Public Version
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Exhibit _____ (RJS-2)

MESABA ENERGY PROJECT

SUPPLEMENTAL FILING TO THE MINNESOTA PUBLIC UTILITIES COMMISSION

EAST RANGE PPA

EXCELSIOR ENERGY INC.
September 2006

This Supplemental Filing provides pricing and terms for the proposed power purchase agreement if Mesaba Unit One is located on the East Range Site (the "East Range PPA"). The principal differences in the East Range Site (versus the West Range Site) include:

- Transmission Interconnect—a longer radial transmission line to the Point of Interconnect at Forbes versus the Blackberry station resulting in higher capital costs and approximately 3.5 MW of incremental line losses.
- Rail Haul—a longer distance to ship coal from the Powder River Basin ("PRB") and a more costly interchange on the East Range Site with the Canadian National Railway, resulting in a higher PRB coal price.
- Zero Liquid Discharge ("ZLD") Treatment for Cooling Tower Blowdown Water—necessary due to stringent water quality criteria established for mercury in the Lake Superior Basin watershed, resulting in additional station use, additional engineering, procurement and construction ("EPC") costs and a higher heat rate for the plant.
- Gas Transmission Pipeline—site requires a longer gas transmission pipeline resulting in additional capital costs; operating costs differences will be minimal.
- No Additional Noise Attenuation Required—resulting in lower EPC costs.
- Environmental Allowance Costs—allowance purchases required to offset increased visibility impacts expected as a result of the East Range Site's closer proximity to Class I areas

While there may be additional cost differences related to the transmission costs from the Forbes Substation versus the Blackberry Substation, sufficient study work has not yet been completed by MISO, and these costs will be **[Trade Secret Data Begins]**

[Trade Secret Data Ends].

Overall, the plant on the East Range Site would provide approximately 5 MW less power to the point of interconnection at Forbes due to additional line losses and increased station usage. The 603 MW PPA at the West Range Site would be replaced by a 598 MW PPA at the East Range Site.

CHANGES IN ASSUMPTIONS—EAST RANGE SITE

Following are the equivalent of Tables 1, 2 and 3 from the originally submitted Section III of the Mesaba Project Report filed in December 2005, adjusted as appropriate to support the East Range PPA (items changed are marked in grey):

Table 1: Summary of Contract Terms—East Range Site

	Input Amount	Basis
Length of Contract	25	Years
[Trade Secret Data Begins]		
		[Trade Secret Data Ends]
Scheduled Maintenance Energy (SME)	Detailed SME data is provided in the PPA; this level of SME equates to an average of 5% of all available hours per year	MWh
Reference Capacity	598	MW

Table 2: Macroeconomic and Market Variable—East Range Site

	Assumption	Comment	Impact
Inflation (Construction Costs)	2.5%	Based on current general market forecast and consistent with assumptions Fluor used in SCPC analysis	Affects calculation of Target and Final EPC Contract Price
Inflation (GDPIPD)	2.5%	Based on current general market forecast and construction with assumptions in Fluor used in SCPC analysis; also consistent with ICF	Effects forecasted Variable and Fixed OM Payments
[Trade Secret Data Begins]			

	Assumption	Comment	Impact
			[Trade Secret Data Ends]

Table 3: Project Specific Assumptions—East Range Site

	Assumption	Comment	Impact
Commercial Operation Date (per Contract)	October 31, 2011	No benefit from earlier possible start-up of combined cycle power island is assumed	Start of production/ sales under the contract
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	Assumption	Comment	Impact
			[Trade Secret Data Ends]

Since the original filing in December 2005, the SO_2 and NO_X emission rates have increased slightly. The estimate for SO_2 has increased from 0.022/lb/MMBTU to 0.026 lb/MMBTU, and the estimate for NO_X has increased from 0.051 to 0.057 lb/MMBTU. In all cases, if the slightly higher numbers were used, the impact to the PVRR is very small (less than 0.01%).

SUMMARY OF PRICING—EAST RANGE SITE

The following pricing summary was completed on the same basis as Section III of the Mesaba Project Report submitted by Excelsior Energy in December 2005.

