

**Exhibit \_\_\_\_\_ (RJS-3)**

**MESABA ENERGY PROJECT**

**SUPPLEMENTAL FILING TO THE MINNESOTA PUBLIC UTILITIES COMMISSION**

450 MW PPA  
WEST AND EAST RANGE

**EXCELSIOR ENERGY INC.**

September 2006

This Supplemental Filing provides pricing and terms for the proposed power purchase agreement if Mesaba Unit One sells only 450 MW of electricity to Northern States Power Company (“NSP”). In this scenario, the Project would still be built as a 603 MW plant at the West Range Site or a 598 MW plant at the East Range Site since this is the optimal size for a unit. The Project would sell 450 MW under contract to NSP under the terms outlined below and the remainder of the power (153 MW in the case of the West Range Site and 148 in the case of the East Range Site) would be marketed and sold either under short- or long- term contracts, or on the spot market. If the PPA were approved covering only 450 MW of output from Mesaba One, it is anticipated that the final contract would include a mechanism to share with NSP revenue achieved above the marginal cost of power production for the remaining 153 (West Range Site) or 148 (East Range Site) MW of capacity.

CHANGES TO ASSUMPTIONS

Following for each of the West Range Site and the East Range Site 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 a 450 MW PPA at the applicable site (items changed from the original December 2005 filing are marked in grey):

Table 1: Summary of Contract Terms—West Range 450 MW PPA

	<b>Input Amount</b>	<b>Basis</b>
Length of Contract	25	Years
<b>[Trade Secret Data Begins]</b>		
		<b>[Trade Secret Data Ends]</b>
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	<b>450</b>	MW

**Table 2: Macroeconomic and Market Variable—West Range 450 MW PPA**

	<b>Assumption</b>	<b>Comment</b>	<b>Impact</b>
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
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			[Trade Secret Data Ends]

**Table 3: Project Specific Assumptions—West Range 450 MW PPA**

	<b>Assumption</b>	<b>Comment</b>	<b>Impact</b>
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
[Trade Secret Data Begins]			

	Assumption	Comment	Impact
			[Trade Secret Data Ends]

**Table 1: Summary of Contract Terms—East Range 450 MW PPA**

	Input Amount	Basis
Length of Contract	25	Years
[Trade Secret Data Begins]		
		[Trade Secret Data Ends]
Scheduled Maintenance Energy (SME)	Detailed SME data is provide in the PPA; this level of SME equates to an average of 5% of all available hours per year	MWh
Reference Capacity	450	MW

**Table 2: Macroeconomic and Market Variable—East Range 450 MW PPA**

	<b>Assumption</b>	<b>Comment</b>	<b>Impact</b>
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
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			<b>[Trade Secret Data Ends]</b>

**Table 3: Project Specific Assumptions—East Range 450 MW PPA**

	<b>Assumption</b>	<b>Comment</b>	<b>Impact</b>
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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	<b>Assumption</b>	<b>Comment</b>	<b>Impact</b>
			[Trade Secret Data Ends]

Since the original Mesaba filing in December 2005, the SO<sub>2</sub> and NO<sub>x</sub> emission rates from Mesaba One have increased slightly. The estimate for SO<sub>2</sub> has increased from 0.022 lb/MMBTU to 0.026 lb/MMBTU, and the estimate for NO<sub>x</sub> 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—450 MW PPA**

The following pricing summary for a 450 MW PPA from each of the West Range Site and East Range Site was completed on the same basis as Section III of the Mesaba Project Report submitted by Excelsior in December 2005. Four sets of comparisons are presented: (1) West Range direct costs only; (2) West Range with full environmental externalities; (3) East Range direct costs only; and (4) East Range with full environmental externalities. In each case the

pricing for a 450 MW PPA is presented with the pricing for all of the output from Mesaba One, and the pricing of the alternative 600 MW SCPC plant.

Figure 1 below shows that on a direct tariff basis (PVRR/MWh), the cost of electricity from the 450 MW Contract—West Range Site is [Trade Secret Data Begins] [Trade Secret Data Ends] than the originally submitted 603 MW PPA and [Trade Secret Data Begins] [Trade Secret Data Ends] than the 600 MW SCPC alternative.

**Figure 1: Comparison of West Range-450 MW—Direct Costs Only**  
[Trade Secret Data Begins]

[Trade Secret Data Ends]

Figure 2 demonstrates that when taking into account all environmental externalities, as calculated in Section III of the Mesaba Project Report , the total PVSC of the 450 MW PPA—West Range Site is still within [Trade Secret Data Begins] [Trade Secret Data Ends] of the alternative 600 MW SCPC plant.

**Figure 2: Comparison of West Range-450 MW—Including Full Externalities  
[Trade Secret Data Begins]**

[Trade Secret Data Ends]

When examining the 450 MW—East Range Site, Figure 3 shows that on a direct tariff basis (PVRP/MWh), the cost of electricity from the 450 MW Contract—East Range Site is [Trade Secret Data Begins] [Trade Secret Data Ends] than the East Range 598 MW PPA and [Trade Secret Data Begins] [Trade Secret Data Ends] than the 600 MW SCPC alternative.



**Figure 3: Comparison of East Range-450 MW—Direct Costs Only**  
**[Trade Secret Data Begins]**

**[Trade Secret Data Ends]**

Finally, Figure 4 demonstrates that when taking into account all environmental externalities, as calculated in Section III of the Mesaba Project Report , the total PVSC/MWh of the 450 MW PPA—East Range Site is **[Trade Secret Data Begins]** **[Trade Secret Data Ends]** than the alternative 600 MW SCPC plant.

**Figure 4: Comparison of East Range-450 MW—Including Full Externalities  
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**Secret Data Ends]**

**PPA CHANGES—450 MW—WEST RANGE SITE AND 450 MW—EAST RANGE SITE**

Attachment 1 contains pages from the PPA originally filed in December 2005, marked to show changes necessary to reflect a PPA for 450 MW from the West Range Site. Attachment 2 contains pages from the PPA originally filed in December 2005, marked to show changes necessary to reflect a PPA for 450 MW from the East Range Site.

**Attachment 1 –**

**PPA Changes**

**450 MW PPA - West Range Site**

**BASE LOAD**

**POWER PURCHASE AGREEMENT**

**BETWEEN**

**MEP-I LLC, AS SELLER**

**AND**

**NORTHERN STATES POWER COMPANY**

\_\_\_\_\_, 2006

450 MW PPA - West 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 450 MW, and which is further defined below as the "Facility"; and

WHEREAS Seller intends to locate the Facility near Taconite, 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 603 MW [598 MW East Range] under Reference Condition; however, only 450 MW is being sold as Net Capability under this contract. 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 450,000 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

[Trade Secret Data Begins]





[Trade Secret Data Ends]

EXHIBIT G

[Trade Secret Data Begins]



[Trade Secret Data Ends]

Schedule I

[Trade Secret Data Begins]



[Trade Secret Data Ends]

Attachment 2 –

PPA Changes

**450 MW PPA – East Range Site**



**BASE LOAD**

**POWER PURCHASE AGREEMENT**

**BETWEEN**

**MEP-I LLC, AS SELLER**

**AND**

**NORTHERN STATES POWER COMPANY**

\_\_\_\_\_, 2006

450 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 450 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; however, only 450 MW is being sold as Net Capability under this contract. 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 450,000 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

[Trade Secret Data Begins]



[Trade Secret Data Ends]

EXHIBIT G

[Trade Secret Data Begins]





[Trade Secret Data Ends]

Schedule I

[Trade Secret Data Begins]



[Trade Secret Data Ends]