

August 14, 2006

**VIA OVERNIGHT COURIER AND E-MAIL**

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

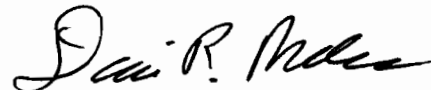
Re: In the Matter of Excelsior Energy Power Purchase  
Agreement with Mesaba Energy Project  
MPUC Docket No. E6472/M-05-1993  
OAH Docket No. 12-2500-17260-2

Dear Judge Mihalchick:

Enclosed for filing please find Minnesota Power's Statement of the Case with regards to the Order dated June 2, 2006 in the above-referenced Docket. An Affidavit of Service is also enclosed.

Please contact me at the number below should you have any questions regarding this letter.

Yours truly,



David R. Moeller

DRM:sr  
Enc.  
c: Service List

STATE OF MINNESOTA     )  
  ) ss  
COUNTY OF ST. LOUIS     )


AFFIDAVIT OF SERVICE VIA  
OVERNIGHT COURIER,  
FIRST CLASS MAIL, and E-MAIL

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Susan Romans of the City of Duluth, County of St. Louis, State of Minnesota, says that on the 14<sup>th</sup> day of August, 2006, she served Minnesota Power's Statement of the Case in MPUC Docket No. E6472/M-05-1993/ OAH Docket No. 12-2500-17260-2 to Administrative Law Judge Steve M. Mihalchick, Burl Haar and Sharon Ferguson via Overnight Mail and Electronic Mail, and the remaining persons on the attached Service List via First Class Mail and Electronic Mail.

  
\_\_\_\_\_  
Susan Romans

Subscribed and sworn to before  
me this 14<sup>th</sup> day of August, 2006.

  
\_\_\_\_\_  
Notary Public



**In the Matter of a Petition by Excelsior Energy, Inc.  
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**STATE OF MINNESOTA  
OFFICE OF ADMINISTRATIVE HEARINGS  
FOR THE MINNESOTA PUBLIC UTILITIES COMMISSION**

\*\*\*\*\*

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

**MINNESOTA POWER'S  
STATEMENT OF THE CASE**

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**I. INTRODUCTION**

Minnesota Power respectfully submits this Statement of the Case in response to Excelsior Energy's ("Excelsior") June 19, 2006 Statement of the Case that was filed pursuant to the Second Prehearing Order dated June 2, 2006 in the above-referenced Dockets.

Minnesota Power believes that any successful generation addition must deliver on three fundamental bases regardless of technology: minimization of environmental impact, reasonable cost and reliability. Based on its past and present experience analyzing generation choices, securing fuel supplies, meeting environmental regulations, constructing and operating generation facilities and constructing and utilizing transmission facilities, Minnesota Power believes there are questions on all these fronts that need to be answered in this proceeding in order for the Minnesota Public Utilities Commission ("Commission") to make a decision about whether the Mesaba Project satisfies Minn. Stat. §§ 216B.1693 and 216B.1694. The record submitted by Excelsior on the Mesaba Project for decision making purposes by the Commission is incomplete in fundamental ways. From its perspective as a power purchaser and builder of generation

and transmission, Minnesota Power offers this Statement of the Case to help identify what critical aspects of the Mesaba Project remain incompletely examined or explained.

In its initial filing in this proceeding,<sup>1</sup> Minnesota Power stated that its primary interest in the Excelsior Energy Petition has to do with the public policy implications that this proceeding could have on Minnesota's energy situation. The ramifications of this proceeding will go beyond a potential transaction between Xcel Energy ("Xcel") and Excelsior and will have future impacts that affect the supply, price, reliability, transmission infrastructure and environmental impact of electric power in the State. The Mesaba Project would have a significant impact on Minnesota Power and its customers, and these public policy interests remain at the forefront of Minnesota Power's concerns. Also, it is appropriate for Minnesota Power to address the Mesaba Project from our position as a regulated utility with future resource needs and as potential purchasers of the energy the Mesaba Project may supply.