On a direct tariff basis (PVRR/MWh), the cost of electricity from the 598 MW PPA from the East Range Site would be **[Trade Secret Data Begins] [Trade Secret Data Ends]** than the originally submitted 603 MW PPA from the West Range Site, and **[Trade Secret Data Begins] [Trade Secret Data Ends]** than the alternative SCPC plant. (*See* Figure 1 below):

Figure 1: Comparison of 598 MW—East Range Plant with Originally Submitted 603 MW—West Range Plant and Alternative 600 SCPC Unit
[Trade Secret Data Begins]

[Trade Secret Data Ends]

Figure 2 provides the same analysis from Figure 1, taking into account all environmental externalities, as described and calculated in Section III of the Mesaba Project Report. Figure 2 demonstrates that even at the more expensive site, the total PVSC of the East Range PPA is **[Trade Secret Data Begins]**

[Trade Secret Data Ends] as compared to the alternative 600 MW SCPC plant.

Figure 2: Comparison of 598 MW—East Range Plant with Originally Submitted 603 MW—West Range Plant and 600 SCPC Unit—Including Full Externalities
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[Trade Secret Data Ends]

PPA CHANGES – EAST RANGE SITE

Attachment 1 contains pages from the PPA originally filed in December 2005, marked to show changes necessary if Mesaba Unit One is located on the East Range Site.

Attachment 1 –

PPA Changes

598 MW PPA - East Range Site

BASE LOAD

POWER PURCHASE AGREEMENT

BETWEEN

MEP-I LLC, AS SELLER

AND

NORTHERN STATES POWER COMPANY

_____, 2006

598 MW PPA - East Range Site

BASE LOAD
POWER PURCHASE AGREEMENT
BETWEEN
MEP-I LLC
AND
NORTHERN STATES POWER COMPANY

THIS BASE LOAD POWER PURCHASE AGREEMENT (the "PPA" and the "Agreement") is made this ____ day of _____, 2006, by and between MEP-I LLC ("Seller"), a Minnesota limited liability company with a principal place of business at 11100 Wayzata Boulevard, Suite 305, Minnetonka, Minnesota 55305, and Northern States Power Company ("NSP"), a Minnesota corporation with headquarters in Minneapolis, Minnesota. Seller and NSP are hereinafter referred to individually as a "Party" and collectively as the "Parties".

WHEREAS Seller desires to develop, design, construct, own and operate Unit 1 of the Mesaba Energy Project, an integrated gasification combined cycle ("IGCC") electric generating plant which is capable of operation utilizing either solid fuel or natural gas as fuel for generation, which has an expected Net Capability of approximately 598 MW, and which is further defined below as the "Facility"; and

WHEREAS Seller intends to locate the Facility near Hoyt Lakes, Minnesota, and to interconnect the Facility with the Interconnection Provider's System; and

WHEREAS Seller desires to sell to NSP all of the electric capacity and associated energy produced by the Facility, and NSP desires to buy the same from Seller, in accordance with the terms and conditions set forth in this PPA;

NOW THEREFORE, in consideration of the mutual covenants herein contained, the sufficiency and adequacy of which are hereby acknowledged, the Parties agree to the following:

Article 3 - Facility Description

3.1 Summary Description. Seller shall construct, own, operate, and maintain the Facility, which shall be an integrated gasification combined cycle ("IGCC") electric generation facility, producing energy by the conversion of coal and/or other solid fuels to synthesis gas and the combustion of the synthesis gas, or by combustion of natural gas, in either case in a combined cycle configuration. The Facility (i) will not have "black start" capability, (ii) can not be dispatched below Minimum Load, and (iii) shall have a designed net power output capability of approximately 598 MW under Reference Conditions. Exhibit A and Exhibit C to this PPA, which are attached hereto and made a part hereof, provide a description of the Facility, including the following:

(A) Identification of the equipment and components which make up the Facility; and

(B) The minimum loading level(s) that will be available for scheduling by NSP for each possible operating configuration of the Facility generating unit(s).

3.2 Location. The Facility shall be located on the Site and shall be identified as Seller's Mesaba Energy Project – Unit 1 Generating Station. A scaled map that identifies the Site, the location of the Facility at the Site, the location of the Electric Interconnection Point and the location of the important fuel delivery and electric facilities associated with the Site, is included in Exhibit C to this PPA.

3.3 General Design of the Facility. The Facility is a base load generation resource for NSP. Seller shall construct the Facility according to Good Utility Practice(s) and the LGIA. During Commercial Operation, Seller shall maintain the Facility according to Good Utility Practice(s) and the LGIA. In addition to the requirements of the LGIA, the Facility shall at all times:

(A) have the required panel space and 125Vdc battery supplied voltage to accommodate NSP's metering, generator telemetering equipment and communications equipment;

(B) use communication circuits from the Facility to NSP's SCC for the purpose of telemetering, supervisory control/data acquisition, energy production reporting and voice communications;

(C) be capable of operating at, and making available for scheduling by NSP, the minimum loading level(s) specified in Exhibit A for operations for each possible operating configuration of the Facility generating unit(s); and

(D) be capable of operating, or continuing to operate without interruption, in combined-cycle mode in the event of a planned or unplanned outage of the Gasification Island.

