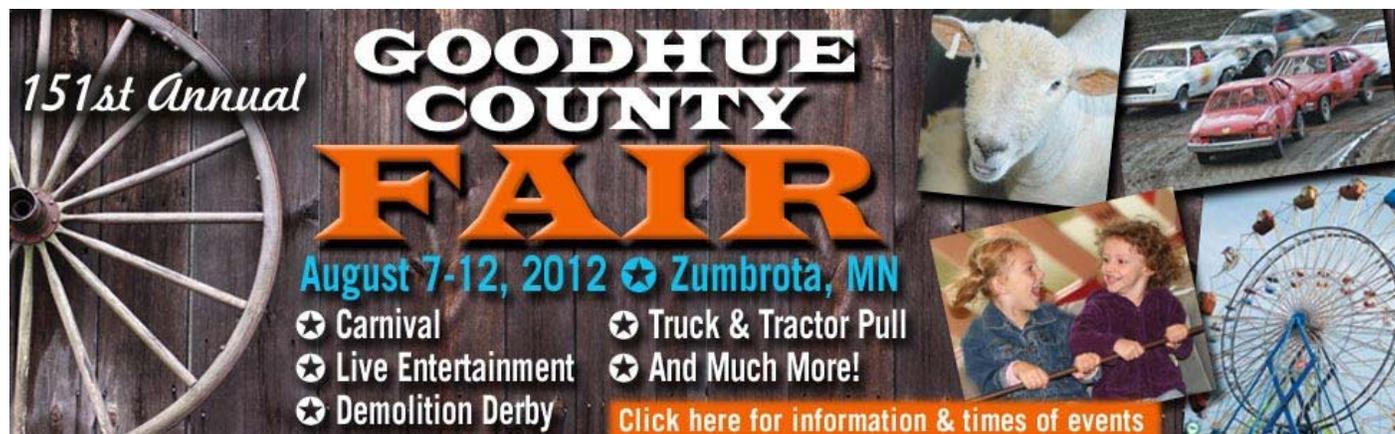


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Feds say no more money for Iron Range Excelsior power plan

Excelsior Energy Inc. has reached a crossroads in its more-than-a-decade-long effort to build a new power plant on the Iron Range.

By: [Peter Passi](#), Duluth News Tribune

Excelsior Energy Inc. has reached a crossroads in its more-than-a-decade-long effort to build a new power plant on the Iron Range.

After investing about \$22 million in the company's Mesaba Energy Project, the U.S. Department of Energy has decided to cease its financial support for Excelsior.

And the Minnesota Public Utilities Commission is expected to take up a request in mid- to late August that will affect permitting for the power plant, now planned to operate with a different fuel than first proposed.

"I'm cautiously optimistic," Sen. David Tomassoni, DFL-Chisholm and an Excelsior supporter, said of the outlook for the project. "I think they're in a better position now than in 2010."

But opponents, who decry the public money spent on the project with nothing yet built and who cite environmental concerns, vow to keep up their fight.

Federal dollars dry up

In 2004 the Department of Energy earmarked \$36 million for the project, but stopped \$14 million shy of that mark when Excelsior failed to fulfill certain performance expectations.

Bill Gibbons, a Department of Energy spokesman, said Wednesday the federal agency will discontinue future financial support "in order to best protect the taxpayer.

"The Department of Energy carefully structured the Mesaba Energy Project agreement in phases that allow the program to assess the progress and prospects of this innovative project at each stage of development. The department determined that it was not in the best interests of the taxpayer to continue investing in this project past the initial phase," he said.

Gibbons did not respond to questions about whether there would be an attempt to recover any of the federal money already given in support of what had been billed as a "clean coal" project.

Company officials did not respond to questions last week about the effect the DOE's decision will have on the project, which also has received money from the state.

Change of plans

In 2001, Excelsior proposed to build a plant that would convert coal into a gasified fuel and burn it as a highly efficient way to generate power. The innovative \$2.1 billion plant was expected to operate with fewer emissions than a conventional coal-fired facility, and was supposed to create more than 1,000 construction jobs as well as 150 full-time, ongoing positions in the small town of Taconite, located next to Itasca County's Canisteo mine pit.

But those plans were recently revamped, and now call for a 600-megawatt plant — about half the size first proposed — running on natural gas rather than coal.

Excelsior did not respond to questions last week about how many people the redesigned facility would employ, but in February 2011, Julie Jorgensen, the company's co-president and co-CEO, estimated the natural gas-fueled plant would create about 600 jobs during its construction and would employ about 50 people when operating.

Streamlined permits?

The Minnesota Public Utilities Commission is expected to take up a request in mid- to late-August that could speed the permitting process for the redrawn

project. If Excelsior's request is granted, the PUC will allow site permits already issued for a plant burning gasified coal to be used instead for a facility fueled by natural gas. If the commission does not go along, the company could need to begin its permitting efforts anew, from scratch, slowing down any prospective work.

