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October 10, 2006

VIA E-MAIL AND U.S. MAIL

The Honorable Steve M. Mihalchick
Administrative Law Judge
Office of Administrative Hearings
100 Washington Square
Suite 1700
Minneapolis, MN 55401-2138

**Re: In the Matter of a Petition by Excelsior Energy, Inc. for Approval of a Power Purchase Agreement Under Minn. Stat. § 216B.1694 and Determination of Least Cost Technology and Establishment of a Clean Energy Technology Minimum Under Minn. Stat. § 216B.1693
OAH Docket No. 12-2500-17260-2
MPUC Docket No. E-6472/M-05-1993**

Dear Judge Mihalchick:

Attached hereto please find an original and one copy of the Rebuttal Testimony and Exhibit on behalf of the Minnesota Chamber of Commerce. Also enclosed please find an Affidavit of Service to all parties of record.

Very truly yours,



Richard J. Savelkoul

RZS/clj
Attachments
cc: See Service List.



Rebuttal Testimony of

William Blazar

Before the
Minnesota Public Utilities Commission

In the Matter of the Application of a Petition by Excelsior Energy, Inc. for Approval of a Power Purchase Agreement Under Minn. Stat. § 216B.1694 and Determination of Least Cost Technology and Establishment of a Clean Energy Technology Minimum Under Minn. Stat. § 216B.1693

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1 I. INTRODUCTION

2 Q. Please state your name and business address.

3 A. My name is William Blazar. I work at the Minnesota Chamber of Commerce (“MCC”)
4 located at 400 North Robert Street, Suite 1500, St. Paul, Minnesota 55101.

5
6 Q. For whom are you testifying?

7 A. I am providing testimony for the MCC on behalf of its members.

8
9 Q. Please summarize your qualifications and experience.

10 A. See MCC Exhibit ___ (BB-1), which includes my work and educational qualifications and
11 experience.

12 I meet with over 100 businesses personally per year. The reliability and price of
13 electricity is a common subject of those meetings and is continuing to be increasingly
14 important, or a more heavy concern of the Minnesota businesses I’m meeting with.
15

16
17 Q. What is MCC’s interest in participating in this case?

18 A. The MCC represents over 2,500 businesses throughout the state of Minnesota, and a
19 majority of them are within Xcel’s service territory and as a result MCC’s members will
20 be paying for any power produced under this proposed Power Purchase Agreement
21 (“PPA”). The MCC deals with statewide issues at a policy level mainly and deals with
22 concerns businesses have with respect to doing business or continuing to do business
23 within the state. The main issues that MCC is currently engaged in are electricity,
24 transportation, and health care.

1 The MCC represents Minnesota businesses which make up a significant portion of the
2 public, which will be paying for any energy produced under this PPA. In Xcel Energy's
3 most recent rate case, in Minnesota Public Utilities ("MPUC"), Docket No. E002/GR-05-
4 1428, Minnesota's businesses under Xcel's Class Cost of Service Study were found to
5 provide 58.4% of Xcel's revenue in their Minnesota service territories. MCC's members
6 have a desire for the utilities to make investment in electricity, which is environmentally
7 sound, complies with Minnesota legal requirements, and is a wise investment for
8 Minnesota's public and ratepayers.

9
10 My testimony in general responds to the testimony of Minnesota Department of
11 Commerce witnesses Edward Garvey and Eilon Amit, and Xcel's witnesses Judy M.
12 Proforal, Karen T. Hyde, John J. Reed, George E. Tyson, Timothy Sheesley and
13 Elisabeth M. Engelking, and Excelsior's filing. In general, my testimony will provide
14 response to these witnesses and discuss additional areas of consideration in determining
15 approval, modification or rejection of Excelsior's PPA.

16
17 Though I recognize that Excelsior will be using various affiliates in this proceeding, I
18 will refer to them collectively as "Excelsior" throughout this Rebuttal Testimony.

19
20 *Q. What is the subject of your testimony in this proceeding?*

21 A. Xcel Energy's largest class of ratepayers is commercial and industrial ratepayers. A large
22 component of many MCC members' profitability is electrical expense, energy matters to
23 our members and we have a key interest in keeping energy prices competitive and
24 supporting wise decisions related to energy. My testimony will focus on statutory
25 compliance and appropriate terms for any PPA.

1 **II. ANALYSIS**

2 *Q. Comment with respect to Deputy Commissioner Garvey's testimony in general.*

3 A. I agree for the most part with factors that he considers, particularly what should be
4 considered in public interest, appropriately balanced in economic risks, the costs to
5 ratepayers, and whether it fits into the state's long-term electric policy. But, at this point I
6 do not think that Excelsior Energy has demonstrated that those factors have been
7 sufficiently balanced or in certain circumstances, the information to support that
8 weighing, has not been sufficiently demonstrated.