3.4 Net Capability. The Net Capability at Reference Conditions on the Performance Fuel is expected to be 598,000 kW, as measured at the Point of Delivery. **[Trade Secret Data Begins]**

[Trade Secret Data Ends]

3.5 Performance Parameters. Exhibit A sets forth the design performance parameters for the Facility. Seller anticipates operating the Facility primarily on synthesis gas from solid fuel, with natural gas as a back-up fuel.

3.6 DOE Demonstration. The Facility has received funding from the DOE as part of the DOE's Clean Coal Power Initiative. During the DOE Demonstration Period the Facility may be required to operate consistently within certain coal use and emission reduction parameters.

Article 8 - Payment Calculations

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[Trade Secret Data Ends]

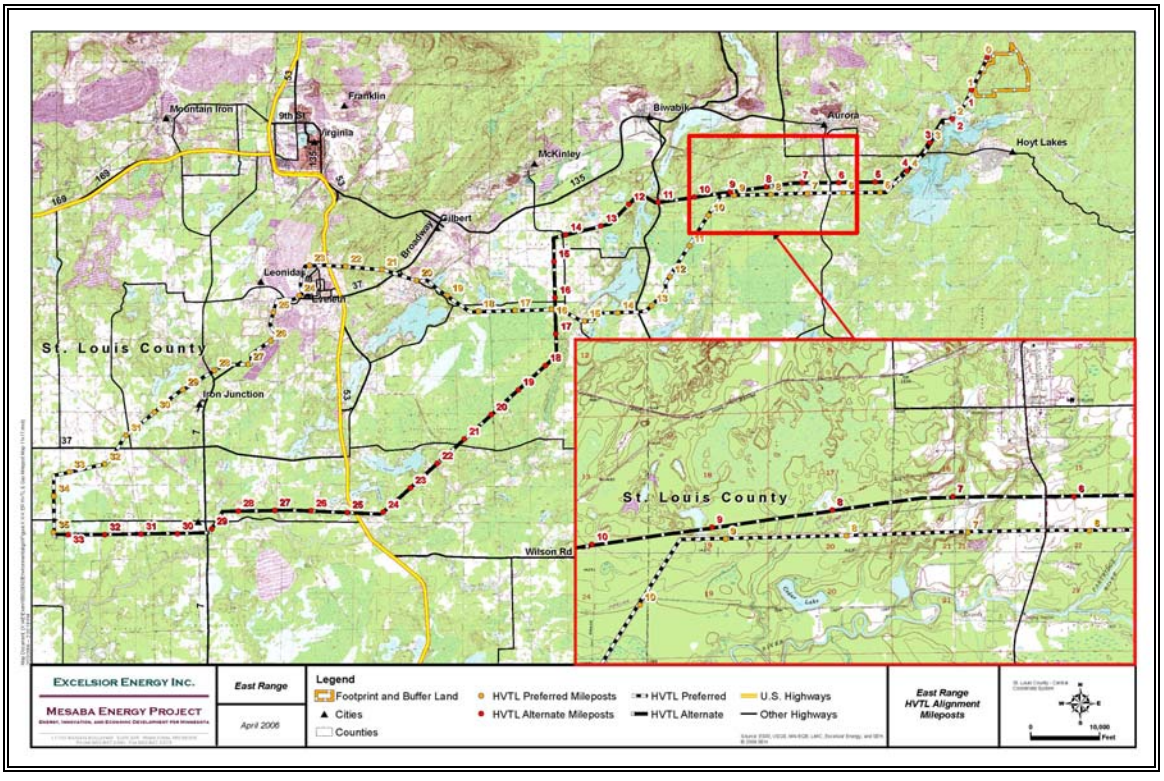
EXHIBIT C

FACILITY DESCRIPTION AND SITE MAPS

1. **Site Location**

This site, shown in the following picture in relationship to its general vicinity, is comprised of approximately 810 acres of undeveloped property located completely within the city limits of Hoyt Lakes. The site is within Township 59N, Range 14W and is generally bounded by County Road 666 to the east and the Superior National Forest boundary to the north. A wetland area lies to the south of the site that drains via an unnamed creek to Colby Lake, and an existing 138 kV electric transmission corridor leading to Minnesota Power's Syl Laskin Substation runs along the Site's western boundary.

