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David R. Moeller
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April 28, 2014

VIA ELECTRONIC FILING

Dr. Burl W. Haar
Executive Secretary
Minnesota Public Utilities Commission
121 7th Place East, Suite 350
St. Paul, MN 55101-2147

Re: In the Matter of a Petition for Approval of an Electric Service
Agreement Between Mesabi Nugget and Minnesota Power
Docket No. E015/M-14-155

In the Matter of Minnesota Power's Erie Mine Site Service Schedule
Docket No. E015/M-14-166

Dear Dr. Haar:

Minnesota Power hereby electronically submits its Reply Comments in the above-referenced Dockets. An Affidavit of Service is included.

Please contact me at the number above if you have any questions regarding this filing.

Yours truly,

David R. Moeller

kl
Attachments
c: Service List



**STATE OF MINNESOTA
BEFORE THE
MINNESOTA PUBLIC UTILITIES COMMISSION**

In the Matter of a Petition for Approval Docket No. E015/M-14-155
of an Electric Service Agreement Between
Mesabi Nugget and Minnesota Power

In the Matter of Minnesota Power’s Docket No. E015/M-014-166
Erie Mine Site Service Schedule

Reply Comments

On March 31, 2014, the Department of Commerce, Division of Energy Resources (“Department”) submitted comments regarding Minnesota Power’s two petitions in the above-referenced Dockets regarding the new Mesabi Nugget Electric Service Agreement (“ESA”) and the related Erie Mine Site Service (“EMSS”) Schedule proposed tariff revisions. The Department requested additional information from Minnesota Power in these Reply Comments for both petitions. In addition, on April 15, 2014, Mesabi Nugget filed comments supporting the ESA and EMSS Schedule tariff changes and providing additional economic justifications.

Minnesota Power addresses both Dockets in these Reply Comments to facilitate the Minnesota Public Utilities Commission’s (“Commission”) review of the Dockets and to further develop the record.

EMSS Requested Information

The Department requested Minnesota Power provide the entire original State Master Agreement and any modifications made to the State Master Agreement over time. Attachment A is the entire State Master Agreement. No modifications have been made to the agreement since it was executed and implemented by the parties. It is Minnesota Power’s understanding that the four state agencies that signed the State Master Agreement will be sending a letter to the

Commission confirming that Minnesota Power's proposal to eliminate the six-year maximum term to the availability section of the EMSS tariff is acceptable.¹ Irrespective of these state agencies' support for the tariff modifications and Mesabi Nugget, the applicable provision in the State Master Agreement to these Dockets was the requirement that Minnesota Power file with the Commission for a new tariff, which the Commission ultimately approved as the EMSS Schedule.

The Department requested the basis for Minnesota Power's conclusion that PolyMet is no longer eligible for service under the EMSS Schedule and documentation that PolyMet continues to decline service under the EMSS Schedule given Minnesota Power's proposal to extend service until Minnesota Power retires Taconite Harbor. Attachment B is a 2010 letter from PolyMet where PolyMet voluntarily discontinued taking EMSS effective July 1, 2010. Under both the original EMSS Schedule and the proposed modifications, customers were required to commence service of at least 2,000 kW by January 1, 2008 and pay the applicable monthly billing demand charges for the entire term of their EMSS Schedule commitment. Rather than pay for energy and capacity it was not utilizing when the timing of its planned operation changed, PolyMet decided to voluntarily discontinue service under the EMSS Schedule and therefore no longer meets the service requirements under the EMSS.

Finally, while not part of the Department's summary of recommendations, pages 6 and 7 of the Department's comments on the EMSS tariff address Minnesota Power's fixed cost recovery benefits from Mesabi Nugget capacity revenue. The Department states that is "based on the assumption that Mesabi Nugget's operations will cease prior to when MP retires Taconite Harbor", and the Department recommends that Minnesota Power provide documentation of that assumption in Reply Comments. In a phone conversation with the Department, Minnesota Power clarified that the Department's concern here is related to the timing of the Company's next rate case and whether the existing Mesabi Nugget ESA (which has a rolling four-year notice of cancellation) is still in effect then. If the test year for Minnesota Power's next rate case includes Mesabi Nugget sales and revenues under the existing ESA at the same or higher level as

¹ Minnesota Power does not believe consent is necessary from any of the public or private parties to the State Master Agreement, but has taken the affirmative step of securing the state agencies support.

the proposed Mesabi Nugget ESA, there will not be incremental benefits to other ratepayers associated with the proposed ESA. Other ratepayers would benefit in a subsequent rate case that includes revenues beyond Mesabi Nugget's existing contractual commitments.

