

Rebuttal Testimony
Karen T. Hyde

State of Minnesota
Before the 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*

OAH Docket No. 12-2500-17260-2
PUC Docket No. E6472/M-05-1993

Power Purchase Agreement

October 10, 2006

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3 **I. INTRODUCTION**

4 Q. PLEASE STATE YOUR NAME.

5 A. My name is Karen T. Hyde.

6 Q. HAVE YOU PROVIDED DIRECT TESTIMONY IN THIS CASE?

7 A. Yes. I provided Direct Testimony regarding the purchased power agreement
8 proposed by Mesaba 1 LLC in this proceeding (“Mesaba 1 PPA”).
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10 **II. PURPOSE**

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12 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS PROCEEDING?

13 A. I address the Direct Testimony filed by Ms. Rene Sass on behalf of Mesaba 1
14 LLC that sponsors a 450-MW purchased power agreement (“450-MW PPA”).
15 On October 3, 2006, Mesaba 1 LLC clarified in a letter to the ALJs that the
16 450-MW PPA was offered only to provide evidence as to how the
17 Commission could modify or amend its 603-MW PPA. My Rebuttal
18 Testimony offers my assessment of the 450-MW PPA. I conclude that it not
19 a credible submission and is not worthy of consideration by the Commission
20 in this proceeding.
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22 **III. ASSESSMENT**

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24 Q. CAN YOU OUTLINE YOUR CONCERNS WITH THE 450-MW PPA?

25 A. Yes. I have three primary concerns:

- 26 • The proposal would have Xcel Energy pay for the entire cost of
27 Mesaba Unit 1, but would provide only 450 MWs of its output.

- 1 • Mesaba 1 LLC’s presumption that it would share in the net revenues
2 from sales from the remaining 153 MWs of capacity – even though
3 Xcel Energy would have already fully paid for that capacity – is wholly
4 unreasonable.
- 5 • The reduced size of the agreement exacerbates the already-
6 unreasonable impacts of various PPA provisions, including the
7 proposed availability calculations.

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9 In addition, because the 450-MW PPA would include the same provisions as
10 the Mesaba 1 PPA, the significant concerns outlined in my Direct
11 Testimony – as well as those sponsored by other Xcel Energy witnesses –
12 apply here as well.

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14 Q. CAN YOU DESCRIBE HOW MESABA 1 LLC DETERMINED THE DEMAND PRICE
15 FOR THE 450-MW PPA?

16 A. Yes. It appears that Excelsior took the full cost of the 603- or 598-MW
17 facility (depending on the West or East Site) and spread it over 450 MWs to
18 derive the proposed demand payment. Using that approach, I was able to
19 replicate the demand charge proposed in Ms. Sass’s 450-MW PPA within a
20 few cents per kW-month. Consequently, Mesaba 1 LLC proposes that Xcel
21 Energy’s customers pay the full costs of the 603-MW plant, but receive only
22 450 MWs of output.

23

24 Q. IS THAT PROPOSAL REASONABLE?

25 A. No. Such a proposal is contrary to the public interest: our customers should
26 not be required to fund 153 MWs of plant that does not provide them service.
27 Further, this proposal on its face cannot meet a least-cost standard.

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Q. PLEASE DISCUSS YOUR SECOND CONCERN REGARDING THE UNDEFINED SHARING MECHANISM.

A. The only discussion of the sharing mechanism that I could find was contained in Ms. Sass’s testimony, as follows:

The project owner would sell incremental capacity and energy under short or long-term contracts or on the spot market, and presumably would agree to share net revenues from those sales with NSP under the PPA. Sass Supplemental at 5.

Given that our customers would pay the full fixed costs of the 603-MW plant under the 450-MW PPA – which includes both the costs of the project and Mesaba 1 LLC’s profits on the transaction – the presumption that any proceeds from the sale of power from the remaining 153 MWs of the plant would be shared is wholly unreasonable. This proposal highlights again the one-sided nature of Mesaba 1 LLC’s proposals; I see no risk and only upside for Mesaba I LLC and its owners.

Q. FINALLY, PLEASE DISCUSS YOUR THIRD CONCERN REGARDING THE IMPACT OF THE CHANGE TO 450 MWs ON OTHER CALCULATIONS AND PROVISIONS OF THE PPA.

A. All of the PPA’s provisions regarding reimbursement of costs and the operating parameters should have been changed to reflect the revised size of the contract, but were not. Thus, even setting aside the other significant concerns regarding the 450-MW PPA, it is not a credible and internally consistent proposal. For those reasons alone, I do not believe it is worthy of any consideration in this proceeding.

1 In addition, the entire basis for the provisions regarding full payment of
2 capacity purchases would need to be adjusted. As proposed by Ms. Sass, in
3 simplified terms, the PPA provides that Mesaba 1 LLC receives full capacity
4 payment if Mesaba Unit 1 is 65% available in Year 1. For a 603-MW project,
5 that equates to an average availability of 392 MWs for each hour of the year.
6 Under the changed payment basis of 450 MWs, this same average availability
7 now calculates to 87% (392 MWs available compared to 450 MWs
8 contracted). Under the proposed contract formulas, this level of availability
9 would provide Mesaba I LLC 134% of the full capacity payment – that is, 100
10 percent capacity payments and a bonus of 34% to the project owners.

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12 In my Direct Testimony, I explained why the Mesaba 1 PPA was not in the
13 public interest because of the unreasonable risk shift from developer to
14 customers and because the contract payment provisions that were overly
15 generous to the project owner. In my opinion, the 450-MW PPA offered by
16 Ms. Sass exacerbates these problems; as such, it is not worthy of
17 consideration in this proceeding.

18 19 **IV. CONCLUSION**

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21 Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

22 A. The 450-MW PPA sponsored by Ms. Sass is not a credible proposal. In
23 addition to posing the same concerns raised in my Direct Testimony, it
24 would:

- 25 • Increase costs to ratepayers by requiring them to pay for the full costs
26 of the 603-MW Mesaba Unit 1, while providing them only 450 MWs of
27 output.

- 1 • Heighten concerns about the lack of risk borne by Mesaba 1 LLC and
- 2 burden placed on Xcel Energy and our customers.
- 3 • Exacerbate the already significant concerns regarding the inappropriate
- 4 benefits to be paid to project developers and the lack of operational
- 5 controls to protect our customers.

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7 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

8 A. Yes, it does.