2. **General Location**



3. **General**

Mesaba Energy Project will utilize state-of-the-art advanced Integrated Gasification Combined Cycle (IGCC) technology. Mesaba Energy Project Unit 1 will nominally produce 598 MW (net) capacity of base load power, using two trains of gasification equipment. The two trains, together with a third, spare train for added reliability, will produce synthesis gas (syngas) from solid fuel and supply two combustion turbine/generator sets to produce electricity. In turn, the waste heat from the combustion turbines is directed to heat recovery steam generators in a combined cycle configuration that uses a single steam turbine to generate additional electricity.

4. **Major Equipment**

Major equipment for the station will include solid fuel handling, gasifiers, syngas cleanup, flare, combustion turbine generators, steam turbine generator, step-up transformers, output breakers, internal electrical infrastructure consisting of switchgear, transformers, motor control centers and protection associated equipment, heat recovery steam generators, and evaporative cooling towers.

5. **Support Buildings**

The buildings include the control room, administration building, warehouse/maintenance shop, gas turbine and steam turbine buildings, weather enclosures for the air separation unit compressors, coal slurry preparation, water treatment/lab, railcar thaw shed, switchyard control room, and several power distribution centers. During normal operations, only the control room, administration building, warehouse/maintenance building, and water treatment/lab will be occupied. See the Facility plot plan for a general layout of the site.

6. **Facility Plot Plan**

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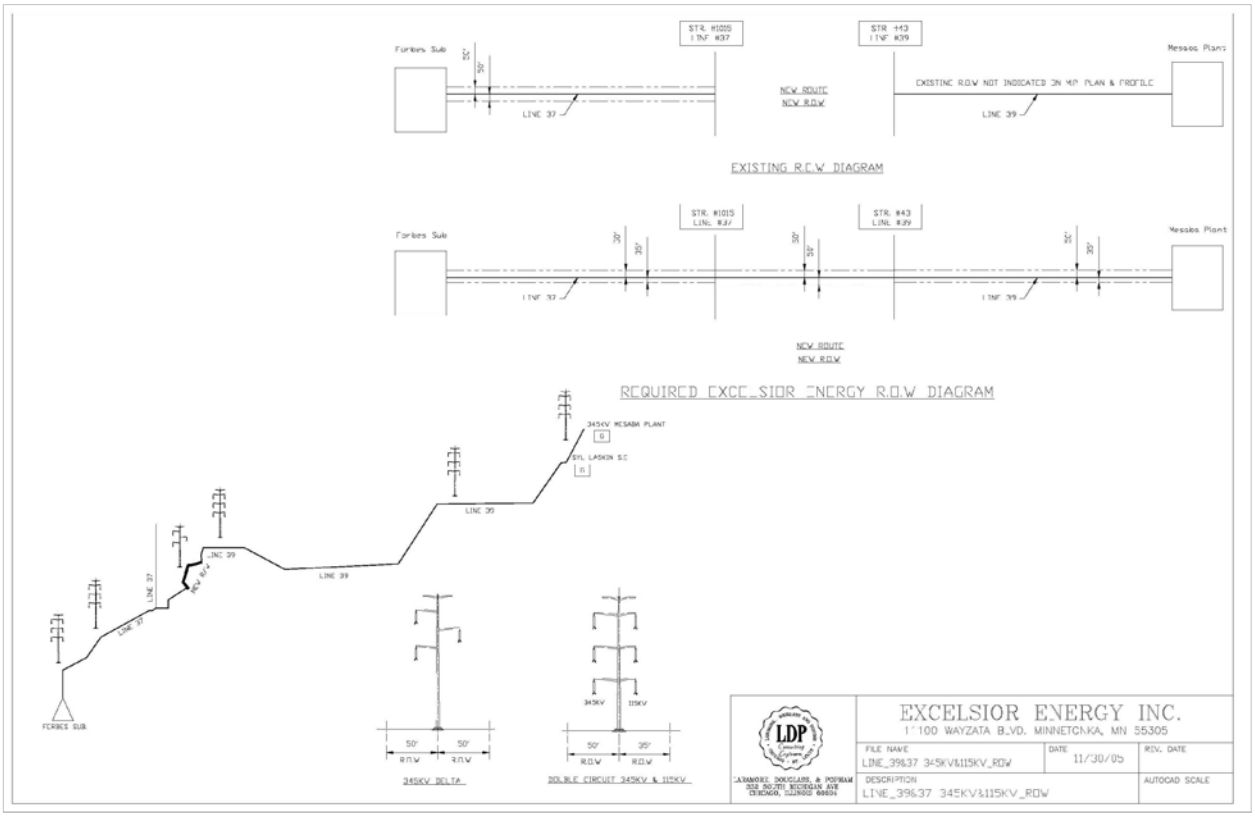
[Trade Secret Data Ends]

