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October 31, 2006

VIA E-MAIL AND U.S. MAIL

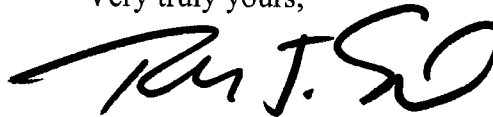
The Honorable Steve M. Mihalchick
Administrative Law Judge
Office of Administrative Hearings
100 Washington Square
Suite 1700
Minneapolis, MN 55401-2138

**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 Surrebuttal Testimony 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.



Surrebuttal 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.

3 A. William Blazar.

4
5 Q. Are you the same William Blazar who testified on behalf of MCC in reply testimony in
6 this proceeding?

7 A. Yes.

8
9 Q. What is the purpose of your surrebuttal testimony?

10 A. I will be providing surrebuttal testimony in response to the rebuttal testimony of James
11 Skurla, Renee J. Sass, Elion Amit, Karen T. Hyde, and John J. Reed in issues of
12 economic development benefits and appropriate terms of the PPA.

13 II. ANALYSIS

14 **Final PPA**

15 Q. What from the business customers' perspective must the PPA do to be in the public
16 interest?

17 A. It must deliver reliable and competitively priced baseload electricity to Xcel's system.
18 For guidance on both, we should look to Xcel's most recently approved resource plan,
19 that has been reviewed by the Public Utilities Commission (PUC) and meets all the

1 resource and ratepayers protections requirements of state law. The resource plan
2 identifies resource needs which the proposed project can meet and the PPA should be
3 drafted accordingly. By taking this approach, the proposed project can deliver Xcel's
4 ratepayers (including businesses) reliable, competitively priced electricity while also
5 bringing some economic development of northeastern Minnesota. In approving Xcel's
6 resource plan, the PUC already made a determination regarding the size and timing of
7 Xcel's systems baseload needs. This Excelsior proceeding should determine if all other
8 statutory requirements are met.

9
10 I want to stress that a primary consideration should be Xcel's ratepayers and their need
11 for reliable and competitively priced electricity.

12
13 **Size of PPA**

14 *Q. Should Xcel purchase 450-megawatts of baseload energy from Excelsior pursuant to*
15 *Minn. Stat. § 216B.1694?*

16 *A.* No, the legislature's intent for this statute was to, upon meeting other statutory
17 requirements, require Xcel to purchase only that power which is necessary for the
18 baseload needs of Xcel's Minnesota ratepayers. According to Xcel's most recent resource
19 plan order (2004), Xcel's needs are far less than 450-megawatts.

1 Minn. Stat. § 216B.1694 clearly gives the Commission the authority to modify any
2 required purchase pursuant to statute by the amount necessary as to not create waste. The
3 PPA purchases pursuant to Minn. Stat. § 216B.1694 should be modified to only include
4 necessary purchases pursuant to Xcel's most recent resource plan order.

5
6 In hearings on October 5, 2006, Excelsior offered an explanation as to why 450-
7 megawatts was selected by the legislature. In essence, Excelsior proposed that it likely
8 was because 450 MW was the amount necessary to fulfill Xcel's Minnesota ratepayers'
9 needs for baseload according to Xcel's then most recent proposed resource plan (2002).
10 (See MCC Exhibit ____ (BB Surrebuttal 1)). I agree with this intent, but baseload needs
11 have changed. Any required purchase under this proceeding should only be for the
12 amount necessary to satisfy Xcel's needs under its current resource plan.

13
14 *Q. In determining public interest, would it be in the public's interest for Xcel to purchase*
15 *more power than is needed to supply Xcel's ratepayers with the baseload energy needed*
16 *as required by their most recent resource plan?*

17 *A.* Certainly not. This would promote waste and unnecessary expenses for Xcel's ratepayers.
18 Xcel does not need any baseload until 2015 and any excess purchases would be resold
19 until that time and beyond. Presumably, at some point Xcel's customer demand would
20 increase to the level proposed by Excelsior, but until then the customers would be paying
21 for more plant, equipment and operating expense than is contemplated by the most

1 recently approved resource plan. This PPA would cost ratepayers in excess of \$2 billion,
2 over 22 years. Customers can not afford this. (See MCC Exhibit ____ (BB Surrebuttal 2)).

