

EXCELSIOR ENERGY INC.

HAND DELIVERY

December 23, 2005

Dr. Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 Seventh Place East, Suite 350
St. Paul, Minnesota 55101

**Re: Petition for Approval of a Power Purchase Agreement,
Determination that Clean Energy Technology
is Likely to be a Least Cost Resource and
Establishment of the Clean Energy Technology Minimum
Docket No. _____**

Dear Dr. Haar:

Excelsior Energy Inc. and its wholly-owned subsidiary MEP-I LLC (“Excelsior”) respectfully submit a Petition pursuant to Minn. Stat. § 216B.1694, subd. 2(a)(7) (the Innovative Energy Project Statute or “IEP Statute”) and Minn. Stat. § 216B.1693(a) (the Clean Energy Technology Statute or “CET Statute”) (i) for Approval of a Power Purchase Agreement (the “PPA”) under the IEP Statute, (ii) for a Determination that Clean Energy Technology is or is likely to be a Least-Cost Resource under the CET Statute, and (iii) to Establish the Clean Energy Minimum under the CET Statute. The Petition contains certain highly confidential information that has been designated as “**Trade Secret**” information, as defined by Minn. Stat. § 13.37. In accordance with Minnesota Rule 7829.0500, an original and six (6) copies of the TRADE SECRET version of the Petition is provided. Also attached are nine (9) copies of the PUBLIC version of the Petition.

Appendix A to the Petition is the Mesaba Energy Project Report (the “MEP Report”) which includes an Executive Summary and is divided into the following sections:

- Section I Public Interest Determination
- Section II Clean Energy Technology Determination
- Section III Project Cost Analysis and Comparison
- Section IV Project Overview
- Section V Unit One PPA
- Section VI Summary of Key PPA Terms and Conditions
- Section VII Compendium of Recent Publications
Confirming IGCC’s Public Interest Benefits

As evidenced by the Petition and the MEP Report, Excelsior's proposed PPA meets the statutory public interest criteria and the Mesaba Project is or is likely to be a least cost base load resource. The Mesaba Project creates significant benefits, including protection from volatile natural gas prices, an expedited in-service date over other base load alternatives, emissions reductions and other environmental benefits, assured availability of clean, reliable energy and capacity, reasonable transmission and other interconnection costs, substantial risk mitigation afforded by the PPA structure, and critical economic development benefits for Northeastern Minnesota. We respectfully seek Commission approval so that the Project can continue to meet its 2011 in-service schedule.

In addition, the Petition and the MEP Report demonstrate the importance of establishing a minimum percentage under the CET Statute of at least 13%, which would facilitate a timely 2013 in-service date for the second unit of the Mesaba Energy Project.

Since late 2004, Excelsior has been in discussions with Northern States Power Company, d/b/a Xcel Energy ("NSP") regarding the terms and conditions for a PPA for the output of the Mesaba Project. In addition, during 2005, Excelsior met with a number of key stakeholders to discuss its Mesaba Project. Despite extensive efforts to negotiate the terms and conditions for the PPA, Excelsior and NSP are not able to jointly petition for approval of the PPA. Excelsior files this Petition to ensure that the purpose of the IEP and CET Statutes is realized for the benefit of NSP's customers and the people of Minnesota.

PROCEDURAL ISSUES

This filing is the first to come before the Commission under the terms of the IEP and CET Statutes. The statutes provide no procedural guidance. Appendix B to this Petition contains the detailed procedural and filing information for this Petition and attaches a copy of the CET and IEP Statutes. The filing is somewhat similar to a miscellaneous tariff filing. Minn. R. 7829.1300. It also has similarities to a filing to resolve disputes over terms of a power purchase agreement between a utility and a qualifying facility under the Public Utility Regulatory Policy Act of 1978 ("PURPA") and Minn. Stat. § 216B.164, subd. 5. Finally, the filing has similarities to proceedings to approve power purchase agreements to satisfy wind and biomass mandates. Minn. Stat. § 216B.1645. Because parties are likely to raise material fact issues in this proceeding, Excelsior respectfully requests a referral to the Office of Administrative Hearings for a contested case proceeding.

