

RDF 6/24/05 - 6/24/10 # 10 M  
6/30/07 # 5,461,156 Invoiced ~~(bal test)~~

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**EXCELSIOR ENERGY'S QUARTERLY RDF REPORT TO XCEL ENERGY**  
Second Quarter, 2007

During the second quarter of 2007 Excelsior continued its efforts to develop the Mesaba Energy Project, a large scale, base load IGCC power generation facility. Excelsior used RDF funds for the following purposes:

I. DEVELOPMENT OF IEP TECHNOLOGY

Development and Engineering

RDF-eligible funds expended on engineering were primarily used to continue refining the design basis for the Mesaba Energy Project, review and refine certain aspects of the Optimization Studies, conduct cursory review of transmission infrastructure, to support the permitting process, and to fund owner's engineer work to assist Excelsior in reviewing the preliminary design work submitted by Excelsior's EPC contractor. Excelsior has also initiated a limited scope of the Process Design Package (PDP) that can be performed by ConocoPhillips prior to the start of the Front End Engineering and Design (FEED).

\* ? who?

II. OTHER DEVELOPMENT AND ENGINEERING

Environmental Impact Statement and Licensing

In the second quarter of 2007, Excelsior expended RDF funds i) to investigate NPDES permitting options involving pollutant "trading" with municipal wastewater treatment systems, ii) to provide continued support for DOE's efforts to produce a draft environmental impact statement, iii) to review and provide input into MPCA's conceptual plan for addressing regional haze in Minnesota's Class I areas, iv) in support of preparing a solicitation for bids to prepare an HVTL route permit application for the network upgrades required to address transmission constraints arising from injecting power produced by the Mesaba Project into the Blackberry Substation, v) to prepare a programmatic agreement confirming how investigations of historical properties associated with East Range and/or West Range corridors would be conducted (parties to the agreement would include Excelsior, DOE, Native American tribes, the Army Corps of Engineers, and others), and vi) to conduct a review of and prepare supplement information supporting Excelsior's analysis of best available control technology ("BACT") decision-making.

# EXCELSIOR ENERGY INC.

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July 2, 2007

Debra Paulson  
Acting Manager, Renewable Regulatory Projects  
Xcel Energy  
414 Nicollet Mall GO 7  
Minneapolis, MN 55401

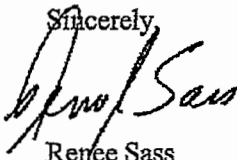
RE: In the Matter of the Request of Northern States Power Company d/b/a Xcel  
Energy for Approval of Selected Projects for the Second Funding Cycle of the  
Renewable Development Fund  
Docket No. E002/M-03-1883

Ms. Paulson:

Enclosed is Excelsior Energy Inc.'s report to Xcel Energy Inc. concerning Excelsior's use  
of renewable development fund grant money during the second quarter of 2007.

If you have any questions or require any additional information, please feel free to  
contact me.

Sincerely,



Renee Sass  
Senior Vice President and CFO

synthesis of new dendrimers. Computational modeling and feedback guide Dendrimer synthesis from the characterization of their existing dendrimers. A paper entitled "Theoretical Studies on Conjugated Phenyl Cored Thiophene Dendrimers for Photovoltaic Applications" will likely be submitted to JACS.

Minor contract modifications were made for administrative personnel changes. The modifications were made and approved according to procedures stipulated in Part 5, Paragraph C of the RDF contract. The modifications have been attached to this report as Attachment 7 for informational purposes.

**RD-110 Center for Sustainable Environmental Technologies (CSET), Iowa State University** (*Development of a Biomass Fueled Stirling Engine for Combined Heat and Power Production*)

**Start Date 1/12/2006**

**Grant Amount \$405,000**

**End Date 7/12/2007**

**Funds Invoiced \$57,300**

The project goal is to develop, operate, and assess a biomass-fueled 55 kW Stirling engine to assess the technical and economic parameters for the widespread implementation of the technology. Due to the limited robustness and unavailability of a Stirling engine, it is not a prudent use of grant funds to continue the project as originally proposed. To capture the benefits of research detailing characterization of a gasification system, gas cleanup with an efficient particulate filtration, and reach a satisfactory project completion, Iowa State University will be requesting the project objective be modified to perform tests on a biomass gasifier/gas clean-up system and analyze mass balances and particulate filter performance of the systems. The project change will need to be reviewed and approved by the RDF board.