3
4 *Q. In other publications, MCC has maintained Xcel's baseload resources are inadequate,*
5 *please reconcile that statement with your position in this case.*

6 A. It is my position that Xcel is currently behind in baseload resources. That will not be the
7 case in 2012 when this PPA would come online.

8
9 *Q. Are there things that Excelsior and Xcel could do with respect to this PPA that could*
10 *make it more beneficial to the state?*

11 A. Yes, in addition to revising numerous provisions of the PPA to protect Xcel's ratepayer
12 interests, the PPA could be modified to only sell the amount of power that is necessary to
13 fulfill Xcel's baseload needs according to its most recent resource acquisition plan. As
14 discussed above, Xcel will have excess power that will be sold on the market. If
15 Excelsior reduces the power purchased by Xcel and changes the appropriate payment
16 terms, this should result in a reduction of the over two billion dollars of increased costs
17 that is a result of this PPA as it is currently drafted.

18
19 **Economic Development**

20 *Q. Please respond to reply comments made by James A. Skurla on behalf of Excelsior*
21 *Energy Inc. regarding the economic development impact of the project.*

1 A. I want to respond to the updated Research Report that was prepared under Mr. Skurla's
2 direction by the University of Minnesota – Duluth Labovitz School of Business and
3 Economics, Bureau of Business and Economic Research. Both the updated and the
4 original report (2005) are economic multiplier and input/output analysis using a model
5 created by the Minnesota IMPLAN Group, Inc. Basically, this model estimates the
6 impact in both the Arrowhead Region and the state as a whole of the proposed
7 investment. It provides estimates for both the project's construction phase and for a
8 typical operating year.

9
10 The most accurate way to understand its estimates is to consider them the static or “gross
11 impact” of the project. They show how dollars spent will flow through the region's and
12 state's economy. They are not adjusted for the other economic effects of the project,
13 most notably the economic impact of any increase in electric rates that result from this
14 project. Factoring in this effect would produce estimates of the project's dynamic or “net
15 impact” on the region and most importantly, the state as a whole. Most importantly
16 because the majority of the rate impact of this proposal will occur in Xcel's service
17 territory which is outside of the area that will benefit most by Excelsior's investment in
18 plant, equipment and operating payroll, i.e. the Arrowhead Region. In summary, the
19 modeling that has been done is “static” and to meet the test of Minn. Stat. § 216B.1694,
20 which requires “economic development benefits to the state,” a “dynamic” analysis must
21 be done.

1 Our state Department of Employment and Economic Development does this for major
2 economic development projects using the REMI (Regional Economic Models, Inc.)
3 model. It is a common tool for projecting the full economic impact of the benefits and
4 costs associated with any major capital investment or policy change.

5
6 Let me elaborate on the type of economic impact analysis that is needed. First, I think
7 the economic development benefits from this project should be estimated and compared
8 against the economic benefits that would otherwise occur by virtue of Xcel Energy, Inc.,
9 acquiring baseload necessary to fulfill its existing resource plan, i.e. if Xcel was to add
10 more baseload at its Sherburne County facility.

11
12 Second, the economic benefits should be measured against the economic costs associated
13 with increasing rates for Xcel's ratepayers (See MCC Exhibit ____ (BB Surrebuttal 3))
14 beyond what they otherwise need to pay under other baseload acquisition scenarios. As
15 discussed in my rebuttal testimony, there will be a cost to increased rates in the form of
16 less disposable income for individuals who, will in turn, be reducing spending, which will
17 create less revenue for businesses and less sales tax collections for Minnesota, and
18 businesses will have less revenue as well as higher electric bills, which will mean less
19 income, which will increase the cost of doing business in Minnesota and cost
20 Minnesotans jobs and less income tax collections for the state as a result.

1 Attached as MCC Exhibit ____ (BB Surrebuttal 4) is a copy of a study showing the
2 effects of increasing rates beyond what is necessary for ratepayers, which demonstrates
3 that increasing rates does have a negative impact on economic development. MCC has
4 not performed such a study in Minnesota nor apparently has Excelsior. Absent such
5 analysis and a positive result from it, Excelsior does not meet the statutory burden of
6 demonstrating that there are net positive economic development benefits to the state as a
7 result of this project.

