade Secret Data Ends]** of the price under the 600 MW SCPC plant alternative.

On a direct tariff basis (PVRR/MWh) at the East Range Site, the cost of electricity per MWh under the 450 MW PPA—East Range Site is **[Trade Secret Data**

Begins] **[Trade Secret Data Ends]** than the price would be under an East Range 598 MW PPA and **[Trade Secret Data Begins]** **[Trade Secret Data Ends]** than the price under the 600 MW SCPC plant alternative.

Taking into account all environmental externalities, the total PVSC/MWh under the 450 MW PPA—East Range Site is **[Trade Secret Data Begins]** **[Trade Secret Data Ends]** than the price under the 600 MW SCPC plant alternative.

Q If the Project is only required to sell 450 MW to NSP under the PPA, what would happen to the incremental 153 MW (West Range Site) or 148 MW (East Range Site) of output from Mesaba Unit One?

A The Project owner would sell the incremental capacity and energy under short or long-term contracts or on the spot market, and presumably would agree to share net revenues from those sales with NSP under the PPA.

Summary of Key Cost Data

Q Please briefly describe the information contained in Exhibit RJS-4, "Summary of Key Cost Data for Base Case and Alternative PPAs, and SCPC."

A This filing consolidates in one place a summary of key cost data for the Base Case PPA (603 MW West Range), as well as a 598 MW East Range PPA and 450 MW West and East Range PPAs, all as compared to the SCPC Alternative.

Pricing Sensitivities under the Proposed Power Purchase Agreement

Q Please briefly describe the information contained in Exhibit RJS-5, "Pricing Sensitivities under the Proposed Power Purchase Agreement."

A This filing presents analyses of the final price of electricity **[Trade Secret Data Begins]**

[Trade Secret Data Ends] provided for in the proposed PPA with NSP. The PPA allows for **[Trade Secret Data Begins]**

[Trade Secret Data Ends]

Conclusion

Q Does this conclude your prepared supplemental testimony?

A Yes.

EXHIBIT NO. ____ (RJS-2)

EXHIBIT NO. ____ (RJS-3)

EXHIBIT NO. ____ (RJS-4)

EXHIBIT NO. ____ (RJS-5)