

February 16, 2023

VIA HAND DELIVERY

Governor's Office

Governor, Tim Walz

Lieutenant Governor, Peggy Flanagan

SENT VIA ELECTRONIC COMMUNICATION

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RE: Emerald Ash Borer/St. Paul Cogeneration

Dear Governor Walz, Lieutenant Governor Flanagan and members of the Cabinet,

We are writing to make you aware that the state's largest biomass-fired combined heat and power plant, St. Paul Cogeneration (SPC), is at risk of ceasing operations if funding is not secured to support the use of biomass fuel from metro-area tree waste.

After conversations with state agencies and many other stakeholders, **no credible or cost-effective alternative solution has been identified to manage the 250,000 tons of tree waste used annually by SPC.** In collaboration with other stakeholders, we propose a new grant program to support the processing of tree waste into biomass fuel for use at SPC. Funding of \$20 per ton of biomass fuel is needed to make the economics of renewable power generation viable. At 250,000 tons of processed wood waste per year, that cost comes out to approximately \$5M per year. With the power purchase agreement (PPA) between District Energy St. Paul and Xcel Energy set to expire in 2024, we are at an important crossroads and time is of the essence.

For several years, District Energy St. Paul (District Energy) and its subsidiary SPC have been engaged in conversations with the Legislature, Department of Agriculture, Minnesota Pollution Control Agency, Department of Commerce, Department of Natural Resources, and multiple units of local government concerning the critical role SPC plays in the management of tree waste in and around the Twin Cities metro. We initially did so because SPC's original 20-year power purchase agreement (PPA) with Xcel Energy was on the horizon to end in 2022. It became clear through those conversations that unless enabling legislation was passed that allowed the Public Utilities Commission (PUC) to approve a new PPA, SPC was going to shut down and no longer be a resource for the management of wood waste. Those conversations took on added urgency as awareness grew about the devastating impact the spread of the emerald ash borer (EAB) was projected by the State of Minnesota to have on the tree canopy and resulting volume of tree waste that would need to be managed.

In 2021 the Legislature passed SF1047, which enabled SPC and Xcel Energy to enter into a two-year agreement that was subsequently approved the PUC. That legislation and the resulting PPA allowed SPC to continue to operate as work continued to secure funding to reduce the cost of generating electricity as was required by the legislation,

(d) During the agreement period, the cogeneration facility must attempt to obtain funding to reduce the cost of generating electricity and enable the facility to continue to operate beyond the agreement period to address the removal of ash trees, as described in paragraph (b), clause (1), without any subsidy or contribution from any power purchase agreement after December 31, 2024. The cogeneration facility must submit periodic reports to the commission regarding the efforts made under this paragraph.

The new agreement period started January 1, 2023. SPC is now operating under the terms of that two-year PPA with Xcel Energy that caps the price paid for electricity at \$98/MWh, in accordance with the legislation. That PPA ends on December 31, 2024. Since the passage of SF1047, we have been working together with Xcel Energy, the MPCA and others to meet the requirements of the legislation and those of the PUC orders when it approved the PPA, including determining the societal benefits of continuing the operation of SPC. Those calculations have been completed.

As the state's largest biomass-fired combined heat and power plant, SPC was purposely designed and privately financed to solve a regional problem in 2003 by using tree waste to generate renewable electricity for Xcel Energy and heat in the form of hot water for District Energy. The plant annually uses approximately 250,000 tons of biomass fuel, enough tree waste to fill over 11,300 semi-truck trailers with wood chips.

Recent reports from the Environmental Quality Board (EQB) and the Partners on Waste & Energy (PWE) both highlight the vital role SPC plays in the management of tree waste. The State of Minnesota featured SPC in its *2019 Minnesota State Agency Emerald Ash Borer Report* published by the EQB. That report identified that the spread of EAB would generate significant volumes of tree waste that would need to be managed and the importance of keeping biomass facilities, such as SPC, in operation. An October 2022 study completed by Cambium Carbon for PWE estimates that SPC is currently managing approximately 2/3 of all of the tree waste generated in and around the Twin Cities metro region. When it considered the impact that closure of SPC would have on the region's ability to manage volume of tree waste used by SPC, Cambium Carbon concluded **"Without (SPC's)**

processing capacity, it is impossible to absorb current material volumes through other offtake channels.”

Without an identified alternative solution, the Metro region will be forced to return to the solution used prior to SPC: open burning.

Under current agreements some of the cost to manage regional wood waste is passed onto customers of Xcel Energy and District Energy through the sale of electricity and hot water for heating buildings. Instead of using natural gas, approximately 50 percent of the heat District Energy needs for the annual heating load of 32 million square feet of buildings in downtown Saint Paul, including the Capitol Complex, is generated by SPC. If SPC ceases operation, **the total cost for the management and disposal of 250,000 tons of tree waste annually would ultimately be paid by the public.**

This cost burden does not include the significant societal impacts that would result from open burning tree waste, nor that District Energy will need to transition to using natural gas as its primary energy source versus the current 50 percent natural gas and 50 percent from biomass fuel. Disposing of the tree waste currently used by SPC via open burning produces no tangible societal benefit. Only cost.

For the past 20 years, the region has benefited from a public-private partnership that enabled District Energy to attract private capital to develop SPC and manage regional tree waste while also generating renewable electricity for Xcel and renewable heating for District Energy. The development of SPC was enabled by State policy, which supported the economics of a regional biomass-fueled facility utilizing tree waste and made the private development and operation of SPC possible. While State policy and the economic environment for renewable energy from biomass has evolved over the past 20 years, the need for a regional solution to manage large volumes of tree waste has not. In fact, it is becoming increasingly important in the face of the devastating impact EAB will have for many years to come.

It is clear that a new public-private partnership model is needed. One that preserves the ability for SPC to be financially viable while continuing to serve as vital infrastructure for the management of regional tree waste. For SPC to continue operation, we need a new approach in policy and funding for tree waste management. Without action the solution currently in place will cease to exist, forcing state and local units of government to quickly find and fund alternative plans to manage the tree waste currently managed by SPC.

With all of this in mind, the ask is straightforward: we need a program to provide grant funding in the amount of \$20 per ton of processed biomass fuel sourced from wood waste including ash trees felled by the emerald ash borer epidemic. At 250,000 tons of processed wood waste per year, that cost comes out to approximately \$5M per year.

We are unable to solve this problem on our own. We stand ready to work together with you to find solutions to resolve this urgent matter.

Sincerely,

Ken Smith, CEO