



414 Nicollet Mall
Minneapolis, Minnesota 55401-1993

July 18, 2006

Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101

RE: *In the Matter of the Petition of Excelsior Energy Inc. and Its Wholly-Owned Subsidiary
MEP-I, 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*
DOCKET NO. E6472/M-05-1993
COMMENTS OF XCEL ENERGY

Dear Dr. Haar:

Enclosed are the original and 15 copies of the comments of Northern States
Power Company d/b/a Xcel Energy in the matter referenced above. Copies of
this filing have been served on all parties on the attached service list. Please call
me at (612) 330-6125 if you have any questions regarding this filing.

Sincerely,

A handwritten signature in cursive script that reads 'Judy M. Poferl'.

JUDY M. POFERL
DIRECTOR, REGULATORY ADMINISTRATION

Enclosures
c: Service List

STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION

LeRoy Koppendraye	Chair
Marshall Johnson	Commissioner
Kenneth Nickolai	Commissioner
Thomas Pugh	Commissioner
Phyllis Reha	Commissioner

IN THE MATTER OF THE PETITION OF
EXCELSIOR ENERGY INC. AND ITS
WHOLLY-OWNED SUBSIDIARY MEP-I, 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

DOCKET NO. E6472/M-05-1993

COMMENTS

INTRODUCTION

Northern States Power Company d/b/a Xcel Energy ("Xcel Energy" or the "Company") provides the following comments pursuant to the Commission's Notice seeking comment as to whether the Commission should specify additional information to be addressed in the pending Petition by Excelsior Energy for approval of a Purchased Power Agreement ("PPA") for its proposed Mesaba Energy plant. Specifically, the Commission asked parties to address whether additional information should be required regarding:

- The costs of transmission upgrades and related facilities beyond the substation associated with the Mesaba Energy Project, and
- The costs of other infrastructure investments associated with the Mesaba Energy Project.

Given the importance of this proceeding to Minnesota's energy future and the availability and cost of energy for our customers, Xcel Energy believes it is critical that a full and complete record is developed for the Commission's consideration. Minnesota Law requires the Commission to weigh and apply the public interest when considering the PPA. At this stage of the proceeding, the Commission should feel confident that it will have the information it believes necessary to make this weighing at the conclusion of the hearing. Providing additional direction now on any information it believes important to its decision will help ensure that this proceeding can come to an appropriate conclusion in as timely a matter possible. Thus, Xcel Energy supports the Commission providing additional direction to the Administrative Law Judges and the parties at this time so that all can work to ensure the Commission has all the relevant and useful information available to it as it makes its determination in this important matter.

COMMENTS

The Commission will need to rely on the record being developed in the Excelsior Energy proceeding to make its findings and determination regarding the proposed PPA, findings that will likely determine whether the proposed Integrated Gas Combined Cycle plant will be constructed. Because this record will form the basis for deciding a critical energy policy issue for the state, Xcel Energy believes it is both important and appropriate for the Commission to take whatever actions it believes are necessary to ensure that the record currently under development provides the information it believes will be necessary to make the appropriate determinations under the statute. Given this underlying belief, we believe the Commission should supplement its Order to incorporate the above points and any other issues the Commission identifies while the evidentiary hearing is underway in this proceeding.

Taking this step at this time offers several advantages. Most importantly, it will ensure that the Commission has all the information it believes will be necessary and useful for making its determination. Second, it will save time in the long-run by assuring that issues that Commissioners believe are important to the public interest determination are appropriately developed before the Administrative Law Judge, and to the extent the evidence allows, are incorporated in the Judge's reports to the Commission, currently scheduled for January and July of 2007.

Parties are currently engaged in discovery and review of Excelsior's filing, so now is a good time for additional clarification of issues. Even if these issues require that the current timeframes set by the ALJ be adjusted, an adjustment now will likely be much shorter than if an incomplete record is developed for the Commission. In fact, in relation to our concerns about discovery issues and the desire to develop a complete

record Xcel Energy has requested that the ALJ grant an extension of time to file testimony in this matter. An incomplete record risks sending us back to the administrative proceedings or rolling issues from the Unit 1 proceeding into the Unit 2 proceedings, which would be time consuming and disruptive compared to additional direction from the Commission at this time.

Given the “complex factual, legal, and policy issues enmeshed in [Excelsior’s] petition” (Commission April 25 Order page 3), we support supplementation of the record even for concerns or issues that the Commission identifies later. The parties will be engaged in administrative proceedings in two separate phases, the second not even commencing until January 2007. (See ALJ’s Second Prehearing Order, paragraphs 2 and 5.) Particularly with concerns that relate to the project overall (both Units 1 and 2) there is an abundance of time for parties to react to and provide information on issues of interest to the Commission.

The Company further agrees that transmission costs beyond the substation are a relevant issue to this proceeding. We have been attempting to obtain an estimate of these costs as part of the development of our case. With the administrative proceedings scheduled into two separate phases, issues such as transmission and other infrastructure (e.g. gas pipelines, water, wastes disposal, etc.) are currently limited to potential costs from only Unit 1 during this first phase of the hearing. The drawback of this approach is that if the size of the plant eventually doubles, there will significant changes in the potential infrastructure costs, but these costs will not be identified or addressed until the second phase of the hearing. For example, the transmission infrastructure additions necessary to support 600 MW of output will be different than the infrastructure additions necessary to support 1200 MW of output. Clarification of the April 25 Order will probably not be able to completely resolve this issue, but will at least signal that the Commission is interested in ensuring that the total eventual costs to ratepayers should be developed as part of the record.