8
9 *Q. Please respond to Ms. Sass's contention that negative impacts associated with higher*
10 *prices should not be incorporated into the economic development benefit analysis.*

11 *A. I strongly disagree. First of all, I do not think that the PPA as currently drafted will*
12 *produce baseload electricity that is or is likely to be least cost resource, exhibits attached*
13 *hereto show the contrary. There is sufficient evidence to demonstrate that the project as*
14 *currently defined is not least cost, specifically, Xcel's modeling that demonstrates this*
15 *PPA is over \$2 billion more expensive than its next cheapest alternative.*

16
17 Furthermore, this position is confusing as Excelsior has maintained that they are entitled to the
18 PPA under Minn. Stat. § 216B.1694 despite the costs of the PPA (I disagree with this
19 interpretation). If Excelsior claims, as Ms. Sass does, that economic development does
20 not need to analyze rate impacts because they are the least cost resource, they must prove
21 they are a least cost resource in order to satisfy economic development requirements of

1 Minn. Stat. § 216B.1694, and thus, price is a factor that is weighed under that statute. If
2 not, the economic development analysis must be redesigned with a dynamic model.

3
4 **Default/Security**

5 *Q. Please discuss concerns with respect to collection of damages in the event of an Excelsior*
6 *default under a PPA in this proceeding.*

7 A. I am concerned that Excelsior Energy is not adequately capitalized to protect Xcel and its
8 ratepayers in the event of a default by Excelsior.

9
10 See Excelsior's response to MCC's Information Request No. 6. (See MCC Exhibit ____
11 (BB Surrebuttal 5)). Excelsior represents that it will only be capitalized to the extent
12 necessary to meet lender or PPA obligations. The PPA must require additional
13 capitalization or other security to protect ratepayers. Xcel typically includes such
14 provisions in its contracts. See Xcel's response to MCC's Information Request No. 19
15 (See MCC Exhibit ____ (BB Surrebuttal 6)).

16
17 **Innovative Energy**

18 *Q. How should the Commission ensure that Innovative energy is produced pursuant to*
19 *statute?*

20 A. Xcel energy entered into PPA's under the biomass statutes, those PPA's required a
21 minimum amount of the output was biomass based, similar provisions should be put into

1 any PPA for IGCC electricity in this proceeding. Mr. Osteraas’s rebuttal testimony
2 suggests that the company might agree with and incorporate this concept into a new draft
3 of the PPA. We appreciate that and would like to discuss this suggestion, including how
4 it could also be applied to fuel charges.

5
6 **PPA Terms**

7 *R. How should the Commission review or modify this PPA if the necessary statutory*
8 *requirements are met?*

9 *A. As I discussed in my rebuttal testimony, the economic risks should be fairly balanced*
10 *with respect to what is commonly entered into for ratepayer protections in PPAs. The*
11 *economic risks as proposed by Excelsior appear to be disproportionately pushed off to*
12 *ratepayers.*

13
14 The following issues also need to be addressed: if the plant is more expensive than what
15 similar technology would cost by another provider, only those costs that are reasonable
16 should be recovered; if the plant is scaled larger than is necessary, only those costs for an
17 appropriately scaled facility should be recoverable, or only the proportional costs based
18 on the size of the PPA as a percentage of total costs of the facility; if Excelsior is
19 attempting to recover or sell power that is not generated from “innovative” sources
20 (natural gas), those purchases and the related fuel charges should be limited, similar to
21 statutory limitations of not more than 25% from non-biomass sources that apply to
22 biomass purchases.

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Q. What changes should be made to Excelsior’s PPA?

A. Several parties have provided helpful testimony with respect to specific provisions that could or should be included in a PPA, including Elion Amit of the Minnesota Department of Commerce, and Karen T. Hyde and John J. Reed of Xcel Energy, but ultimately, the majority of these are considerations that should be negotiated and considered in their entirety within the context of a PPA. Making one change may have an unintended effect on other provisions if the PPA in its entirety is not considered.

There are certain provisions that could be ordered in this proceeding and other provisions that could be negotiated, all of which should be addressed and included to some extent in the PPA.

An example of provisions that should be ordered:

1. The PPA should not be for more than the power to satisfy Xcel’s ratepayer’s needs pursuant to Xcel’s 2004 resource plan; and
2. There should be a maximum amount of power produced by natural gas under this PPA.

