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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 SURREBUTTAL TESTIMONY OF EXCELSIOR ENERGY INC. AND MEP-I LLC

RICHARD STONE

OCTOBER 31, 2006

EXCELSIOR ENERGY INC.

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

PREPARED SURREBUTTAL TESTIMONY OF

RICHARD STONE

Q Please state your name.

A My name is Richard Stone.

Q By whom are you employed and what is your position?

A Richard Stone, Senior Vice President, Development and Engineering for Excelsior Energy Inc. My business address is Excelsior Energy Inc., Crescent Ridge Corporate Center, 11100 Wayzata Boulevard, Suite 305, Minnetonka, Minnesota 55305.

Q For whom are you testifying?

A I am testifying on behalf of MEP-I LLC and Excelsior Energy Inc. (collectively "Excelsior"), the developers of the Mesaba Energy Project (the "Project").

Q Have your previously provided testimony in this proceeding?

A Yes. On September 5, 2006, I filed supplemental testimony to incorporate the Supplemental Testimony and corresponding exhibits filed in this docket on June 19, 2006 by Michael Wadley, who is no longer at Excelsior. On October 10, 2006, I filed rebuttal testimony to sponsor and incorporate Excelsior Energy's Action Plan for Carbon Capture and Sequestration.

Q Have you reviewed the rebuttal testimony of Department of Commerce witness Eilon Amit?

A I have.

Q On page 21 of his rebuttal testimony, Dr. Amit cites Excelsior's Response to MCEA et. al. Information Request No. 9, which estimates the cost of a pipeline needed to transport the sequestered CO_2 from Mesaba Unit 1 to the receiving geologic structure to be $450 million in 1997 dollars, and the cost of the sequestration equipment to be $360 million in 2000 dollars. Do these values represent Excelsior's current estimates of the cost of a CO_2 pipeline and CO_2 sequestration equipment for Mesaba Unit 1?

A No. The costs provided in response to MCEA's question were preliminary estimates based on an assumed 90% CO_2 capture rate. Excelsior has submitted additional preliminary cost information as part of its Plan for Carbon Capture and Sequestration with my rebuttal testimony on October 10, 2006. As noted in that plan, Excelsior believes 30% CO_2 capture is the most likely near-term, commercially viable option.

Q Have you reviewed the rebuttal testimony of mncoalgasplant.com witness Ronald R. Rich regarding carbon management issues?

A Yes, and I have the following comments regarding Mr. Rich's comments on carbon capture and sequestration by the Mesaba Energy Project.

First, Mr. Rich states that the potential for carbon capture "is not designed into the plant." Rebuttal Testimony of Ronald R. Rich, at 2. On the contrary, the Mesaba Energy Project features a carbon capture adaptable design to provide precisely that potential that Mr. Rich claims is unavailable.

Second, Mr. Rich claims that the Mesaba Energy Project is over 450 miles distant (and more likely 600) from the nearest suitable geologic CO_2 sequestration site, that the associated transportation cost for the proposed location would prohibit carbon capture even in highly regulated scenarios, and thus the Mesaba Energy Project is not a likely least cost option. Rebuttal Testimony of Ronald R. Rich, at 5. I take issue with each part of this

claim. First, the Lower Cretaceous saline formation in eastern North Dakota is approximately 265 miles from the West Range site, and is anticipated by the EERC to be a suitable geological sequestration site. *See* Surrebuttal Testimony of Edward N. Steadman, at 5. Excelsior may elect to transport the CO_2 from the Mesaba Energy Project to oil fields approximately 400–450 miles away in order to receive revenue from enhanced oil recovery, provided that it would more than offset the increased cost of transportation.

Next, it has already been proven by several existing projects that CO_2 can be pipelined hundreds of miles economically, even with no carbon capture regulation in place. *See* Surrebuttal Testimony of Edward N. Steadman, at 7. With such regulation, carbon capture becomes more economically attractive. Therefore, the Project's location certainly does not preclude carbon capture with regard to transportation costs. Given the fact that IGCC is a least-cost source of carbon reductions in the power sector, the Project does in fact represent a likely least-cost option. *See* Rebuttal Testimony of Douglas H. Cortez, at 26.

Q Does this conclude your testimony?

A Yes, it does.