9
10 Our hope is that the PPA can be revised and it could better match the needs and financial
11 concerns of business customers. On its face, it appears that the power proposed in this
12 proceeding does not match Xcel's needs according to their most recent resource plan. Of
13 the economic risks associated with the project, they seem to be disproportionately born
14 by Xcel and its ratepayers, and the costs of the power under this PPA, under the best case
15 scenario, appear to be substantially higher than other resources, or inappropriately sized.

16
17 *Q. Please respond to Commissioner Garvey's conclusion that there are positive benefits to
18 the economic impacts of this project.*

19 A. I believe there are some economic benefits to the state, but our concern is that the net
20 economic benefits of the current proposal as we understand it are likely negative.
21 Excelsior at this point has not done enough to demonstrate the economic benefits outside
22 of those which are realized by those in the region where the IGCC facility is being
23 constructed. Particularly, the negative economic impacts of increased costs to businesses

1 and the increased cost of electricity for the individuals in Xcel's service territory have not
2 been addressed or factored in by Excelsior.

3
4 He further discusses the resulting tax base and jobs generated by the plants construction.
5 Good construction jobs will terminate upon construction, and then there are a relatively
6 modest number of jobs for ongoing operations of the facility. The long term, permanent
7 effect on tax base may be limited. Much of the revenue generated by ratepayers for this
8 project will be for fuel, which will be sent outside of Minnesota, and the positive addition
9 to local tax base may be offset by the increase costs of electricity in regions outside of the
10 location of the IGCC facility. The increased costs of electricity could result in lower
11 income tax by businesses and less disposable income for individuals, which could in turn,
12 reduce spending and sales tax collections.

13
14 Again, my concern is that Excelsior's analysis on this issue has been with respect to the
15 economic development benefits or impact of the IGCC facility on the Arrowhead region
16 in particular. Another concern is one that Commissioner Garvey points out that "local or
17 export phase purchases that represent transfers from other potentially local purchases are
18 not counted." In other words, even the positive benefits cited by Excelsior may only be
19 shifting benefits within the state. The region of Xcel's rate territory may very likely pay
20 for the economic benefits to the Arrowhead region of Minnesota.

21
22 *Q. Please comment on Commissioner Garvey's position related to environmentally superior*
23 *element of the project.*

24 A. I am not an expert in this area, but maintain the position that this PPA should not be
25 entered into "at all costs." The benefits should be proportionate to the costs and risks

1 associated with the contract. As I stated otherwise in my testimony, I am concerned
2 (without even considering Xcel's actual need) with making such a large commitment to
3 the generating facility and technology, which is not or may not have been proven to be
4 reliable at this point.

5 *Q. Please comment on Commissioner Garvey's conclusions related to costs as it relates to*
6 *comparable facilities.*

7 A. I disagree. I do not think the cost has to be equally comparative to facilities that do not
8 provide the same economic and environmental benefits that the Excelsior project does,
9 but I do think in order to approve any PPA, Excelsior must demonstrate that a PPA herein
10 is the least cost as it compares to other IGCC facilities. This is one of the reasons that the
11 state has attempted to implement a bidding process for Xcel's acquisition of electric
12 needs together with appropriate balancing of risks. To clarify, if IGCC is more expensive
13 than other available technologies and it still is found to be in the public interest, it must in
14 any event be the most cost effective and provide the least risk for a project available
15 using IGCC technology.

16 *Q. Please respond in general to the factors Elion Amit uses in his analysis.*

17 A. I agree generally with the factors he maintains are at issue, particularly, as it relates in the
18 context to Public Utility Commissioners' interpretation, and discussion related with the
19 factors that must be considered.
20

21 *Q. Please respond to Dr. Amit's position that the public interest criteria in this PPA is the*
22 *same as any other PPA.*
23

1 A. I agree, but I think in addition to those considered and other PPA analysis, the other
2 criteria as set forth in the statute must be met. For example, the underlying net economic
3 benefit must be measured and weighed. Mr. Amit agrees and discusses those factors that
4 must be weighed.

5
6 *Q. Please comment on Dr. Amit's discussion with respect to operational risks.*

7 A. In general, I agree with his testimony. The fact that this is the largest IGCC plant
8 proposed to be built to-date, presents risks in itself. Additionally, the PPA has drafted and
9 put in significant risks onto Xcel and its ratepayers in the event there is a problem with
10 the technology and it does not adequately protect Xcel or Xcel's ratepayers. Particularly,
11 the "take or pay" nature of this contract presents significant exposure to Xcel's
12 ratepayers.