In general, the filing requests the following key findings from the Commission:

- *The proposed PPA is "in the public interest" and, consistent with Minn. Stat. § 216B.1694, subd.2(a)(7), Excelsior is entitled to and NSP shall enter into the PPA; and it is prudent and in the best interest of NSP's ratepayers for NSP to enter into the PPA within 30 days of issuance of the Commission's Order in this docket and, if NSP enters into the PPA within such 30 days, NSP shall be allowed to recover from ratepayers costs paid under the PPA provided that NSP prudently administers the PPA.*

- *The Mesaba Project's IGCC technology is a clean energy technology that "is or is likely to be a least cost resource" compelling NSP to "supply at least two percent of the electric energy provided to retail customers from [that] clean energy technology" under the CET Statute in addition to the 450 MW under the IEP Statute from the Mesaba Project.*
- *The minimum percentage of electric energy to be supplied to NSP's retail customers from the clean energy technology by 2013 shall be at least 13% (the "Clean Energy Minimum") and it is not contrary to the public interest for the Mesaba Project units one and two to supply the incremental portion of the Clean Energy Minimum to NSP.*

We believe the procedures established in this docket should be structured to allow focused participation in, and review of, any contested material fact issue presented by the parties.

Specifically, we respectfully suggest the following schedule for this proceeding:

In January 2006:	Commission Meeting
January 16, 2006	Comments on the Petition
February 8, 2006	Commission's Notice and Order for Hearing
February 15, 2006:	Prehearing Conference with Administrative Law Judge
February 15, 2006:	Deadline for Intervention
July 1, 2006:	Receipt of Proposed Order from Administrative Law Judge
August 31, 2006:	Commission Decision

This schedule would enable the Commission to reach its determinations by the fall of 2006, making it possible to complete pre-construction development activities and commence construction of the Mesaba Project so that it can be in service in 2011 to provide benefits to Xcel's customers and the State.

The schedule provides a significantly longer review period than other miscellaneous filings, and almost as much time as typically allowed in a general rate case. Further, because the Mesaba Project is exempt from the certificate of need process, the one-year timeframe for that process is not a relevant benchmark. Therefore, this schedule is fair and should be achievable.

In addition, we believe that public hearings on this matter would be appropriate, given the significant community interest in the Mesaba Project. Public hearings would facilitate involvement from interested persons and groups without requiring party status, improving the efficiency of the overall process, encouraging broad participation, and further developing the record for the Commission. We ask the Commission to consider directing the ALJ to include public hearings as a part of the proceeding.

FILING AVAILABILITY

We have served copies of this filing on the Commission, the Minnesota Department of Commerce, the Office of the Attorney General – Residential Utilities Division, and the attached service list. We are providing a copy of this letter and a summary of the filing to parties on NSP's general electric service list and its integrated resource plan service list. In addition, to ensure wide access to this Petition, we will post it on our website. Interested parties will be able to access the public version of all filed documents at www.excelsiorenergy.com.

CONCLUSION

We are excited by the benefits that the Mesaba Project will bring to Minnesota. We believe the Mesaba Project meets the Legislature's objectives identified in the CET and IEP Statutes. The Mesaba Energy Project Report attached to the Petition provides a comprehensive, detailed and thorough summary of a concrete proposal to meet the substantial impending base load need that Xcel Energy has consistently identified in each integrated resource plan since the year 2000. We look forward to productive input and dialogue on our filing and appreciate the interest of key stakeholders and the community in this undertaking.

Please contact me at (952) 847-2366 if you have any questions regarding this filing.

Sincerely,



Thomas L. Osteras
Vice President and General Counsel