Examples of items that should be negotiated and/or addressed in some manner are discussed by other intervenors such as Elion Amit and Karen Hyde.

1 On behalf of customers, I look forward to discussing and reviewing a revised PPA, which
2 better meets the public interests involved.

Executive Summary

1. Executive Summary

Northern States Power Company d/b/a Xcel Energy ("Xcel Energy" or "Company") submits to the Minnesota Public Utilities Commission ("MPUC" or "Commission") our 2002 Resource Plan for consideration and approval. This Plan covers the period 2003 - 2017 and identifies a number of issues and risks that will significantly affect the reliability and economy of our customer's electrical energy supply. We look forward to discussion of this plan with stakeholders.

As in previous filings, this Plan presents our analysis of customer needs and resource options under a variety of assumptions to assist in selecting an appropriate path for resource acquisition. More so than previous plans, however, this Plan highlights critical decisions to be made within the five-year planning horizon that will significantly affect our future resource mix. Central among these decisions are:

- The future of our Prairie Island nuclear power plant, which will largely determine the future of nuclear generation in Minnesota.
- Whether the Commission approves our proposed 500-MW contract with Manitoba Hydro.
- The selection and ultimate acquisition of resources from our 2001 All-Source Bidding.
- The future of several key coal-fired power plants, which we have proposed to convert to natural gas and/or install state-of-the-art pollution control equipment.
- What framework of environmental, wholesale market, and transmission regulations will be in effect during the planning period.

Executive Summary

In addition, we face normal planning risks (such as forecast risks) and decisions (such as what forecast confidence level to select for determining resource need).

Given the significant number of important issues to be addressed in the near future, our key objectives are to:

- *Anticipate the impacts and consequences of the various possible combinations of resource and regulatory options, and*
- *Ensure that we have adequate, affordable, and environmentally responsible resources to meet our customers' needs.*

Our five-year action plan focuses on managing through this period to ensure continued reliable, economic, environmentally sound service to our customers.

Not all of these decisions will be made by the Commission in this proceeding. Indeed, nuclear issues must be addressed by the Minnesota Legislature, given existing laws. Others are pending before the Commission in other proceedings, such as our Emissions Reduction Proposal (Docket No. E002/M-02-633) and the Manitoba Hydro contract (Docket No. E002/99-888), or may be primarily subject to federal regulation, such as environmental regulations and wholesale market design.

As such, this Plan is complex and will be considered in multiple forums. This Resource Plan attempts to provide a comprehensive view of these issues. As in prior years, we have analyzed a number of scenarios for consideration, modeling various assumptions regarding customer demand, the availability of resources, environmental policy, and market changes. In addition, we undertook significant modeling of various potential outcomes of decisions regarding nuclear power and pending Commission decisions. We believe our Plan presents information important to state policy makers, which we hope will help inform the debate regarding our energy future.

Executive Summary

Five-Year Action Plan

To successfully manage our resources through a period of significant risk and uncertainty and to ensure we have adequate resources available to meet our customers' needs, we propose the following five-year action plan:

- *Continue to aggressively pursue the conservation and load management goals established in the 2000 Resource Plan Proceeding.* To date, we have been successful in meeting the goals established in the previous plans. We intend to continue to develop new programs to ensure that we continue to meet these goals as cost-effectively as possible.
- *Obtain Commission approval of the Manitoba Hydro 500-MW contract.* This approval would complete the 1999 All-Source Bidding process and address resource needs beginning in 2005.
- *Complete the 2001 All-Source Bidding process in 2003.* This process, stemming from our last Resource Plan, seeks to secure up to 1,000 MW of additional resources. We are near final selection in this process. Successful completion is needed to ensure adequate supply resources in the 2005 – 2009 timeframe.
- *Obtain approval of our Emissions Reduction Proposal.* This Proposal provides 1,500 MW of environmentally sound, long-term supply, a net increase of approximately 300 MW over the existing plants. While the Commission will decide this matter in a separate proceeding, we include it in our recommended action plan. We believe this Proposal offers significant benefits to our customers.
- *Seek resolution of the future of nuclear generation in Minnesota by the legislature in 2003.* Our analysis indicates that an electricity future that includes nuclear generation is preferable to one that requires shutdown of our Prairie Island and Monticello plants. We have also identified options for replacement resources. Implementing a replacement to Prairie Island's generation will