Minnesota Power has been successfully developing generation and purchasing power to supply its retail customers for a century. We also have successfully built and operated transmission for power delivery and are intimately familiar with the regional grid. In Minnesota Power's review of options for our projected 200MW base load need in 2015, we have been extensively examining various technology, fuel and location alternatives for generation in Minnesota and North Dakota. This full-fledged analysis is taking into account an array of other critical factors as well including new technology feasibility, transmission infrastructure and cost, power delivery, environmental impact, and economic development opportunities, as examples. Moreover, Minnesota Power also is required to "consider" the Mesaba Project<sup>2</sup> as a resource option should it elect to pursue the addition of a fossil fuel-fired facility in Minnesota. Additionally, Minnesota Power considered IGCC technology in its most recent Integrated Resource Plan, is currently participating in IGCC research efforts, and has had initial discussions with

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<sup>1</sup> Filed January 30, 2006, Excelsior Energy Docket No. E-6472/M-05-1993.

<sup>2</sup> Minn. Stat. § 216B.1694, subd. 2(a)(5)



Excelsior about the Mesaba Project relative to Minnesota Power's resource planning needs.

## **II. ISSUES TO BE ADDRESSED IN THIS PHASE OF THE CASE**

Excelsior's Statement of the Case emphasizes a theme of changes in environmental regulation driving the future of energy supply in Minnesota and thus largely argues there is a need for the Mesaba Project on that basis. While environmental concerns and benefits must be considered, Minnesota Power also strongly asserts that the ultimate cost of energy delivered to the consumer, largely determined by fuel, capital costs and power delivery, is equally fundamental in the equation for decision making on the Mesaba Project or any other generation proposal. Fuel costs, capital investment and transmission cannot be ignored or subordinated in making generation supply choices for the sole purpose of advancing technology that may hold the promise of environmental benefits.

As stated previously, based on its analysis of Excelsior's initial testimony, Minnesota Power does not believe there is adequate information in the record to permit a decision and public interest determination to be made. Minnesota Power has organized its Statement of the Case to address the following subjects and identify key unanswered questions with regard to the proposed Mesaba Project:

- 1) whether there are adequate coal and coal transportation plans and adequately detailed coal and transportation costs identified for the Mesaba Project;
- 2) what is the viability of Integrated Gasification Combined Cycle (IGCC) technology;
- 3) what is the extent and cost of the firm transmission delivery investment required for the Mesaba Project;
- 4) how do the purported emission benefits of IGCC compare to those of modern conventional combustion coal technologies,

- 5) what is the impact of the most significant potential environmental benefit to be derived from furthering the commercialization of IGCC technology (CO<sub>2</sub> capture and sequestration) not being realized on the Mesaba Project; and
- 6) how does the Resource Planning statute (Minn. Stat. § 216B.2422) tie together with Innovative Energy Project Statute (Minn. Stat. § 216B.1694) and Clean Energy Technology Statute (Minn. Stat. § 216B.1693).

### **III. APPLICABLE LAW**

The primary issues in this case arise from the Innovative Energy Project Statute (Minn. Stat. § 216B.1694), the Clean Energy Technology statute (Minn. Stat. 216B.1693) and the Resource Planning Statute (Minn. Stat. 216B.2422). In particular, the Commission should be mindful that Xcel's recently-approved Resource Plan<sup>3</sup> showing a baseload need in 2015 needs to be reconciled with the proposed in-service date for the Mesaba Unit I of 2011.

### **IV. CONCLUSION**

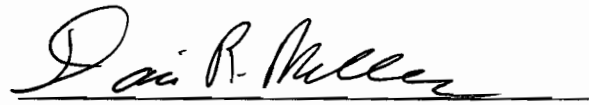
It is imperative that the Commission consider a host of public interest factors beyond those enumerated in Excelsior's Statement of the Case in evaluating the Mesaba Project in order to answer fundamental questions that should be addressed on any generation addition that have to do with minimization of environmental impact, affording a reasonable and publicly known cost for the energy produced and providing reliability. Minnesota Power has provided six important issues that need to be addressed in this contested case for the Commission to make a decision about whether the Mesaba Project satisfies Minn. Stat. §§ 216B.1693 and 216B.1694.

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<sup>3</sup> Xcel Energy's 2005-2019 Resource Plan; Order dated July 28, 2006; Docket No. E-002/RP-04-1752.

Dated: August 14, 2006

Respectfully submitted,

A handwritten signature in black ink, reading "David R. Moeller", written over a horizontal line.

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