In its phone conversation with the Company, the Department also expressed concern regarding the continuation of the EMSS Schedule following the planned closure of Taconite Harbor Unit 3 in 2015 as set forth the Commission's approval of Minnesota Power's 2013 Integrated Resource Plan. After Taconite Harbor Unit 3 closes, there will no longer be surplus power that is "trapped" in the area due to transmission constraints. Therefore, the Department requested that Minnesota Power provide its rationale for continuing to offer the EMSS Schedule beyond 2015. Minnesota Power continues to believe that there is significant value in having Mesabi Nugget continue on the EMSS Schedule given both the historic basis for the development of the EMSS Schedule (primarily to mitigate the harsh economic impact of LTV's closure) and that the Mesabi Nugget's operations meet the criteria set forth in the EMSS Schedule, including being located at the former Erie Mine Site in Hoyt Lakes, taking service off Minnesota Power's 138 kV transmission line, and taking at least 2,000 kW of service commencing January 1, 2008.

Also, the public interest justification that Mesabi Nugget is a new type of customer load on Minnesota Power's system still remains. This justification was supported by the Department in its December 20, 2007 comments in Docket No. E015/M-07-1456: "In addition, Mesabi represents a new type of customer for MP, thus reducing 'the relative impact on MP and its ratepayers of cyclical changes in the markets for other LP customers in the traditional taconite and pulp and paper products industries.'" Department Comments at page 11. Furthermore, the EMSS Schedule's application is tied to the entire Taconite Harbor generating station, not the closure of a specific unit and the energy charge specifically provides for pricing based on hours when two of the three Taconite Harbor units are available. The unique circumstances that were the genesis for the EMSS Schedule still provide justification for continuing Mesabi Nugget's ability to take service under the EMSS Schedule.

Mesabi Nugget ESA Requested Information

The Department recommended that Minnesota Power provide justification for its EMSS tariff, along with providing the incremental monetary benefit to Minnesota Power's customers of a commitment from Mesabi Nugget to take service from Minnesota Power for the period 2017 through 2023. As the Department noted in its comments, Mesabi Nugget's current electric service agreement extends through 2017 with the four-year cancellation provision. Minnesota Power's contractual arrangements with its industrial customers have always created significant fixed cost recovery assurances upon which Minnesota Power and its ratepayers could depend. Having a commitment from Mesabi Nugget to take service from 2017 through 2023 continues and extends these fixed cost recovery assurances while also providing Mesabi Nugget with competitive electric service and operational flexibility under EMSS tariff or other applicable tariffs. In the Petition, Minnesota Power estimated the minimum demand revenues over the entire term of the new ESA based on the current monthly demand charge in the Large Power Service Schedule of \$216,276 per month for the first 10 MW of Firm Demand. For 2017 through 2023 at least this same minimum demand charges would be realized or at least \$15.5 million. This number does not include other demand revenues and contributions to fixed cost recovery Mesabi Nugget would make beyond its current obligations. In regards to the incremental monetary benefit to Minnesota Power's customers, it should be noted that in addition to fixed cost recovery and other benefits that are currently reflected in base rates and would be reflected as part of any future rate case, having Mesabi Nugget on Minnesota Power's system currently benefits all customers by allocating costs recovered under the Company's Rider for Renewable Resources and Rider for Transmission Cost Recovery to a broader base of sales, thereby reducing the rates for all other customers.

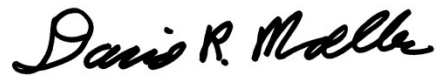
The Department also requested Minnesota Power should discuss the feasibility of using the Area Development rate Plan under Minn. Stat. § 216B.161 in this situation. Under Minn. Stat. § 216B.161, subd. 3(3) the Area Development Rate is only available to "new or expanding manufacturing or wholesale trade customers." Mesabi Nugget confirmed in its April 15, 2014 Comments that it does not currently expect to meet this statutory requirement. Also, the EMSS tariff was tailored for the former Erie Mine site, and it was Mesabi Nugget and Minnesota

Power's preference to extend the current rate that better applies to Mesabi Nugget's load profile than would the Area Development Rate. As proposed for 2014, the EMSS Schedule provides a more favorable rate for Mesabi Nugget compared to an Area Development Rate. It is possible that future EMSS rate changes following changes in Taconite Harbor operations would make the EMSS Schedule less appealing to Mesabi Nugget. If that occurs, Minnesota Power – as part of the contractual Annual Service Assessment provision -- will assist Mesabi Nugget in determining the most economical service schedule alternative from options for which it is eligible at that time.

