



AN ALLETE COMPANY

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June 18, 2021

**VIA E-FILING**

Will Seuffert  
Executive Secretary  
Minnesota Public Utilities Commission  
121 7th Place East, Suite 350  
St. Paul, MN 55101-2147

Re: In the Matter of a the Petition by Minnesota Power for Approval of Land Sales  
**Docket No. E015/PA-20-675**

Dear Mr. Seuffert:

Minnesota Power respectfully submits this update to the Minnesota Public Utilities Commission (“Commission”) in response to decision options offered by Commissioner Tuma in this docket on May 12, 2021 and discussion at the Commission hearing on May 13, 2021. Following the Commission hearing, Minnesota Power (or, “the Company”) surveyed its current leaseholders to determine their preferences regarding the sale of residential lease lots, and as a result of the survey results the Company is agreeable to setting the purchase price of lease lots to 2021 Estimated Market Value (“EMV”) plus 4 percent, with leaseholders having six months of to take advantage of this rate from the date the lot is offered for sale.

**Background**

As Minnesotans were struggling with the economic repercussions of the COVID-19 pandemic in 2020, Minnesota Power voluntarily brought forward a unique opportunity to provide significant and meaningful rate mitigation for customers with its proposal to sell landholdings along traditional hydro reservoirs that are no longer necessary for operating or maintaining hydro operations. No parties opposed Minnesota Power’s proposal and the Department of Commerce recommended the Commission approve the Company’s Petition.

On May 13, 2021, the Commission heard Minnesota Power’s Petition for approval to conduct land sales of residential lease lots on Island Lake Reservoir, Fish Lake Reservoir, Whiteface Reservoir, Fall Lake, and Garden Lake. In the Petition, Minnesota Power had proposed to use the respective county’s most current EMV as the purchase price for the lease lots. EMVs are calculated each year by the respective counties and are also currently the value used to assess rent for leaseholders (typically 2.5 percent of EMV as an annual rent). The majority of the approximately one thousand lease lots are located in St. Louis County and are already occupied by leaseholders. Approximately 20 lots in Lake County are undeveloped, with no leases present.

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Prior to the Commission hearing, on May 12, 2021, Commissioner Tuma proposed two alternatives for lease lot valuation and sales process. The first option was to allow Minnesota Power to set the baseline value for each lot occupied by a leaseholder for sale on the county's EMV methodology plus 4 percent to capture the county assessment lag. Under this proposal, sales would need to be negotiated within the next two years of the date of the order, and if not the property must be sold at auction upon the termination of the lease unless a variance is specifically sought for extraordinary circumstances.

Commissioner Tuma's second option was for lots without leaseholds to be offered for sale at no less than 25 percent over EMV and may only be sold at less than this amount for offers above of 4 percent the current EMV if the offer is over three months old. If these lots are not sold the company will file a proposal for auction or continued offering of the remaining lots two years after the date of the order.

### **Leaseholder Survey Results**

As a result of Commissioner Tuma's decision options proposed on May 12 and the discussion at the Commission hearing on May 13, Minnesota Power agreed to consider the amendments and also conduct an additional survey with leaseholders.

Following the hearing, Minnesota Power notified leaseholders of the opportunity to participate in online survey with leaseholders on the affected reservoirs. The survey provided an opportunity for leaseholders to select their preference regarding purchase price of the leased lots among three options:

- 1) *The most current Estimated Market Value, which may fluctuate from year to year. Platting would need to be complete before your EMV is assigned as your purchase price; platting is anticipated to be complete in phases, ranging from 2021-2023 (Minnesota Power's initially proposed option)*
- 2) *The 2021 Estimated Market Value, plus 4 percent to account for anticipated EMV increases for all phases. You would have six months after your plat is complete to enter into a purchase agreement to take advantage of this offer. (based on Commissioner Tuma's proposed amendment, but modified to remove the proposed auction process)*
- 3) *I am not interested in purchasing my lot at this time.*

During this time, Minnesota Power also fielded numerous emails and phone calls from leaseholders to answer leaseholder questions regarding these options.

