

Senator David Tomassoni
317 Captiol
St. Paul, MN 55155

December 22, 2006

TO: Judge Bruce Johnson (via email: Bruce.Johnson@state.mn.us)

RE: Excelsior Energy/Mesaba Energy Project

Dear Judge Johnson:

I am the chief author in the Minnesota Senate of the statutes that lay the groundwork for the Mesaba IGCC Project. I offer these comments to provide some background relating to the passage of those IGCC statutes.

The statutes were enacted as part of the legislation authorizing additional cask storage at Prairie Island, and new casks at the Monticello nuclear plant. The Iron Range delegation supported Xcel's proposed legislation authorizing the casks as part of a package deal that included the IGCC statutes. Xcel got a lot out of this omnibus energy legislation. They got assured rate recovery for the retrofit of their Twin Cities coal plants to run on natural gas. According to their own statements at the time, they saved five to ten billion dollars in the investments in new plants (that they could avoid) if the nuclear plants stayed open. Xcel averted a financial crisis that would have resulted from shutting down the nuclear plants at a time when Xcel's financial situation was crippled. This situation was caused by Xcel's decision to fold NRG, their non-regulated subsidiary, back into their holding company. As a result of this decision at the Xcel level, they weren't in a position to raise capital to build new plants.

In 2002-2003, Xcel was also talking about a huge need for new coal base load plants, on top of the nuclear plants. They told the Legislature that they needed 450 megawatts of new baseload in 2010, 450 in 2012, and 900 in 2015, plus substantial amounts in the succeeding years.

The omnibus energy bill set the course for Minnesota's energy future. It reflects give and take between various competing interests. We spent a lot of time making sure the IGCC statutes were clear. The word "entitled" was debated by the authors and Xcel made it clear they didn't like the word, and wanted something short of this mandate. Xcel is now telling you that they don't like this particular feature of Minnesota law. This should not get in the way of the Commission implementing the law. The statute is clear in it's meaning and intention.

Looking at the public interest factors, the entitlement language was intended to relate to the first unit of the project, which we wanted built as quickly as possible,. The fact that the first unit is now 600 megawatts, rather than 450 megawatts, is a good thing, because there are better scale economies for the technology at this size than what the technology suppliers thought could be achieved when the statutes were enacted.

I read Professor Jim Chen's testimony and it accurately reflects what has occurred since the statutes were enacted in 2003. Xcel and the other utilities in the state have done everything in their power to stall and derail the Mesaba project, banding together and putting their interests in keeping innovative competitors out of the state ahead of all the policy goals that the Legislature wanted to further with the IGCC statutes. Xcel stalled the decision on funding from the renewable development fund for the project, and has made it clear that their intent is to see that the IGCC statutes are not implemented.

We exempted the project from certificate of need in order to expedite the construction of the plant. We didn't want Xcel's control over its resource planning to bog down the decision. The legislature also, by enacting the statutes, directed the PUC not to entertain Xcel's argument that the plant isn't needed, which is essentially an argument that the growing electric need in Minnesota can be met by natural gas plants. A single utility's decision to use huge volumes of natural gas for power generation can affect gas prices and supply in the whole state, and the IGCC statutes are part of what's necessary to avoid this outcome. In any event, given the number of consumers that already can't pay their home heating bills because of high and volatile natural gas prices, the IGCC statutes are an important component of a plan to avoid big bets on natural gas prices placed by utilities but paid for by consumers.

The legislature has already made the contentious policy decisions about these big resource decisions, after weighing Xcel's arguments along with all the other parties. The statutes do not contemplate the PUC going back over those broad policy decisions that were considered and made by the State's elected officials. The IGCC statutes direct the PUC to confirm the benefits of the technology and, on the part of the statute that deals with the clean energy technology, to confirm that the IGCC technology looks cost-effective as one of a portfolio of technologies to meet the State's base load needs over the next century. As you can tell by reading the statutes, the Legislature expected that IGCC would look more expensive than conventional coal plants at the outset, but over time, improvements that will happen and changing emission limits would lead to the IGCC technology being more attractive in the long run.

On a final note, the IGCC statutes include a good faith requirement that the project seek federal funding for carbon sequestration. This was a provision that was never really debated, and carbon sequestration was not central to the discussion of the merits of the project. The Legislature was focused on the emissions reductions that could be achieved by the technology, especially mercury, particulate matter and sulfur emissions. The fact that the project has the ability to capture and sequester carbon dioxide in order to meet limits in the future is an added benefit, over and above those considered by the Legislature.

Thanks for this opportunity to weigh in on this important matter and Happy Holidays.

Sincerely,
David J. Tomassoni, State Senator, District 5