Minnesota Power believes these Reply Comments meet the recommendations and requests set forth in the Department's two sets of comments and Minnesota Power respectfully requests that the Commission issue orders approving the Petitions in the respective Dockets.

Dated: April 28, 2014

Respectfully submitted,



David R. Moeller
Senior Attorney
Minnesota Power
30 West Superior Street
Duluth, MN 55802
218-723-3963
dmoeller@allete.com

STATE
MASTER AGREEMENT

This State Master Agreement (the "Agreement") is made and entered into between the STATE OF MINNESOTA (the "State"), MINNESOTA IRON RANGE RESOURCES AND REHABILITATION ("IRRR"), MINNESOTA DEPARTMENT OF NATURAL RESOURCES ("DNR"), MINNESOTA POLLUTION CONTROL AGENCY ("PCA") AND MINNESOTA DEPARTMENT OF REVENUE ("Revenue Department") (IRRR, DNR, PCA and Revenue Department, are collectively referred to herein as the "Departments"), CLIFFS ERIE, LLC ("CE"), CLEVELAND-CLIFFS INC ("CCI"), MINNESOTA POWER, an operating division of ALLETE, Inc. ("MP"), RAINY RIVER ENERGY CORPORATION – TACONITE HARBOR ("RRTH", which term shall include any RRTH Assignee¹), LTV STEEL MINING COMPANY ("LTVSMC") and LTV STEEL COMPANY, INC. ("LTV Steel").

Recitals

A. CE, RRTH, LTVSMC and other affiliated entities have entered into, contemporaneously with the execution and delivery of this Agreement, a certain Asset Purchase Agreement dated as of October 8, 2001 (the "Asset Purchase Agreement") to which this Agreement is attached as Exhibit 8.3(a) and pursuant to which LTVSMC and other affiliated entities, have agreed to sell, and CE and RRTH agree to acquire, respectively, the Cliffs Acquired Assets and the RRTH Acquired Assets. In conjunction with effecting the transactions contemplated by the Asset Purchase Agreement, CE and RRTH desire to obtain certain of the permits, licenses and leases identified in Schedule 5(b) (the "Permits"), currently held by LTVSMC with respect to the Acquired Assets and which Permits are less than all the permits currently held by LTVSMC. "Permits" means the permits, licenses and leases identified in **Schedule 5(b)**, and any amendments, modifications, supplements, extensions, reissuances or replacements thereto and any necessary or new additional permits, easements, licenses and leases and any amendments, modifications, supplements, extensions, reissuances or replacements thereto.

B. As a material inducement for each of the parties to the Asset Purchase Agreement to enter into and perform their obligations under the Asset Purchase Agreement and this Agreement, the State and the Departments have agreed to enter into this Agreement in order to evidence the State's and the Departments' binding commitment to: (i) promptly transfer or cause the transfer of the Permits; (ii) support the transfer of permits not within its control; and (iii) support approvals necessary and related to the transactions contemplated by the Asset Purchase Agreement.

¹ Terms used herein and not otherwise defined shall have the meanings ascribed to them in the Asset Purchase Agreement.

C. The State and the Departments agree to provide LTVSMC and LTV Steel and their affiliated Debtors in Possession with a release (the "Release") in the form attached to the Asset Purchase Agreement as Exhibit 8.3(b).

D. The State and the Departments further agree not to assert any claim that the taconite production, sales, use and withholding tax obligations of LTVSMC will burden the Acquired Assets in the hands of either CE or RRTH, nor assert a claim against CE or RRTH for the sales, use, and withholding tax obligations of LTVSMC or the taconite production taxes which are the subject of claims of the Revenue Department against LTVSMC. LTVSMC and its affiliated Debtors in Possession agree not to oppose or contest in any way the Revenue Department's characterization of its claims for taconite production taxes for tax years 2000, 2001, and 2002 as priority unsecured claims pursuant to 11 U.S.C. § 507 (a)(8)(E) and further agree not to oppose or contest in any way the Revenue Department's determination of the principal amounts of its taconite production taxes for the tax years 2000 and 2001, to the extent that such determination does not exceed \$14,767,634 for the 2000 tax year and \$10,099,739 for the 2001 tax year. LTVSMC and its affiliated Debtors in Possession reserve their right to contest the imposition and amount of any interest and penalties relating to these taconite production taxes and the principal amount and any related penalties and interest of any taconite production taxes for tax year 2002. Other parties may contest the amount, allowance, and priority of the Revenue Department's taconite production tax claims, which shall be determined by the Bankruptcy Court. The determination by the Bankruptcy Court with respect to these claims shall not be a condition to the Principal Closing under the Asset Purchase Agreement. CE, RRTH, and LTVSMC and their affiliated Debtors in Possession agree that no rights to any Minnesota tax refunds due or becoming due, are being transferred in any form as part of the transaction(s) covered by this Agreement, the Asset Purchase Agreement, or any other agreement involved in the transaction(s).

