

Phase 2 Direct Testimony and Schedules
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State of Minnesota
Before the Office of Administrative Hearings
For the Minnesota Public Utilities Commission

*In the Matter of a Petition by Excelsior Energy Inc. for Approval of a Power
Purchase Agreement Under Minn. Stat. § 216B.1694, Determination of Least
Cost Technology, and Establishment of a Clean Energy Technology Minimum
Under Minn. Stat. § 216B.1693*

OAH Docket No. 12-2500-17260-2
PUC Docket No. E6472/M-05-1993

Case Overview

April 3, 2007

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1 **I. INTRODUCTION**

2
3 Q. PLEASE STATE YOUR NAME.

4 A. My name is Judy M. Poferl.

5
6 Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS CASE?

7 A. Yes. In Phase 1 of this proceeding, I provided testimony regarding policy
8 issues and an overview of Xcel Energy's case.

9
10 **II. PURPOSE**

11
12 Q. WHAT IS THE PURPOSE OF YOUR PHASE 2 DIRECT TESTIMONY?

13 A. I provide the Company's overall assessment of the direct case presented by
14 Excelsior Energy Inc. and MEP-I LLC (collectively, "Mesaba 1 LLC") in
15 Phase 2 of this proceeding. I also introduce Xcel Energy's witnesses
16 presenting Direct Testimony in Phase 2.

17
18 Q. HOW DO YOU PRESENT YOUR TESTIMONY?

19 A. I present my testimony in the following sections:

- 20 • Case Framework,
- 21 • Assessment,
- 22 • Witness Introduction, and
- 23 • Conclusion.

24
25 **III. CASE FRAMEWORK**

26
27 Q. PLEASE SUMMARIZE MESABA 1 LLC'S REQUEST IN THIS PROCEEDING.

1 A. Mesaba 1 LLC asks the Commission to require that at least 13 percent of the
2 energy Xcel Energy provides to its Minnesota retail customers by 2013 be
3 supplied by Mesaba Unit 2, the planned 603-MW second unit of the Mesaba
4 integrated gasification combine-cycle (“IGCC”) project. Mesaba 1 LLC also
5 discusses subsequent units and the potential for using its IGCC technology as
6 a substitute for existing coal-fired power plants on Xcel Energy’s system.

7
8 Q. PLEASE DESCRIBE HOW PHASE 2 OF THIS PROCEEDING RELATES TO PHASE 1.

9 A. In Phase 1, Mesaba 1 LLC sought Commission approval of a 603-MW power
10 purchase agreement for Mesaba Unit 1 (“Mesaba 1 PPA”). It sought approval
11 of 450 MWs of the Mesaba 1 PPA pursuant to Minn. Stat. § 216B.1694 (the
12 “Innovative Energy Project” statute), and the additional 153 MWs pursuant to
13 Minn. Stat. § 216B.1693 (the “Clean Energy Technology” statute). Phase 2
14 assumes that the Commission approves Mesaba 1 LLC’s request in Phase 1;
15 thus it assumes that the 603-MW Mesaba Unit 1 will be built and provide
16 service to the Company through the proposed Mesaba 1 PPA.

17
18 Q. PLEASE DISCUSS THE METHOD BY WHICH XCEL ENERGY ASSESSES THE PHASE
19 2 PROPOSAL.

20 A. We apply the criteria of the Clean Energy Technology statute to the
21 information provided by Mesaba 1 LLC and present for the Commission’s
22 consideration our analysis and assessment. Because of the focus on cost in
23 this phase of the proceeding, we provide information on the effect Mesaba
24 Unit 2 would have based on our updated system planning analyses. As
25 discussed further below, because Mesaba 1 LLC provided no information
26 regarding costs or terms, we assumed the costs provided in Phase 1 are
27 applicable to Phase 2.