Additionally, in Phase I proceedings, the potential must be considered that a 450 MW purchase could result but the remaining 153 MW (of the 603 MW Unit 1) be found not to satisfy the separate standards necessary for approval in the Clean Energy Technology statute, Minn. Stat. §216B.1693. This sizing differential (and whether it would result in a smaller plant or allocation of costs of the 603 MW unit) can also result in differences. At this point of the proceedings, it appears unlikely the Commission would have any record about what the costs of only a 450 MW purchase would be, as Excelsior has elected not to develop that information. (See attached Excelsior Response to Xcel Energy Information Request 21. See also Excelsior Response to Xcel Energy Information Request 18.) To the extent the Commission wishes to see this information developed, additional clarification would be helpful.

Finally, we offer for the Commission's consideration other issues that it may want to clarify to ensure information is developed in the record. We raise these issues based on our experience with the record developed to date and the responses Excelsior Energy has provided to our discovery. This experience indicates that the record is likely to be very limited on these issues; to the extent the Commission believes they are important to its ultimate determination in this matter, it would provide clarification of its prior Order. Issues the Commission may wish to consider adding to its clarification include:

- *Carbon sequestration:* Should the record attempt to identify the costs and infrastructure necessary for carbon sequestration?
- *Curtailment:* Are there potential curtailment costs with generation so far from NSP load and should these costs be considered along with the infrastructure costs?
- *Natural gas capacity and infrastructure:* What are the costs of developing natural gas fuel for the plant as a back-up or alternative fuel, including gas capacity reservation charges as well as infrastructure costs.
- *Cost allocation and assignment:* In light of the statutes, who should have the responsibility for the actual infrastructure improvements?
- *Hydrogen economy:* Are there infrastructure costs associated with using this IGCC to help develop a Minnesota hydrogen economy?
- *Other infrastructure:* Are other infrastructure costs for rail, water, management of wastes, fly-ash fully considered?

We offer these suggestions to the Commission in the spirit of ensuring that it finds the record complete once the case is transferred back for decision. Such action now is likely to ensure a more expedient overall process compared to the possibility that the Commission finds the record inadequate for decision-making after the closing of the record.

CONCLUSION

Clarification of the scope of the issues as well as any questions identified by the Commission would help focus the parties and highlight issues for the administrative proceeding. Ultimately, the Commission must decide whether the Excelsior Unit 1 and/or Unit 2 are in the public interest and likely to be a least-cost resource. We read the Commission's April 25 Order to consider the overall cost of the project to ratepayers to be a relevant issue in this proceeding; however, Excelsior's Statement of the Case, suggests that there may already be disagreement on what the issues and

record development related to this case should be. Clarification from the Commission at this point could help better focus the proceedings and provide a better record for both the Administrative Law Judge and the Commission.

Dated: July 18, 2006

Northern States Power Company
d/b/a Xcel Energy

By: Judy M. Poferi
JUDY M. POFERI
DIRECTOR, REGULATORY ADMINISTRATION

Xcel Energy
Information Request No. 21 to Excelsior Energy

21. In the event that the Commission grants approval of only the 450 MW power sale referenced in Minn Stat. § 216B.1694 and denies any additional power sales in this docket, would Excelsior Energy still be able to construct Mesaba Unit One with a power sale of 450 MW on the terms and conditions proposed by Excelsior Energy? If no, has Excelsior prepared T & C for a 450 MW power sale? If yes, please provide all supporting material.

Excelsior Energy
Response to Xcel Energy IR No. 21

This is a hypothetical question that calls for speculation. Excelsior would, most likely, seek to market the excess power in the event the PPA were limited to 450 MW. Due to the intrinsically unpredictable nature of wholesale electricity markets, financial markets, and fuel markets, Excelsior cannot predict the terms of sale if the Commission approves a PPA that is for less than 603 MW of plant capacity. Excelsior does note that absent certainty respecting its ability to find other purchasers for the excess capacity, the anticipated revenues from the PPA will serve as the means to obtain sufficient funding for the financing of the Project. Accordingly, while it is impossible at this time to conduct a detailed analysis as to how the proposed rates in the PPA would change, it is safe to assume that the cost per megawatt hour of the PPA would be higher if it is limited to 450 MW, as compared to the cost per megawatt hour for a 603 MW PPA. Excelsior has not prepared terms and conditions for a 450 MW power sale.

Xcel Energy
Information Request No. 18 to Excelsior Energy

18. Reference: Section II
Please provide the calculation of both the amount of capacity and the amount of energy that a 13% CET minimum on Xcel Energy's system represents. How many MW of generation [output] by Mesaba Units One and Two does this represent?

Excelsior Energy
Response to Xcel Energy IR No. 18

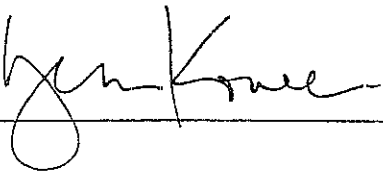
Excelsior objects to this request as premature and irrelevant to Phase 1 of the contested case. The request is relevant to issues that are to be addressed in Phase 2 of this proceeding, for which discovery commences January 2, 2007, under the Second Prehearing Order, paragraph 6.

CERTIFICATE OF SERVICE

I, Teresa Kowles, hereby certify that I have this day served copies of the foregoing document on the attached list of persons by delivery by hand or by causing to be placed in the U.S. mail at Minneapolis, Minnesota.

DOCKET NO. E6472-05-1993
COMMENTS

Dated this 18th day of July 2006



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

§ 216B.1693

PUC Docket No. E6472/M-05-1993

OAH Docket No. 12-2500-17260-2

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