E. Pursuant to the Asset Purchase Agreement and this Agreement, CE and RRTH agree to respectively assume the Permits as designated in Schedule 5(b), the leases to be assigned and surrendered by the State and then reissued to CE or RRTH as set forth in Schedule 5(c) (the "Reissued Leases"), and CE shall assume the obligations under the LTV Steel Mining Company Draft Closure Plan as filed by LTVSMC on February 26, 2001, and as it will be modified by CE in compliance with comments of the DNR and the PCA as set forth in a letter to LTVSMC dated June 18, 2001 ("Closure Plan Obligations"). The obligations assumed by CE and RRTH under this Agreement shall not include: (i) any obligation of LTVSMC for taconite production taxes assessed under Minn. Stat. § 298.24, and (ii) sales, use, or withholding tax obligations of LTVSMC. CCI agrees to provide the State and the Departments at the Principal Closing with a guaranty (the "Guaranty") in the form attached as **Exhibit 6(b)**.

F. As an inducement to the State and the Departments to enter into this Agreement, CE and RRTH have each agreed to grant an option to the IRRR to enable the IRRR to acquire certain Real Property to be acquired by CE and RRTH, respectively, under the Asset Purchase Agreement (the "Options"), in the form attached as **Exhibits 6(c) and 7(b)**.

Agreement

NOW, THEREFORE, the foregoing recitals are incorporated by reference in this Agreement and in consideration of their mutual promises described below and in the recitals, the parties agree as follows:

1. The State and the Departments have no objection, and will not assert any objection, to the transactions contemplated by the Asset Purchase Agreement, nor its approval by the Bankruptcy Court, and shall abide by and shall not challenge in any way the order of the Bankruptcy Court or its authority to issue such order thereby binding the State and the Departments under this Agreement, provided that the order of the Bankruptcy Court does not materially alter the terms and conditions of the transactions contemplated by the Asset Purchase Agreement and this Agreement.
2. Promptly after execution of this Agreement and the Asset Purchase Agreement, LTVSMC shall execute and deliver to the State the consent to the transfer of the Permits set forth in Schedule 5(b) to CE and RRTH by executing the consent agreement in the form attached hereto as Exhibit 2(b), effective at the Principal Closing. Upon the fulfillment of the State's and the Departments' obligations set forth in paragraph 5 of this Agreement, LTVSMC and its affiliated Debtors in Possession also agree: (i) not to oppose or contest in any way the Revenue Department's characterization of its claims for taconite production taxes for tax years 2000, 2001, and 2002 as priority unsecured claims pursuant to 11 U.S.C. § 507(a)(8)(E); (ii) not to oppose or contest in any way the Revenue Department's determination of the principal amounts of the taconite production tax liability for the years 2000 and 2001, to the extent that such determination does not exceed \$14,767,634 for the 2000 tax year and \$10,099,739 for the 2001 tax year. LTVSMC and its affiliated Debtors in Possession reserve their right to contest the imposition and amount of any interest and penalties relating to these taconite production taxes and the principal amount and related penalties and interest of any taconite production taxes for tax year 2002; and (iii) to withdraw their pending state administrative challenges regarding these taconite production taxes for tax years 2000 and 2001. Other parties may contest the amount, allowance, and priority of the Revenue Department's taconite production tax claims, which shall be determined by the Bankruptcy Court. The determination by the Bankruptcy Court with respect to these claims shall not be a condition to the Principal Closing under the Asset Purchase Agreement.
3. At and concurrently upon Principal Closing under the Asset Purchase Agreement, LTVSMC shall assign and surrender to the DNR the Reissued Leases set forth on **Schedule 5(c)**.
4. Promptly after execution of this Agreement and the Asset Purchase Agreement, the State and the Departments shall:
 - (a) File comments in proceedings before the Minnesota Public Utilities Commission expressing the State's and the Departments' support of RRTH's acquisition of the Generation Facilities, RRTH's acquisition of the Transmission Facilities and proposed assignment thereof to MP, and MP's development of a rate schedule for service to future development at the LTVSMC mining site;

(b) Support the transfer of any permits other than the Permits set forth in Schedule 5(b) that are included in **Schedule 2.1(e)** to the Asset Purchase Agreement; and

(c) Provide CCI, CE and RRTH with written confirmation from the Governor of Minnesota that the Commissioners of the Departments have the authority to enter into and perform the covenants of this Agreement and all of the other agreements to which the State and the Departments are parties which constitute Exhibits to this Agreement or the Asset Purchase Agreement.

