

Dave Hart

From: Thomas Micheletti [TomMicheletti@excelsiorenergy.com]
Sent: Wednesday, December 06, 2006 10:33 AM
To: Mike Larson; Dave Hart
Subject: FW:
Attachments: Power plant plan producing hot debate Star Trib (3).pdf; J Chen Testimony highlighted public.DOC

FYI. Hope you a well.

Tom

From: Thomas Micheletti
Sent: Tuesday, December 05, 2006 7:24 PM
To: 'Sen.David Tomassoni'; 'sen.tom.saxhaug@senate.mn'; 'sen.tom.saxhaug@senate.mn'; 'rep.tom.rukavina@house.mn'; 'Loren Solberg'; 'rep.tony.sertich@house.leg.state.mn.us'; Sandy Layman
Subject:

In case you missed it, attached is an article published in Sunday's StarTribune business page. My prediction is that many in the state will be happy that we are currently working on permits for two plants, and that we have two more sites to develop on the Iron Range. Some of the testimony in the Big Stone power plant proceeding (Big Stone is located in South Dakota but needs certificates from the PUC here to build transmission for the plant) makes me think that that plant is in serious jeopardy. Given the potential for just legal appeals on Minnesota issues, and the separate litigation involving alleged violations of the federal Clean Air Act by the existing plant, it seems inconceivable that Big Stone II, even if construction does start at some point, could ever be on line when its owners say it will, in 2011.

We have recently pointed out to the Governor's office, in a meeting last week, that his Department of Commerce is taking the following position in its filed testimony in the two power plant approval cases: They support the older, dirtier technology plant that is proposed to be built in another state, and they oppose the cleaner state of the art technology proposed to be built on the Iron Range in our state. I think the Gov's office was somewhat surprised by this, but the refrain we started out with five years ago still holds true: Why would we ever support the construction of \$2 Billion industrial plants in other states, when the states get the investment, they get our citizen's money, they get the jobs, we get the air pollution, and then someday we get another bill to pay for the mistake of building that kind of plant in the first place.

What's worse about all this is that we have MINNESOTA utilities promoting these concepts and opposing us. The main reason: they oppose the very idea of having even a little competition, especially from someone who has a technology that is cleaner, cheaper, and better. Please read Prof Jim Chen's testimony on this subject, as it is very important for the long term health and welfare of our Iron Range and the State. In the early 1970s, you legislators granted Minnesota utilities monopoly franchises. In return, they were supposed to act in the public interest. One utility in our case says that acting in its shareholder interest means the same thing as acting in the public interest. Others think that they can simply ignore the statute you passed in 2003.

It may be time for you to rethink what was done in the 1970s because fighting us and building dirty coal plants in the Dakotas does not meet the public interest test.

Will talk to you soon.

Tom

12/6/2006

Power-plant plan producing hot debate

• Xcel Energy electricity customers have billions of dollars at stake in a dispute over a proposed Iron Range power plant. The developers and Xcel Energy disagree on the cost of the plant's power.

BY MIKE MEYERS
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Two Minnesota power companies have been expending much of their energy lately in a behind-the-scenes struggle that's about to become public.

The outcome might affect the quality of life in Minnesota, breathe and affect the state's economy for generations to come. Much of

the friction has centered on a single question: What's the most cost-effective way to produce electricity in the first third of this century?

Excelsior Energy, a start-up company that wants to build a new-technology coal-gasification power plant on the Iron Range, says the electricity it will produce will cost no more — and perhaps billions of dollars less — than Minnesotans otherwise would pay.

Xcel Energy, which would be required to buy Excelsior's power, says the imposed demand could result in a \$7-billion or more increase in today's

dollars — in added costs to customers over 22 years. The 2003 Legislature, which created the requirement, aimed to foster cleaner use of a cheap, abundant fuel — coal — and create jobs on Minnesota's Iron Range.

From 2011, when the Excelsior plant would begin operation, until 2033, the average Minnesotan

residential customer would pay an extra \$3 to \$7.50 a month for Excelsior's power, while a typical commercial/industrial customer would pay \$2,700 to \$3,900 more per month, by Xcel's estimate. Utilities may walk into the future because building new power plants takes many years.

In another way, Xcel estimates Minnesotan customers would pay a 70 percent rate for electricity from the Excelsior plant, than they would for power supplied by Xcel or bought on the open market.

Gas continues: The proposed plant would cut raw coal pollutants, D.E.

Dispute over proposed coal-gasification power plant is producing heated debate

• GAS FROM DI

The state Public Utilities Commission (PUC) will decide which company prevails early next year. Public hearings are set for later this month. Excelsior needs PUC approval before it can begin building a power plant on 1,200 acres of undeveloped and unoccupied land in Iron Range Township, north of the city of Lacointe.

Cleaner air, more jobs

To borrow the money needed to build the plant, Excelsior must show lenders that someone will buy the power it produces. That's where Xcel comes in. While Excelsior presumably could sell electricity to other buyers on the nation's power grid, building a plant on speculation would require a leap of faith from lenders that buyers would step up and pay a price for electricity high enough to repay Excelsior's expenses.

The developers of the Excelsior project have been working on their idea for several years.

The husband-and-wife team, Thomas Micheletti and Julie Jorgensen, have years of experience in the power industry. Jorgensen, a lawyer who also holds a degree in finance, has put together pow-

er-plant deals across the United States and the world, from Australia and Latin America to the Czech Republic. Micheletti was for years a lawyer at Xcel's Northern States Power.