**Other Projects**

**Excelsior Energy**

**Start Date 6/24/2005**

**Grant Amount \$10,000,000**

**End Date 6/24/2010**

**Funds Invoiced \$5,461,156**

During the second quarter of 2007 Excelsior continued its efforts to develop the Mesaba Energy Project, a large-scale base load IGCC power generation facility. RDF-eligible funds were expended on development and engineering costs as well as on licensing and issues regarding the Environmental Impact Statement. Engineering

funds were primarily used to continue refining the design basis for the project, review and refine certain aspects of the Optimization Studies, and to conduct a cursory review of transmission infrastructure. Environmental and licensing activity included investigating permitting options related to pollutant "trading", continued support of a draft EIS, input to MPCA's conceptual plan for addressing regional haze, transmission route permit work and other site related investigation.

Excelsior's grant contract requires that a quarterly report be submitted to Xcel Energy, generally apprising Xcel Energy of the use of the funds under the grant contract, and that this information be provided to the Commission. The report been attached to this report as Attachment 8 for informational purposes.

### **3<sup>RD</sup> FUNDING CYCLE - PROJECT STATUS AND PROGRESS**

The solicitation for 3<sup>rd</sup> funding cycle projects has been initiated. The RDF Advisory Board anticipates funding up to \$23 million in direct grants that will be approximately evenly divided between Energy Production projects and Research and Development Projects. Preference has been given to projects that have Prairie Island Indian Community sponsorship and research projects that are near commercialization. An RFP for projects was developed and issued on May 16, 2007. A Pre-bid conference on June 5, 2007 was attended by 80 participants (plus 4 Xcel Energy staff and 3 board members). Notices of Intent to Bid were received for 149 projects. The deadline for the submission of proposals was July 12th. Proposals received will be evaluated and scored by a third-party consultant with results provided to the RDF Advisory Board for their own consideration and use in determining their selection of RDF projects.

DOE F 4600.117

U.S. DEPARTMENT OF ENERGY

**NOTICE OF FINANCIAL ASSISTANCE AWARD**

(4/05)  
Under the authority of Public Law 95-91 DOE Organization Act, as amended by PL 102-486 Energy Policy Act