5. At and concurrently upon the Principal Closing under the Asset Purchase Agreement, except in the case of (e) below which shall occur promptly after the issuance of the order of the Bankruptcy Court approving the the transactions contemplated by the Asset Purchase Agreement and this State Master Agreement and before the Principal Closing, the State and the Departments shall:

(a) Execute and deliver to LTVSMC and LTV Steel the Release in the form attached to the Asset Purchase Agreement as **Exhibit 8.3(b)**;

(b) Transfer or cause the transfer of the Permits to CE and RRTH as designated in Schedule 5(b);

(c) Enter into the Reissued Leases with CE and RRTH as designated in **Schedule 5(c)** to replace the leases previously held by LTVSMC and which are being assigned and surrendered to the State pursuant to Section 3 of this Agreement. The Reissued Leases will be issued under the authority of Minn. Stat. §92.50 for a term of ten years, and will provide for an annual rental of nine percent (9%) of the appraised value of the land, and will not contain a limitation that the rights be limited to activities in the aid of the mining and beneficiating of taconite ore. To the extent that the Reissued Leases are to be reissued to CE for railroad purposes and to RRTH for powerline purposes for the same parcels of real estate, the annual rental for each such parcel will be nine percent in total. The DNR further agrees to seek State Executive Council approval to extend the lease term of the Reissued Leases to 20 years;

(d) Initiate the renewal process for the Cramer Road Ash Disposal Site Permit (Permit SW503) for RRTH; and

(e) Promptly withdraw the Revenue Department's taconite production tax lien notices and withdraw the Revenue Department's motions pending in the Bankruptcy Court regarding these taconite production tax lien notices including the motions identified as docket numbers 1301 and 1305 on the Bankruptcy Court's docket, with prejudice.

6. At and concurrently upon the Principal Closing under the Asset Purchase Agreement, CE and CCI shall:

(a) Upon the assignment to CE of those Permits designated as being assigned to CE on Schedule 5(b) and the Reissued Leases designated as being issued to CE under Schedule 5(c), CE shall assume all responsibilities and liabilities under the Permits and the Closure Plan Obligations, including those current and past-due fees set forth in **Schedule 6(a)** where CE is shown as the “Responsible Purchaser”;

(b) Execute and deliver to the Departments a CCI corporate Guaranty in the form attached as **Exhibit 6(b)**;

(c) Execute and deliver to the IRRR the Option Agreement in the form attached as **Exhibit 6(c)**. Pursuant to this Option, CE agrees to provide the IRRR with an option to purchase certain real estate (as described in said Option Agreement) that CE is purchasing pursuant to the Asset Purchase Agreement; and

(d) Provide the State and the Departments with certificates of authority in the form attached as **Exhibit 6(d)** from CCI’s and CE’s authorized officer confirming CCI’s and CE’s authority to enter into this Agreement and all of the other agreements to which CE is a party which are Exhibits to this Agreement or the Asset Purchase Agreement and confirming the authority of the persons signing on behalf of CCI and CE.

7. At and concurrently upon the Principal Closing under the Asset Purchase Agreement, RRTH shall:

(a) Upon the assignment to RRTH of those Permits designated as being assigned to RRTH on Schedule 5(b) and the Reissued Leases designated as being issued to RRTH on Schedule 5(c), RRTH shall assume all responsibilities and liabilities under the Permits, including those current and past-due fees shown on Schedule 6(a) where RRTH is shown as the “Responsible Purchaser”;

(b) Execute and deliver to the IRRR the Option Agreement in the form attached as **Exhibit 7(b)**. Pursuant to this Option, RRTH agrees to provide the IRRR with an option to purchase certain real estate (as described in said Option Agreement) that RRTH is purchasing pursuant to the Asset Purchase Agreement;

(c) Involve the IRRR in any decisions regarding the use of Wynne and Sabin Lake lands for the five years subsequent to the date of this Agreement;

(d) Convey certain property identified in **Schedule 7(d)** to the City of Hoyt Lakes (the “City”) and to make future conveyances of other properties for expansion of public recreation facilities, including the municipal golf course and public campground at such time that the City and RRTH have jointly reviewed and approved development plans to ensure that public facilities and RRTH residential property development are physically integrated where appropriate; and

(e) Provide the State and the Departments with a certificate of authority in the form attached as **Exhibit 7(e)** confirming RRTH’s authority to enter into this Agreement

and all of the other agreements to which RRTH is a party which are Exhibits to this Agreement or the Asset Purchase Agreement.