Minnesota lawmakers have attempted to streamline the process with special legislation they passed in 2011.

In its request, Excelsior has asked the commission to follow the 2011 legislation by validating site and route permits for the project, according to Pat Micheletti, the company's director of public and community affairs.

Regardless of the special legislation, not everyone supports allowing the project to morph without further scrutiny. Among those questioning the revamped plans is Charlotte Neigh, a longtime opponent of the project and co-chair of Citizens Against the Mesaba Project, or CAMP. She's not taking anything for granted.

"It could go either way," Neigh said of the public utilities commission. "They could say: 'The Legislature has tied our hands, and we give up.' Or they could say: 'This is our turf, and we still have a valid role to play.' "

In addition, the Sierra Club, citing environmental concerns, has advised the PUC against issuing permits without a fresh and detailed review of the project.

Game changers

Excelsior explained why it wants to shelve original plans to construct an innovative new power plant running on gasified coal, at least temporarily, in a June 26 letter to the PUC.

Tom Micheletti, the company's co-president and co-CEO, cited currently low natural gas prices that have made coal-powered plants uncompetitive in the marketplace. He also pointed to regulatory efforts to reduce greenhouse gas levels, including a proposal that future coal plants be required to capture and sequester their emissions. And he said Excelsior would return to the gasification plans if economic and regulatory conditions made it feasible.

Pat Micheletti contends the revised plan would enable Excelsior to respond to changing market conditions.

"One of the benefits of the project is its flexibility to run on natural gas. In the future if natural gas prices rise from what we have seen in the past, consumers are protected by the plant's ability to convert to coal," he said.

Customer needed

Excelsior still is missing another essential ingredient to succeed, Tomassoni said: Someone to buy the power the plant will produce.

"One thing has never changed, and it's that without a customer, this project won't happen," he said.

Tomassoni noted that the future of Minnesota Power's Laskin and Taconite Harbor coal-burning units has been thrown into question by increasingly strict emission standards, and suggested Excelsior may be poised to fill the gap.

With permits in hand, he predicted Excelsior could deliver a project faster, and probably more economically, than anyone else.

"These projects don't get any cheaper with time," Tomassoni said.

But Minnesota Power says it has no need in the near term to purchase power from Excelsior's proposed plant.

Dave McMillan, Minnesota Power's senior vice president for external affairs, said his company continues to add wind power capacity to its energy portfolio and is poised to receive another 250 megawatts from Manitoba Hydro by 2020.

"At some point, it's very likely we may want some additional natural gas capacity, but in the near term, we don't see that being a need," he said, describing the outlook for the next three to five years. "We will have plenty of power to throw at developing projects such as Essar Steel, Magnetation, Polymet and U.S. Steel's Keewatin operations."

At present, McMillan described what he sees as "a buyer's market" for power, with plenty of attractively priced capacity available for sale. But he said Minnesota Power would remain open to evaluate any competitive plan Excelsior might be able to offer in the future.

Xcel Energy and Great River Energy also could be potential customers for Excelsior.

As public money for Excelsior dries up, Rep. Tom Anzels, DFL-Balsam Township and a critic of the proposed plant, predicts the company will need a partner.

"The only way this project will crawl to the finish line is if someone like Minnesota Power, Xcel or Great River Energy gets behind it," he said.

Additional public money

Besides the \$22 million in Department of Energy funds it received, Excelsior also borrowed about \$9.5 million from the Iron Range Resources and Rehabilitation Board. The company garnered yet another \$10 million in grant funds from the Minnesota Public Utilities Renewable Development Fund.

Pat Micheletti did not respond to questions about other forms of non-public investment Excelsior may have attracted.

Critics of the project note it has been funded almost entirely with public dollars, and despite the expenditure of more than \$40 million, so far nothing has been built.

"The level of public spending on this project, and the utter lack of private investment, make this an important matter for consideration," wrote Carol Overland, an attorney and energy consultant, calling for greater scrutiny of Excelsior's plans in a July 19 letter to the public utilities commission.

She referred to Excelsior's vague descriptions of the proposed natural gas plant as "little more than a continued pipedream, boondoggle and random ink on pieces of paper."

Anzels said he won't be satisfied until Excelsior repays all the money it has borrowed from the IRRRB. So far, the company has repaid \$245,000 of the \$9.5

million it received from the agency, and its next payment of \$100,000 will be due in December.

Tomassoni views the natural gas-fueled power plant as a way to finally see the project realized, in some form.

“This is a way to make sure there's some return on investment from the public subsidies Excelsior received,” he said.

But Excelsior still faces the challenge of installing expensive infrastructure in Taconite — a pipeline for fuel and a transmission line to move the plant's output — before it can build a plant there.

Pat Micheletti said he believes Excelsior will have a sufficiently large window of opportunity if the public utilities commission follows the Legislature's lead.

If permits for the project are approved as requested, they probably would remain good through 2019. Given that timeline, he said, “there is a large forecasted need” for new energy sources that the company can fill.

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