<p>1. PROJECT TITLE <b>MESABA ENERGY PROJECT - UNIT 1</b></p>	<p>2. INSTRUMENT TYPE <input type="checkbox"/> GRANT    <input checked="" type="checkbox"/> COOPERATIVE AGREEMENT</p>														
<p>3. RECIPIENT (Name, address, zip code)   <b>MEP-I LLC</b>  <b>11100 Wayzata Boulevard, Suite 305</b>  <b>Minnetonka, Minnesota 55305</b></p>	<table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td style="width:50%; vertical-align: top;"> <p>4. INSTRUMENT NO. <b>DE-FC26-06NT42385</b></p> </td> <td style="width:50%; vertical-align: top;"> <p>5. AMENDMENT NO. <b>A000</b></p> </td> </tr> <tr> <td style="vertical-align: top;"> <p>6. BUDGET PERIOD FROM: <b>6/1/06</b> THRU: <b>4/28/08</b></p> </td> <td style="vertical-align: top;"> <p>7. PROJECT PERIOD FROM: <b>6/1/06</b> THRU: <b>2/28/13</b></p> </td> </tr> </table>	<p>4. INSTRUMENT NO. <b>DE-FC26-06NT42385</b></p>	<p>5. AMENDMENT NO. <b>A000</b></p>	<p>6. BUDGET PERIOD FROM: <b>6/1/06</b> THRU: <b>4/28/08</b></p>	<p>7. PROJECT PERIOD FROM: <b>6/1/06</b> THRU: <b>2/28/13</b></p>										
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<p>8. RECIPIENT PROJECT DIRECTOR (Name, phone and E-mail) <b>Jim Milkovich jimilkovich@excelsiorenergy.com</b> <b>952/847-2371 FAX: 2373</b></p>	<p>10. TYPE OF AWARD <input checked="" type="checkbox"/> NEW    <input type="checkbox"/> CONTINUATION    <input type="checkbox"/> RENEWAL <input type="checkbox"/> REVISION    <input type="checkbox"/> INCREMENTAL FUNDING</p>														
<p>9. RECIPIENT BUSINESS OFFICER (Name, phone and E-mail) <b>Renee J. Sass reneesass@excelsiorenergy.com</b> <b>952/847-2363 FAX: 2373</b></p>	<p>12. ADMINISTERED FOR DOE BY (Name, address, phone and E-mail) <b>National Energy Technology Laboratory</b>  <b>ATTN: William R. Mundorf william.mundorf@netl.doe.gov</b>  <b>626 Cochrans Mill Road, P. O. Box 10940</b>  <b>Pittsburgh, PA 15236-0940</b>  <b>412/386-4483 FAX: 6137</b></p>														
<p>11. DOE PROJECT OFFICER (Name, address, phone and E-mail) <b>National Energy Technology Laboratory</b>  <b>ATTN: Jason T. Lewis jason.lewis@netl.doe.gov</b>  <b>3610 Collins Ferry Road, P. O. Box 880</b>  <b>Morgantown, WV 26507-0880</b>  <b>304/285-4724 FAX: 4403 or 4469</b></p>	<p>13. RECIPIENT TYPE <input type="checkbox"/> STATE GOVT    <input type="checkbox"/> INDIAN TRIBAL GOVT    <input type="checkbox"/> HOSPITAL    <input checked="" type="checkbox"/> FOR PROFIT ORGANIZATION    <input type="checkbox"/> INDIVIDUAL <input type="checkbox"/> LOCAL GOVT    <input type="checkbox"/> INSTITUTION OF HIGHER EDUCATION    <input type="checkbox"/> OTHER NONPROFIT ORGANIZATION    <input checked="" type="checkbox"/> C    <input type="checkbox"/> P    <input type="checkbox"/> SP    <input type="checkbox"/> OTHER (Specify) _____</p>														
<p>14. ACCOUNTING AND APPROPRIATIONS DATA: <b>150 2005 31 220322 61000000 25500 1610353</b></p>	<p>15. EMPLOYER I.D. NUMBER a. TIN: <b>41-2019511</b> b. DUNS: <b>14-626-2915</b></p>														
<p>16. BUDGET AND FUNDING INFORMATION</p> <table border="1" style="width:100%; border-collapse: collapse;"> <thead> <tr> <th style="width:50%;">a. CURRENT BUDGET PERIOD INFORMATION</th> <th style="width:50%;">b. CUMULATIVE DOE OBLIGATIONS</th> </tr> </thead> <tbody> <tr> <td>(1) DOE Funds Obligated This Action \$</td> <td>(1) This Budget Period \$</td> </tr> <tr> <td>(2) DOE Funds Authorized for Carry Over \$</td> <td>[Total of lines a.(1) and a.(3)]</td> </tr> <tr> <td>(3) DOE Funds Previously Obligated In this Budget Period \$</td> <td>(2) Prior Budget Periods \$</td> </tr> <tr> <td>(4) DOE Share of Total Approved Budget \$</td> <td>(3) Project Period to Date \$</td> </tr> <tr> <td>(5) Recipient Share of Total Approved Budget \$</td> <td>[Total of lines b.(1) and b.(2)]</td> </tr> <tr> <td>(6) Total Approved Budget \$</td> <td></td> </tr> </tbody> </table>		a. CURRENT BUDGET PERIOD INFORMATION	b. CUMULATIVE DOE OBLIGATIONS	(1) DOE Funds Obligated This Action \$	(1) This Budget Period \$	(2) DOE Funds Authorized for Carry Over \$	[Total of lines a.(1) and a.(3)]	(3) DOE Funds Previously Obligated In this Budget Period \$	(2) Prior Budget Periods \$	(4) DOE Share of Total Approved Budget \$	(3) Project Period to Date \$	(5) Recipient Share of Total Approved Budget \$	[Total of lines b.(1) and b.(2)]	(6) Total Approved Budget \$	
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<p>17. TOTAL ESTIMATED COST OF PROJECT, INCLUDING DOE FUNDS TO FFRDC: \$ <b>2,155,680,783</b> <i>(This is the current estimated cost of the project. It is not a promise to award nor an authorization to expend funds in this amount.)</i></p>															
<p>18. AWARD AGREEMENT TERMS AND CONDITIONS This award/agreement consists of this form plus the following: a. Special terms and conditions. b. Applicable program regulations (specify) _____ (Date) _____ c. DOE Assistance Regulations, 10 CFR Part 600 at <a href="http://ecfr.gpoaccess.gov">http://ecfr.gpoaccess.gov</a> or, if the award is a grant to a Federal Demonstration Partnership (FDP) institution, the FDP Terms &amp; Conditions and the DOE FDP Agency Specific Requirements at <a href="http://www.nsf.gov/awards/managing/fed_dem_part.jsp">http://www.nsf.gov/awards/managing/fed_dem_part.jsp</a>. d. Application/proposal dated 6/14/04 with changes as agreed to by DOE and the Recipient. e. National Policy Assurances to Be Incorporated as Award Terms at <a href="http://grants.pr.doe.gov">http://grants.pr.doe.gov</a>.</p>															
<p>19. REMARKS <b>This cooperative agreement is subject to the general terms and conditions contained herein.</b></p>															
<p>20. EVIDENCE OF RECIPIENT ACCEPTANCE   <i>Julie Dorgensen May 23 2006</i>          (Signature of Authorized Recipient Official) (Date)  <b>Julie Dorgensen</b>          (Name)  <b>Co-President and CEO</b>          (Title)</p>	<p>21. AWARDED BY   <i>Raymond D. Johnson 5/19/06</i>          (Signature) (Date)  <b>Raymond D. Johnson</b>          (Name)  <b>Contracting Officer</b>          (Title)</p>														