8. Subsequent to the closing of the transactions contemplated by the Asset Purchase Agreement, MP shall:

(a) Proceed with the construction of an electric service substation at Laskin Energy Park to further economic development objectives; and

(b) File by January 1, 2002 for Minnesota Public Utilities Commission approval of a rate schedule effectuating MP's commitment to provide up to 25 MW of the accredited capacity of the Generation Facilities, at such facilities' cost based rate (including future capital additions) pursuant to a power purchase agreement between MP and RRTH. Availability of the rate is subject to the continuing operation of the Generation Facilities in their present coal fired configuration. The rate under such schedule shall be in effect for a six-year period from the date of CE's eligibility for this rate. Any party's eligibility for this rate shall be conditioned upon such party operating an industrial facility on the premises of the current LTVSMC mining site prior to January 1, 2008.

9. At and concurrently upon Principal Closing under the Asset Purchase Agreement, MP shall provide the State and the Departments with a certificate of authority in the form attached as **Exhibit 9** confirming MP's authority to enter into this Agreement and all of the other agreements to which MP is a party which are Exhibits to this Agreement or the Asset Purchase Agreement.

10. CE and RRTH further collectively agree that, effective upon the Principal Closing under the Asset Purchase Agreement and, unless otherwise agreed to by the parties, for five (5) years from the date of this Agreement, no development will take place on lands within the following areas, except for mining and mining-related activities (including, without limitation, all CE actions pursuant to or in connection with performance of the Closure Plan Obligations, such as the planning, engineering and construction of a proposed watercourse from the Dunka Mine Pit to Birch Lake, and the creation or maintenance of wetlands), timber management, surveying, road development and any other activities approved in writing by the DNR:

West 1/2 of Section 25, East 1/2 of Section 26, East 1/2 of Section 35 and West 1/2 of Section 36, Township 61 N., Range 12 W.

At the conclusion of this five (5) year period, the DNR will meet with CE and RRTH to discuss the status of non-ferrous metallic mining projects in this area and ways to mitigate any development plans that would interfere with non-ferrous metallic minerals mining.

11. Nothing in this State Master Agreement will affect the rights or obligations of any party regarding any state or local taxes not specifically designated in this State Master Agreement.

12. The State and CE acknowledge that neither RRTH nor MP shall be responsible for any Closure Plan Obligations as a result of RRTH taking title to RRTH Acquired Assets or MP taking title to the Transmission Facilities or underlying Real Property. RRTH and MP shall each file independent closure plans for the Acquired Assets and Real Property as necessary five years prior to any cessation of their operation of such Acquired Assets or Transmission Facilities.

13. LTVSMC and its affiliated Debtors in Possession agree that the Revenue Department may participate in the setoff procedures under the Bankruptcy Court's May 8, 2001 "Order Pursuant to Sections 105, 362, 553 of the Bankruptcy Code, Establishing Procedures for the Setoff of Mutual Prepetition Obligations of the Debtors and Certain of their Customers and Vendors," subject to the terms and conditions set forth therein. Nothing in this Agreement shall prevent the Revenue Department from seeking approval of a setoff under the ordinary procedures of the Bankruptcy Court, including the requirements established by the Bankruptcy Rules and the Bankruptcy Code.

14. The parties agree that, except for any matters that are within the exclusive jurisdiction of the Bankruptcy Court, any suit, action or proceeding seeking to enforce any provision of, or based on any matter arising out of or in connection with, this Agreement or the transactions contemplated hereby may be brought in any federal court in Minnesota or in Ramsey or Hennepin County District Courts.

15. The parties agree that the State, the Departments, CE and/or RRTH may assign all or any part of their obligations under this State Master Agreement, but that such an assignment shall not operate to extinguish the obligations of the assigning party under this State Master Agreement and the assigning party shall remain fully liable to the other parties under this State Master Agreement, notwithstanding the assignment.