While Commissioner Tuma's May 12 alternatives required that lease lot sales must be completed within two years or sold at auction, Minnesota Power did not include this provision in the online survey and remains opposed to any auction process for lots with a leasehold interest. The Company will (and must) continue to honor existing lease agreements with current leaseholders throughout lease terms, with the majority of lease

expiration dates dating to 2028 or beyond. Offering lease lots for auction on which personal property exists would be in conflict with terms and conditions of the existing leases, and would be highly controversial and detrimental to our leaseholders' interests. If an auction was conducted, leaseholders could find themselves in the position of having to outbid external parties for the land on which their personal property is located. In addition to the leaseholder potentially having to incur additional costs (associated with outbidding another bidder for the land) under this option, if the leaseholder was not successful in the lease lot auction, they would then likely be forced to sell their personal property to the successful bidder or pay to have their personal property removed. This is a scenario which Minnesota Power would not support under any circumstances.

Rather, in the survey, Minnesota Power proposed that leaseholders could take advantage of the 2021 EMV + 4 percent purchase price within six months of their lots being available. If the leaseholders did not take advantage of that rate within six months, the purchase price would revert to the most current EMV. Minnesota Power must first complete platting of the lots and other activities prior to sale, including the adjustment of the FERC Project Boundary. It is anticipated that some lots will be available for purchase in 2022, with the rest not being available until 2023. Whenever the lot is available for purchase, the initial purchase price would then be the 2021 EMV plus four percent. If the leaseholder chooses not to enter into a purchase agreement within six months of the lot being available for sale, the purchase price would then be the most current year's EMV.

Minnesota Power received 313 responses to the survey. Only one response was allowed per lease lot. Of the responses received, 197 leaseholders (63 percent) preferred setting the purchase price at the 2021 EMV, plus 4 percent to account for the lag. Another 76 leaseholders (24 percent) preferred using the most current EMV, while 40 leaseholders (13 percent) indicated they were not interested in purchasing their lot at this time.

As a result of the survey results the Company is agreeable to setting the purchase price of lease lots to 2021 EMV plus 4 percent, with leaseholders having six months of to take advantage of this rate from the date the lot is offered for sale.

### **Lease Lots without Current Leasehold Interest**

For the approximately 20 lots without a leasehold interest, it is the Company's position that the best way to secure the most value, and subsequently the best outcome for customers, is to enlist an external, established real estate agent(s) to list and sell the properties, with Minnesota Power's approval prior to any sale. This approach will include both local market conditions and broader trends in lakefront properties. Minnesota Power will deduct costs associated from the real estate firm and other transaction costs from revenues that are returned to customers.

### **Supplemental Information**

During the Commission hearing on May 13, 2021, the Federal Energy Regulatory Commission ("FERC") Project Boundary adjustment was discussed. As noted in the Petition, portions of the lease lots must be removed from the FERC Project Boundary

before sale. Since May 13, the public comment period on the FERC Project Boundary adjustment has expired. FERC received one public comment during this time, from the Minnesota Department of Natural Resources (“MDNR”). The MDNR’s comment was focused on ensuring that leaseholders continue to understand that the land they may purchase from MP is adjacent to the FERC Project Boundary and is part of a FERC-licensed hydropower operation. Minnesota Power does not anticipate this comment will affect FERC’s ability to act on the Project Boundary adjustment. While no time frame for FERC approval has been established, the Company still anticipates that a decision will be made by the FERC regarding the Project Boundary before the end of 2021.

### **Conclusion**

Minnesota Power’s proposal to voluntarily sell landholdings no longer necessary for maintaining hydro operations is a unique opportunity to provide significant rate mitigation for customers following the COVID-19 pandemic. The Company still believes its initial proposal, which was supported by the Department of Commerce, to use the current EMV for the sale price of lease lots is reasonable. However, based upon survey feedback from leaseholders the Company is agreeable to setting the purchase price of lease lots to 2021 EMV plus 4 percent, with leaseholders having six months of to take advantage of this rate from the date the lot is offered for sale.

If you have any questions regarding this filing, please contact me at (218) 355-3202 or [jjcady@mnpower.com](mailto:jjcady@mnpower.com).

Respectfully,



Jennifer J. Cady  
*Manager – Regulatory Strategy & Policy*

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STATE OF MINNESOTA    )  
                                  ) ss  
COUNTY OF ST. LOUIS    )

AFFIDAVIT OF SERVICE VIA  
ELECTRONIC FILING

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Tiana Heger of the City of Duluth, County of St. Louis, State of Minnesota, says that on the 18<sup>th</sup> day of June, 2021, she served Minnesota Power’s Supplemental Letter in **Docket Nos. E015/PA-20-675** on the Minnesota Public Utilities Commission and the Energy Resources Division of the Minnesota Department of Commerce via electronic filing. The persons on E-Docket’s Official Service List for this Docket were served as requested.



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Tiana Heger