



Minnesota Department of Natural Resources

500 Lafayette Road
St. Paul, Minnesota 55155-40_25

May 5, 2006

Mr. William Cole Storm
Minnesota Department of Commerce
85 7th Place East, Suite 500
St. Paul, MN 55101-2198

RE: Mesaba Energy Project
Draft LEPGP Site, HVTL Route, and Pipeline Route Permit Application
PUC Docket No. 05-94-PPS-Excelsior Energy-Mesaba

Dear Mr. Storm:

The Department of Natural Resources (DNR) has reviewed the Draft Large Electric Power Generating Plant Site, High Voltage Transmission Line Route, and Pipeline Route Permit Application (Draft Application) for Excelsior Energy's proposed Mesaba project. With respect to potential impacts to natural resources, and in accordance with Minnesota Statutes §116C.61 Subdivision 3(a), the DNR offers the following comments.

Summary of Unavoidable Effects and Mitigative Measures – Unique to West Range Site (Table 2.7-2, page 126)

The Draft Application states that lowering water levels within the Canisteo Mine Pit (CMP) will create a positive effect. While lowering the water level will create a positive effect, it can also create negative effects over the winter to lake trout eggs on shoals, and can have detrimental effects on water surface use if water levels drop below boat access ramp elevations or if rock reefs are exposed.

Recycling of cooling water into the CMP could create increased mercury concentrations in the pit. Lake trout, especially because they are a fatty fish, are a bioaccumulator of mercury. Estimates of project effects on mercury levels in the pit should be addressed in the Joint Permit Application and subsequent environmental analysis. The environmental analysis should include information on anticipated impacts for the life of the power plant operations.

IGCC Power Station Water Use Flow Program-Phases I and II (Figure 3.4-4, page 193)

The Draft Application identifies CMP and Holman Lake as the only two receiving waters for cooling water blowdown on the West Range Site. The Joint Permit Application and subsequent environmental analysis should evaluate adding Prairie River as a third option to receive discharge, and what the ecological effects may be under that scenario. The high concentration of dissolved solids in the cooling water blowdown and repeat discharges could affect CMP water quality. The Joint Permit Application and subsequent environmental analysis should evaluate whether there is any risk of contaminating groundwater in the area. The Prairie River appears to have the ability to flush and dilute cooling water blowdown discharge.

Water Supply and Water/Wastewater Management Infrastructure (3.6, page 251)

The Draft Application correctly states that water levels in the CMP and Hill Annex Mine Pit (HAMP) are rising or overflowing, and the DNR acknowledges that the Excelsior Energy plan could assist in defraying the costs of dewatering these two water bodies. However, the DNR's Division of Parks and Recreation continues to allocate funds to draw down the HAMP by pumping water to Upper and Lower Panasa Lakes. The Division of Parks and Recreation is committed to maintaining water levels in this pit regardless of whether the Mesaba project plans to use the water.

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Similarly, the Western Mesabi Mine Planning Board has been addressing the water level issue in the CMP since 2001, and is in the process of contracting with a consulting firm to develop an engineering-level design for a siphon from CMP to Trout Lake. This process is independent of Excelsior Energy's plan and the design will be ready to be implemented should the western range site not be selected.

Water Resources and Water Quality (7.6, page 428 and 8.6, page 519)

The DNR requests more information on ecological impacts resulting from altered stream flows or lake water levels due to changes in flow from water loss. Subsequent environmental analysis should also evaluate the potential for moving invasive species between watersheds when pumping water across watershed boundaries.

CMP Complex (7.6.2.1.1, page 430)

The Draft Application states, "For safety, security, and operational reasons, the Applicant proposes that this boat launch eventually be removed and access to the CMP be restricted." The DNR wishes to maintain an access to this locally important fishery resource for the citizens of the state. The City of Bovey has expressed an interest in developing an access on the main basin of the lake, which would allow the eventual removal of the current access. The DNR supports this approach.

Water Levels and Water Balance During Operation of Phase I and Phase II (7.6.3.1, page 436)

When discussing the project's water balance, the assumption seems to be made that all the available water from the HAMP will be available for the Mesaba project. Are other projects competing for the use of this water?

Thank you for the opportunity to review this document. Please contact me with any questions regarding this letter.

Sincerely,



Matt Langan, Environmental Planner
Environmental Policy & Review Unit
Division of Ecological Services
(651)259-5115

c: Lee Pfannmuller, Steve Colvin, John Guenther, Dave Holmbeck, Bob Leibfried, Jeff Hines, Chris Kavanaugh, Karl Koller, Paul Maurer, Steve Railson, Rian Reed