1
2 While the system planning information provided in our Direct Testimony is
3 specific to Phase 2, we recognize that a number of important issues and
4 concerns were developed in Phase 1 that are relevant to Mesaba 1 LLC's
5 proposal. Therefore, in addition to our Phase 2 Direct Testimony, Xcel
6 Energy adopts and incorporates into the record of Phase 2 all testimony and
7 exhibits sponsored by the Company in Phase 1.

8
9 **IV. ASSESSMENT**

10
11 Q. YOU NOTED THAT MINN. STAT. § 216B.1693 ESTABLISHES SPECIFIC CRITERIA
12 FOR THE COMMISSION'S CONSIDERATION OF A CLEAN ENERGY TECHNOLOGY.
13 CAN YOU ELABORATE?

14 A. Yes. Subdivision (a) of the Clean Energy Technology statute directs the
15 Commission to determine whether the proposed project is or is likely to be a
16 least-cost resource, including the cost of transmission and other generation
17 upgrades necessary, and ancillary services. If the project meets this criterion,
18 then Xcel Energy would be required to provide at least two percent of the
19 electric energy provided to retail customers from the technology.

20
21 The statute also provides that if the two percent requirement is triggered, then
22 the energy is to be supplied by an Innovative Energy Project approved by the
23 Commission under Minn. Stat. 216B.1694, unless the Commission
24 determines that it would be contrary to the public interest.

25
26 I provide a copy of the Clean Energy Technology statute as Exhibit___(JMP-
27 3), Schedule 1.

1 Q. HAS MESABA 1 LLC PROVEN THAT MESABA UNIT 2 SATISFIES THE
2 REQUIREMENTS OF THE CLEAN ENERGY TECHNOLOGY STATUTE?

3 A. No. Other than Mr. Stephen Sherner's cost estimate for transmission
4 infrastructure needed to support Mesaba Unit 2, Mesaba 1 LLC provided no
5 testimony or proposal regarding the costs or terms of a PPA for Mesaba Unit
6 2. As such, Mesaba 1 LLC has not provided sufficient information to show
7 that Mesaba Unit 2 meets the least-cost requirements of the Clean Energy
8 Technology statute. Absent a clear showing by the applicant that its proposal
9 is a least-cost resource, the Commission cannot make the necessary findings
10 and subsequent public interest determinations required by the statute for
11 approval.

12

13 Q. WOULD YOU EXPECT MESABA UNIT 2 TO BE A LIKELY LEAST-COST RESOURCE?

14 A. No.

15

16 Q. WHY NOT?

17 A. Our 2004 Resource Plan proceeding established a base load need of 375 MW
18 in 2015. As thoroughly discussed in our Phase 1 testimony, the proposed
19 603-MW Mesaba Unit 1 would already result in excess capacity in advance of
20 system needs and at a higher cost than available alternatives: clearly, a second
21 600-MW unit as proposed in Phase 2 would exacerbate this situation.
22 Consequently, it is reasonable to conclude that Mesaba Unit 2 does not and is
23 not likely to offer a least-cost resource for our system.

24

25 Q. DID THE COMPANY TEST THIS EXPECTATION WITH MORE DETAILED
26 ANALYSIS?

1 A Yes. In the absence of applicable cost information, for purposes of our
2 testimony, we assumed that the costs, terms, environmental impact, and
3 financial implications of Mesaba Unit 2 are the same as those provided by
4 Mesaba 1 LLC for Mesaba Unit 1 and the Mesaba 1 PPA during Phase 1. Ms.
5 Elizabeth Engelking's Direct Testimony provides the results of our system
6 planning analysis under these assumptions. Her analysis estimates that the
7 addition of Mesaba Unit 2 would impose approximately \$2.5 billion more
8 than either our approved Resource Plan or our system costs assuming our
9 proposed base load resource is approved. Based on this analysis, as well as
10 the other implications discussed by Company witnesses in Phase 1, the
11 Commission has no basis for finding that Mesaba 1 LLC's proposal meets the
12 least-cost requirement of the Clean Energy Technology statute.