16. This State Master Agreement may be executed by fax in counterparts, each of which shall be deemed an original and all of which, taken together, shall constitute one document.

[Signature Pages Follow]

MINNESOTA DEPARTMENT
OF NATURAL RESOURCES

Date: 11 Oct. 2001

Steve Morse
By: Steve Morse
Its: Commissioner, Deputy

MINNESOTA POLLUTION
CONTROL AGENCY

Date: 11 October 2001

Karen A. Spidders
By: Karen A. Spidders
Its: Commissioner

MINNESOTA IRON RANGE
RESOURCES
AND REHABILITATION

Date: 10/11/01

John Swift
By: John Swift
Its: Commissioner

MINNESOTA DEPARTMENT OF
REVENUE

Matthew G. Smith
By: Matthew G. Smith
Its: Commissioner

Date: 10/16/01

STATE OF MINNESOTA

Alan J. Gilbert
By: Alan J. Gilbert
Its: Chief Deputy Attorney General

Date: 10-30-01

LTV STEEL MINING COMPANY
By: Erie B Corporation,
a general partner

By: Glenn J. Moran

Its: Glenn J. Moran
Vice President

Date: 10-30-01

LTV STEEL COMPANY, INC.

Glenn J. Moran

By: Glenn J. Moran
Senior Vice President,
Its: General Counsel & Secretary

Date: _____

CLEVELAND-CLIFFS INC

By: _____
Its: _____

Date: _____

CLIFFS ERIE, LLC

By: _____
Its: _____

Date: _____

RAINY RIVER ENERGY
CORPORATION - TACONITE
HARBOR

By: _____
Its: _____

Date: _____

MINNESOTA POWER

By: _____
Its: _____

LTV STEEL MINING COMPANY

Date: _____

By: _____
Its: _____

LTV STEEL COMPANY, INC.

Date: _____

By: _____
Its: _____

CLEVELAND-CLIFFS INC.

Date: Oct 8, 2001

J. A. Trethewey
By: J. A. Trethewey
Its: Senior Vice President-Business Development

CLIFFS ERIE, LLC.

Date: Oct 8, 2001

J. A. Trethewey
By: J. A. Trethewey
Its: President and Chief Executive Officer

RAINY RIVER ENERGY CORPORATION - TACONITE HARBOR

Date: _____

By: _____
Its: _____

MINNESOTA POWER

Date: _____

By: _____
Its: _____

LTV STEEL MINING COMPANY

Date: _____

By: _____
Its: _____

LTV STEEL COMPANY, INC.

Date: _____

By: _____
Its: _____

CLEVELAND-CLIFFS INC

Date: _____

By: _____
Its: _____

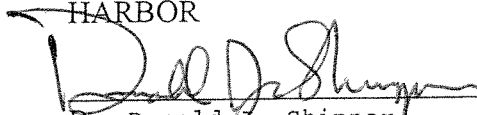
CLIFFS ERIE, LLC

Date: _____

By: _____
Its: _____

RAINY RIVER ENERGY
CORPORATION - TACONITE
HARBOR

Date: _____


By: Donald W. Shippar
Its: Chief Executive Officer

MINNESOTA POWER

Date: _____

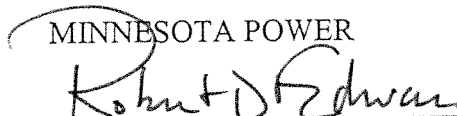

By: Robert D. Edwards
Its: Chief Executive Officer

Table of Schedules and Exhibits

**To the State Master Agreement among the State of Minnesota,
Minnesota Iron Range Resources And Rehabilitation,
Minnesota Department Of Natural Resources, Minnesota Pollution Control Agency,
Minnesota Department Of Revenue
Cliffs Erie, LLC, Cleveland-Cliffs Inc., Rainy River Energy Corporation – Taconite
Harbor, Minnesota Power,
LTV Steel Mining Company and LTV Steel Company, Inc.**

Schedules:

- 5(b) Permits
- 5(c) Reissued Leases
- 6(a) Current and Past Due Fees
- 7(d) Real Property To Be Conveyed By RRTH To The City Of Hoyt Lakes

Exhibits:

- 2(b) Sellers Consent to Transfer of Permits
- 6(b) Cleveland-Cliffs Inc Corporate Guaranty Of Obligations Of Cliffs Erie, LLC
- 6(c) Option Agreement Between Cliffs Erie, LLC and IRRR
- 6(d) CCI and CE Certificates of Authority
- 7(b) Option Agreement Between RRTH and IRRR
- 7(e) RRTH Certificate of Authority
- 9 Minnesota Power Certificate of Authority



Pat Mullen
Vice President – Marketing
Minnesota Power
30 West Superior St.
Duluth, MN 55802

Dear Pat,

Due to recent changes in PolyMet's permitting and project timelines, we have determined that taking service under the Erie Mine Site Service Schedule during the remainder of our Start-up Period is no longer economically beneficial.