In an era when many countries have imposed carbon taxes on utilities to reduce pollution, the couple conceived of turning to new coal-gasification technology — transforming coal into gas — for a cleaner alternative to coal-fired power plants. They also tapped into the Legislature's interest in boosting the economy on the Iron Range. Their project promises to create more than 3,500 construction and ancillary jobs from 2008 to 2011. The plant would employ 107 full-time workers once it begins operation.

Over the next 30 years, the developers envision as many as six coal-gasification plants in northern Minnesota.

The annual plant would produce 600 megawatts of electricity — enough to power 600,000 homes. It also promises dramatic reduction of the pollution associated with burning coal, including particulates, sulphur and mercury. Burning gas made from coal still will produce carbon dioxide, a greenhouse gas, but Excelsior has unveiled plans to

curb that pollution. Xcel officials note that the cost of keeping carbon dioxide out of the environment is not included in the projected \$2 billion cost of the plant, though ultimately, state residents would pay the bill.

Excelsior officials say Xcel's rate calculations are deliberately misleading.

A desire to kill?

Jorgensen, Excelsior's copresident and chief executive, said Xcel wants to kill the proposed Iron Range plant in favor of building its own conventional coal-burning generating plants a few years from now.

She predicted that if the Iron Range plant isn't built, Xcel will rely more and more on natural gas to fuel electrical generators, putting its customers at risk of soaring costs if gas prices spike.

In a 2004 "resource plan" filed with state regulators, Xcel estimated natural gas would be used to generate 10 to 15 percent of electrical energy in Minnesota by 2015. That's two to three times the share produced by natural gas today. That's good news for Xcel's shareholders, Jorgensen said, because gas-fired electrical generators are relatively cheap to build, but it would be bad news for ratepayers because Xcel could pass on any increases in natural gas prices.

She characterized the Excelsior generator as an insurance policy against a rise in the cost of natural gas. The plant would turn pulverized coal into gas that would be burned to fuel electrical turbines.

Xcel officials note, however, that Excelsior will use natural gas as a backup fuel for its generators and that coal, the

EXCELSIOR ENERGY'S PLAN

Here is the proposed timeline for putting a coal-gasification power plant into operation on the Iron Range.

December 18, 19 and 20: Public Utilities Commission (PUC) hearings.

February 2007: Administrative law judges recommendations.

April 2007: PUC thumbs up or thumbs down.

All of 2007: Raise equity and secure financing.

September 2007: Environmental impact statement and permits issued.

First quarter 2008: Start construction.

Second quarter 2011: Tests and plant start-up.

Fourth quarter 2011: Begin commercial operation.

Source: Excelsior Energy.

plant's chief fuel, is subject to price swings, as well. The price swings in coal are small compared to past ups and downs in the price of natural gas, however.

Another unknown is the exact final cost of the Excelsior plant — a key factor in setting rates for the electricity produced there.

"Once they figure out how much it's going to cost to build Excelsior they're willing to set a price," said Elizabeth Engelking, Xcel manager of resource planning and bidding. "We would be signing an agreement without knowing what the actual costs are."

However, once a price was set for electricity from the new plant, Engelking acknowledged, Excelsior would have to live with it. Excelsior shareholders, not Xcel customers, would pay for any construction cost overruns, she said.

Power demand rises

Excelsior has marshaled a number of experts to testify that a coal-gasification plant would meet the state's fast-growing appetite for electric-

ity. Xcel hasn't built a major "base-load" generator, meant to produce power around the clock, since the 1980s.

Xcel says more base-load energy is needed, but not in the quantities to be produced by Excelsior, and not on Excelsior's timetable.

To head off a shortage in electricity supply, Xcel plans to boost the output of its existing nuclear and coal-fired plants between 2009 and 2014, increasing capacity by 300 megawatts. It also recently set plans to buy 375 megawatts generated by wind and water to meet base-load needs after 2015.

The bottom line, Excelsior's electricity won't be needed when the plant goes into production in 2012, Xcel says. To be sure, Xcel's links to the nation's power grid would allow the utility to sell excess power to other companies, but not necessarily at the price Xcel paid for the electricity.

Customers will be paying for excess capacity for three years, Engelking said.

Engelking, an economist, said Excelsior's argument about the potential for rising

natural gas costs doesn't mean its power plant is a low-cost alternative.

In testimony before state regulators, Engelking said Xcel ran computer simulations assuming sharply higher natural gas prices. The price of electricity in Minnesota remained unchanged in those scenarios whether the Iron Range plant was built or not, she said. The reason: Natural gas will not be used for generating electricity day-in, day-out, but only in periods of relatively high demand.

Excelsior officials are suspicious of Xcel's forecasts, saying that Xcel ratcheted down its estimates of electricity needed in the next few decades only after the Legislature mandated that Xcel buy power from the Excelsior plant.

"We know the growth of the state and metro area has been solid, totally predictable," said Micheleletti, Excelsior co-president and chief executive. "All of a sudden, they've lowered the growth rate from historical averages."

Xcel counters that its computer forecasts change twice a year in routine reviews.

"Of course it will change over time," said Judy Pifer, Xcel director of regulatory administration. "To say that we somehow manipulated reality does not give credit to the process we go through."

Xcel's numbers are reviewed by outside experts at the PUC and Department of Commerce.

In 2004 the Department of Commerce said we were over-projecting our customers' needs for power, Pifer said.