13

14 Q. ARE THERE ANY OTHER FACTORS THE COMMISSION SHOULD CONSIDER AS IT
15 WEIGHES THE PUBLIC INTEREST IN THIS PROCEEDING?

16 A. Yes. Assuming that Mesaba 1 LLC proposes a PPA for Phase 2 that is
17 identical to the Mesaba 1 PPA, all of the concerns raised by the Company in
18 Phase 1 apply in Phase 2. These concerns are significant, and include:
19 commercially unacceptable risk transfers to our customers; credit rating,
20 accounting, and other financial implications for Xcel Energy, which will raise
21 costs for our customers that have not been fully reflected in our analysis; and
22 environmental concerns, given that Mesaba 1 LLC does not plan or commit
23 to carbon sequestration.

24

25 Q. DO YOU HAVE ANY OTHER OBSERVATIONS FOR THE COMMISSION TO
26 CONSIDER?

1 A. Yes. I believe the Commission can view this case from a basic and
2 fundamental perspective once it has made its determination in Phase 1. If
3 Mesaba Unit 1 does not meet the statutory requirements in Phase 1, then
4 Phase 2 of the proceeding is clearly not necessary and should not proceed
5 further. Phase 1 of this proceeding was subject to different statutory
6 requirements that offered additional considerations beyond the least-cost and
7 public interest considerations of the Clean Energy Technology statute; if
8 Mesaba 1 LLC does not prove to the Commission's satisfaction that its Phase
9 1 proposal meets that test, then clearly its Phase 2 proposal will not meet its
10 applicable statutory test.

11
12 However, Phase 2 of this proceeding is not necessary even if the Commission
13 finds that Mesaba Unit 1 meets the requirements of the Innovative Energy
14 Project and Clean Energy Technology statutes, as the obligations under both
15 statutes could be satisfied by Phase 1. As Ms. Engelking discusses in her
16 testimony, two percent of the energy Xcel Energy expects to provide to retail
17 customers in 2012 would be supplied from approximately 97.5 MW of
18 capacity from Mesaba Unit 1. Because the statutory requirement to purchase
19 energy from a Clean Energy Technology would be fully met by Mesaba Unit 1
20 (via the 153 MWs over the 450 MWs sought under the Innovative Energy
21 Project statute), there is no obligation for Xcel Energy to purchase additional
22 energy from Mesaba Unit 2.

23
24 **V. WITNESS INTRODUCTION**

25
26 Q. PLEASE INTRODUCE THE OTHER WITNESS WHO IS FILING DIRECT TESTIMONY
27 ON BEHALF OF XCEL ENERGY IN PHASE 2 OF THIS PROCEEDING.

1 A. In addition to my testimony, Ms. Elizabeth M. Engelking provides Direct
2 Testimony on the system impact of Mesaba Unit 2.

3

4

VI. CONCLUSION

5

6 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

7 A. Based on our analysis, Xcel Energy concludes that Mesaba 1 LLC has
8 provided insufficient information to prove that Mesaba Unit 2 offers a least-
9 cost resource for our system or is consistent with the public interest.

10

11 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

12 A. Yes, it does.

Minn. Stat. § 216B.1693 CLEAN ENERGY TECHNOLOGY

(a) If the commission finds that a clean energy technology is or is likely to be a least-cost resource, including the costs of ancillary services and other generation and transmission upgrades necessary, the utility that owns a nuclear generating facility shall supply at least two percent of the electric energy provided to retail customers from clean energy technology.

(b) Electric energy required by this section shall be supplied by the innovative energy project defined in section 216B.1694, subdivision 1, unless the commission finds doing so contrary to the public interest.

(c) For purposes of this section, “clean energy technology” means a technology utilizing coal as a primary fuel in a highly efficient combined-cycle configuration with significantly reduced sulfur dioxide, nitrogen oxide, particulate, and mercury emissions from those of traditional technologies.

(d) This section expires January 1, 2012.

History: *1Sp2003 c 11 art 2 s 4*