By this letter PolyMet is notifying Minnesota Power that it will no longer be taking electric service under the Erie Mine Site Service Schedule during the Start-up Period as allowed under the Electric Service Agreement (ESA). PolyMet will now be taking service under the Large Light & Power rate schedule. This change is authorized under Paragraph 3 of the ESA and is effective July 1, 2010.

Additionally, PolyMet realizes that once switched to the LLP rate schedule, PolyMet will no longer be taking the minimum 2,000 kW of billing demand required by the Erie Mine Site Service schedule to maintain its current and future rights to the 10,000 KW of Erie Mine Site Service previously committed to.

Sincerely,

Joe Scipioni
President and CEO
PolyMet Mining

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
Julia	Anderson	Julia.Anderson@ag.state.mn.us	Office of the Attorney General-DOC	1800 BRM Tower 445 Minnesota St St. Paul, MN 551012134	Electronic Service	Yes	OFF_SL_14-155_M-14-155
Gary	Anderson	N/A	Stora Enso	Duluth Paper Mill 100 N. Central Avenue Duluth, MN 55807	Paper Service	No	OFF_SL_14-155_M-14-155
William	Bond	william.bond@arcelormittal.com	ArcelorMittal USA - Minorca Mine Inc.	PO Box 1 5950 Old Highway 53 Virginia, MN 55792	Electronic Service	No	OFF_SL_14-155_M-14-155
Greg	Chandler	greg.chandler@upm-kymmene.com	UPM Blandin Paper	115 SW First Street Grand Rapids, MN 55744	Paper Service	No	OFF_SL_14-155_M-14-155
Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	Yes	OFF_SL_14-155_M-14-155
Burl W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_14-155_M-14-155
Shane	Henriksen	shane.henriksen@enbridge.com	Enbridge Energy Company, Inc.	1409 Hammond Ave FL 2 Superior, WI 54880	Electronic Service	No	OFF_SL_14-155_M-14-155
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Michael	Krikava	mkrikava@briggs.com	Briggs And Morgan, P.A.	2200 IDS Center 80 S 8th St Minneapolis, MN 55402	Electronic Service	No	OFF_SL_14-155_M-14-155
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John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_14-155_M-14-155

First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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David	Moeller	dmoeller@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022093	Electronic Service	Yes	OFF_SL_14-155_M-14-155
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William	Schmidt		USG Interiors, Inc.	35 Arch Street Cloquet, MN 55720	Paper Service	No	OFF_SL_14-155_M-14-155
Joe	Scipioni		PolyMet Mining, Inc.	P.O. Box 475 County Highway 666 Hoyt Lakes, MN 55750	Paper Service	No	OFF_SL_14-155_M-14-155

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Jack	Tuomi	N/A	United Taconite	P O Box 180 Eveleth, MN 55734	Paper Service	No	OFF_SL_14-155_M-14-155
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First Name	Last Name	Email	Company Name	Address	Delivery Method	View Trade Secret	Service List Name
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Sharon	Ferguson	sharon.ferguson@state.mn.us	Department of Commerce	85 7th Place E Ste 500 Saint Paul, MN 551012198	Electronic Service	No	OFF_SL_14-166_M-14-166
Burl W.	Haar	burl.haar@state.mn.us	Public Utilities Commission	Suite 350 121 7th Place East St. Paul, MN 551012147	Electronic Service	Yes	OFF_SL_14-166_M-14-166
John	Lindell	agorud.ecf@ag.state.mn.us	Office of the Attorney General-RUD	1400 BRM Tower 445 Minnesota St St. Paul, MN 551012130	Electronic Service	Yes	OFF_SL_14-166_M-14-166
David	Moeller	dmoeller@allete.com	Minnesota Power	30 W Superior St Duluth, MN 558022093	Electronic Service	No	OFF_SL_14-166_M-14-166
Marcia	Podratz	mpodratz@mnpower.com	Minnesota Power	30 W Superior S Duluth, MN 55802	Electronic Service	No	OFF_SL_14-166_M-14-166