13
14 If the IGCC technology does not work, Xcel ratepayers will be required to purchase
15 natural gas-based power for baseload, which is significantly more volatile. Not only is it
16 more volatile, but it will be paid for along with paying for the cost of the IGCC facility,
17 which would be comparable to, if not higher than, the infrastructure costs of a coal plant.
18 So Xcel ratepayers would be paying for the infrastructure of baseload capacity and
19 receiving energy with the fuel costs of peaking facilities. Furthermore, this would affect
20 whether we could appropriately determine if this power is from an "innovative" source.

21
22 *Q. Please respond to Deputy Commissioner of the Department of Commerce Edward A.
23 Garvey's testimony regarding Minnesota's overarching electricity policy.*

24 A. I agree with the factors he sets forth as: 1) reliable; 2) low-cost; and 3) environmentally-
25 superior electricity system. Although I am concerned in two respects with respect to the

1 Excelsior project as I think the evidence in the case shows it may not be low-cost project,
2 rather it appears to be a higher-cost and higher-risk of even higher cost project, as well as
3 the fact that it may not be environmentally superior.

4
5 My concern in this case is that not only is this more energy than is necessary to satisfy the
6 requirements of Xcel's system, as is set forth as the maximum under statute (450
7 megawatts) but goes beyond that to 603 megawatts.

8
9 A large scale generating facility using emerging technology that will likely improve
10 significantly as more small-scale facilities are constructed and provide an opportunity to
11 advance technology is a risky investment for the Xcel's ratepayers.

12
13 *Q. Please discuss whether you believe this PPA qualifies as an innovative energy project, as*
14 *provided for in Minn. Stat. § 216.1694.*

15 *A.* Based on the PPA as currently drafted, I do not. The statutes require that coal be utilized
16 as a primary fuel. There is no requirement that coal be the primary fuel under the
17 proposed PPA. If this PPA is to move forward, it should require that the primary fuel be
18 coal and that there are appropriate damages if coal is not used leading to termination of
19 the PPA, if that lack of use remains continuous. I see a problem with this PPA in that the
20 parties signing the PPA do not appear to have sufficient wherewithal to provide security
21 in the event there are significant damages.

22
23 *Q. Do you think Excelsior's proposal is actually for an innovative energy project?*

24 *A.* I think certain portions of Excelsior's proposal include aspects of an innovative energy
25 project and certain portions do not. It would be appropriate, if all other statutory

1 requirements are met to approve a proposal for innovative energy purchases, but not for
2 purchases of traditional energy produced. There is nothing innovative about electricity
3 produced with natural gas in a way that Excelsior proposes. Furthermore, something that
4 indicates a lack of guarantee that innovative energy will be produced, as well as a
5 problem with respect to price predictability is that Excelsior is not proposing to enter into
6 long-term coal purchases or hedging for coal.

7
8 If coal with IGCC is not used long-term as a fuel for this project, it will not be an
9 innovative energy project, and if coal is used but hedging or long-term contracts are not
10 used, there will not be a reliable, predictable cost of the power.

MINNESOTA
CHAMBER of
COMMERCE

WILLIAM A. BLAZAR

Bill Blazar is Senior Vice President of Public Affairs and Business Development at the Minnesota Chamber of Commerce. Blazar is responsible for the Chamber's public affairs program, including policy development, lobbying and elections. He also manages Grow Minnesota!, the Chamber's business retention and expansion program. He is a member and past chair of the board of the Minnesota Government Relations Council. Prior to joining the Chamber, he was Manager of Government Affairs for Target Corporation from 1987-1992. Before working for Target, Blazar was a freelance public policy analyst, specializing in state and local fiscal policy, economic development and telecommunications.

Blazar has provided staff supervision and at times, direct support to the Chamber's energy policy committee since its inception in 1998. He researched and drafted the Chamber's 2001 proposal to restructure Minnesota utility law to, among other things, give customers the opportunity to buy electricity competitively, make base load electricity generation an "export" industry and speed the development and application of renewable generation technologies. In early 2003, he led the Chamber's effort to pass legislation to facilitate re-licensing of the Prairie Island Nuclear Power Plant. In late 2003, he represented business customer in settlement discussions with Xcel Energy regarding its proposal to re-power three of its Twin Cities power plants. Most recently, he organized and lead the Chamber's intervention on behalf of business customers in Xcel Energy's 2005-06 rate case.

Blazar has a B.A. (Political Science) from Northwestern University and a M.A. (Public Affairs) from the Humphrey Institute of Public Affairs, University of Minnesota.

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