cooperative agreement will be modified to incorporate the additional scope. Such additional scope shall be shared at the cost-share ratio established for Budget Period 1. Recipient shall be required to provide additional cost-sharing in Budget Period 3 equal to the amount of DOE funds reallocated to Budget Period 1.

#### **2.6 Conclusion of Project at completion of Budget Period 1**

DOE will not seek adjustment of the cost-sharing in the event the project does not proceed beyond preliminary design.

#### **2.7 Cost Overruns (OCT 2003)**

The Government is under no obligation to share any cost overruns (i.e., costs incurred during the Demonstration Project that are more than those estimated at the date of award). DOE does not plan to set-aside funds for overruns. However, if appropriated funds are available in the future for supporting overruns, the Government's share of overruns will not exceed the Government's percentage cost share for the overall project and then only up to 25 percent of the original Government contribution as specified in the initial Cooperative Agreement.

#### **2.8 Allowable Pre-award Costs (MAR 1999)**

The Recipient is entitled to reimbursement of pre-award costs in the amount not to exceed \$9,000,000 of DOE obligations. These costs are limited to work associated with performance of work detailed in Recipient letter of November 29, 2004, incurred during the period starting on November 19, 2004 through the effective start date of this award (Block 7, DOE F 4600.1).

#### **2.9 Cost Sharing (MAR 2002)**

Cost sharing ratios may vary between budget periods but not within a budget period. In order to be recognized as allowable cost sharing, a cost must be otherwise allowable in accordance with the applicable Federal cost principles and DOE Regulations (10CFR600.313) governing cost sharing. Cost sharing may be in various forms or combinations, which includes but is not limited to cash outlays and in-kind contributions. All allowable project costs, whether in-cash or in-kind, shall be shared by DOE when such costs are incurred by applying the share ratios set forth in the Cooperative Agreement.

Provided below is a non-exclusive list of costs that are unallowable as project costs and cost sharing:

- X Costs incurred in negotiating a Cooperative Agreement with DOE are not allowable as direct charges to the project.
- X Allowable costs under past, present, or future Federal Government contracts, grants or Cooperative Agreements may not be charged against this Cooperative Agreement. Likewise, the Recipient may not charge costs allowable under this project, including any portion of its cost share to the Federal Government under any other contracts, grants, or Cooperative Agreements.
- X The day-to-day operating costs of the demonstration site will not be recognized as an allowable cost for cost sharing purposes. Only the operating costs directly associated with the proposed work effort (i.e., incremental costs distinct from the daily operational costs) may be recognized as allowable costs for cost-sharing purposes if adequately supported and properly documented.
- X DOE will not share in the acquisition costs of any fuel other than coal, under this Clean Coal Power Initiative, unless prior written approval is obtained from the DOE Contracting Officer.
- X Previously expended research or development costs are unallowable.