7. **Water**

Water for the Mesaba Energy Project will come from nearby mining pits and Colby Lake. For Mesaba Energy Project Unit 1, the water supply system consists of ten pumping stations and associated pipelines. Mine Pit 2WX (west extension) will act as the primary source of water which is conveyed to the plant site from a pump station to be located on Mine Pit 2WX. Supplementary water is pumped into Mine Pit 2WX from the following nearby water bodies: Mine Pits 2E, 2W, 3, 6, 9S, Stephens Mine Pit, Knox Mine Pit, Donora Mine Pit, and Colby Lake.

8. **Electrical Interconnection**

The electrical output of Mesaba Energy Project Unit 1 will be connected to the Minnesota Power Forbes Substation located approximately 30 miles to the southwest of the plant site. Generator outlet facilities will be constructed at 230kV for interconnection to the Forbes Substation without any need for voltage transformation, and will comply with the Large Generator Interconnect Agreement requirements. Two lines will be required to provide the necessary redundancy to cover the single failure criterion (n-1) for Phase I.



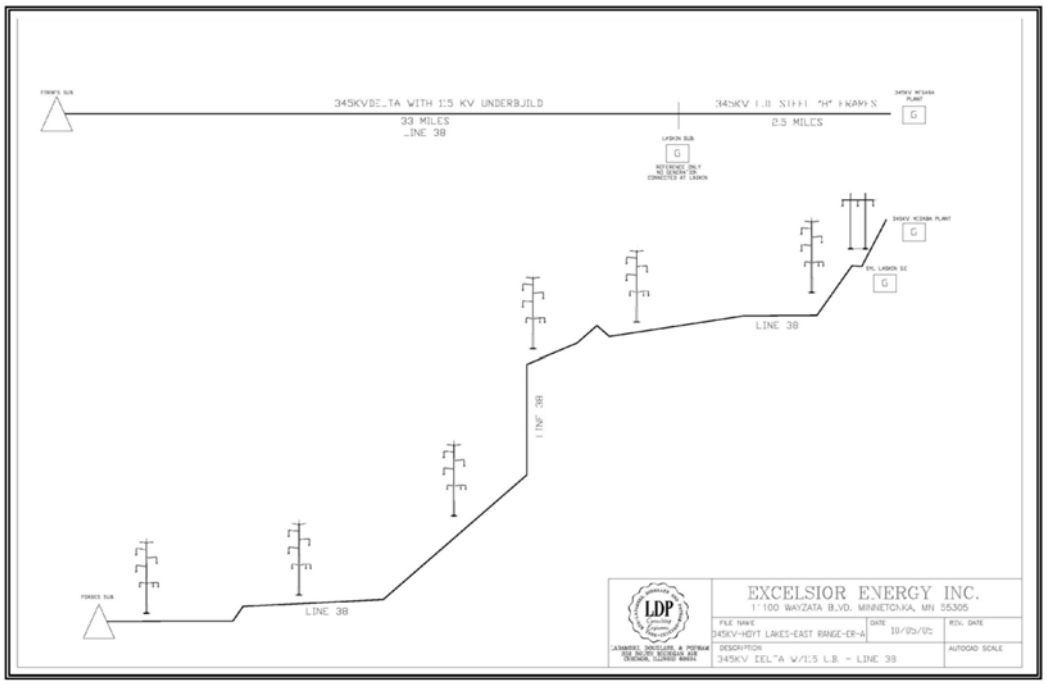

345KV DELTA WITH 1:5 KV UNDERBUILD
33 MILES
LINE 38
345KV L.B. STEEL "H" FRAMES
2.5 MILES
LASKIN SUB
REFERENCE ONLY
NO DESIGN TO
CONNECTED AT LASKIN
345KV MESABA PLANT
G
LINE 38
LINE 38
EXCELSIOR ENERGY INC.
11100 WAYZATA B.VD. MINNETONKA, MN 55305
LDP
345KV-HOYT LAKES-EAST RANGE-ER-A
10/05/05
345KV DELTA W/1:5 L.B. - LINE 38
AUTOCAD SCALE

EXHIBIT G

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Schedule I

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