



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

**Re: In the Matter of Minnesota Power's Petition for Approval of an Amended and Restated Electric Service Agreement between Mesabi Nugget and Minnesota Power**  
**PUC Docket No. E-015/M-14-155**

**In the Matter of Minnesota Power's Petition for Approval of Modifications to Erie Mine Site Service Schedule**  
**PUC Docket No. E-015/M-14-166**

Dear Dr. Haar,

Mesabi Nugget Delaware, LLC, greatly appreciates the opportunity to submit this letter in support of Minnesota Power's petitions in the above referenced dockets. We submit this reply to the comments from the Minnesota Department of Commerce in order to provide additional detail regarding the circumstances giving rise to the Erie Mine Site Service Tariff, the present circumstances facing Mesabi Nugget, and what we believe is an inability to utilize Minnesota Power's Large Power Area Development Rider. We have been exploring and discussing these issues with Minnesota Power during the last 11 months. The revised ESA and proposed amendments to the EMSS tariff are the result of those extensive discussions and are supportable as a continuation of the economic development mechanism first set in place in 2007. Therefore, we respectfully request that the Minnesota Public Utilities Commission grant Minnesota Power's petitions.

By way of background, Mesabi Nugget's output is the result of over 10 years of planning. In 2000, a contingent led by the Minnesota Iron Range Resources and Rehabilitation Board visited a variety of potential iron-making technologies in Japan. This visit ultimately led to the dream of iron nuggets manufactured on the Iron Range that could service the growing sector of the steel industry, the electric arc furnace steel makers. This segment of the steel industry is roughly two thirds of US production today. It is important to understand the more traditional 'taconite' pellets produced on the Range cannot be used in an electric arc furnace. With support of the IRRRB, Department of Employment and Economic Development, and the Department of Energy, in 2001, a group of companies, including Steel Dynamics, Inc., Kobe Steel, Cliffs Natural Resources, and Ferrometrics, formed a partnership that ultimately led to a pilot

demonstration using Kobe's ITmk3® nugget-making process. This successful pilot demonstration resulted in a decision to build a commercial-sized demonstration plant, which was ultimately constructed by a partnership led by Steel Dynamics with Kobe Steel as a minority partner. Site preparation began in the fall of 2007 and continued through the Great Recession, providing jobs on the Iron Range at a time when other facilities were running at partial capacity.

Our ability to commence site preparation and pursue this project was supported by the availability of the EMSS rate and our June 2007 ESA with Minnesota Power. Although the EMSS tariff contains language regarding a six-year term, we have always understood that to be an initial term, not a limitation on the life of the EMSS tariff. To be sure, our reading of the EMSS tariff is that its availability is tied to the operation of Taconite Harbor Energy Center. This understanding was the basis of our negotiations with Minnesota Power and the revised ESA presently before the Commission.

While the first iron nuggets were produced on January 12, 2010, the plant remains in a development phase. We use Minnesota iron ore to produce 97% pure, metallic iron nuggets in the world's first and only iron nugget manufacturing plant. This technology is environmentally friendly – it combines several steps of the traditional integrated steel making process into one process, thereby polluting less and emitting fewer greenhouse gas emissions than traditional methods. Further, with the addition of the Mining Resources facility, of which Steel Dynamics is the majority owner, we are actually taking what just a few short years ago would have been considered a waste material and converting that into the most value-added iron bearing product coming from the Iron Range. This is a great environmental and technological success story. Producing these value-added iron nuggets on the Iron Range in Northern Minnesota has generated significant economic benefits for the region by providing new stable, high-paying jobs; stimulating the growth of related industries; supporting local businesses; and generating additional tax revenues for schools and communities. Mesabi Nugget currently employs 134 people and, along with Mesabi Mining and Mining Resources, has contributed in excess of [TRADE SECRET DATA BEGINS... ..TRADE SECRET DATA ENDS] in State and County tax revenues since 2008.

We are not out of the woods yet in terms of finalizing our process or in achieving profitability. The commissioning process of a new facility like Mesabi Nugget always has its challenges. However, the more typical start-up difficulties have been exacerbated by the simultaneous process development. At this point, the plant is operating at a rate substantially below the design expectation. The Mesabi Nugget organization has been aggressively attacking both the process challenges and cost drivers to bring the facility to a viable state. Given this reality, Mesabi Nugget has invested significantly more than anticipated. We initially estimated our capital investment would total [TRADE SECRET DATA BEGINS...

...TRADE SECRET DATA ENDS]. A number of key factors have caused our capital and operating costs to increase, including: lower than expected productivity rates and equipment availability as we learn to operate this new technology; higher than expected raw material usage rates and purchase prices also as we experiment with the nuances of the technology; as well as lower than expected finished product pricing. As a result, the total capital investment for Mesabi Nugget now exceeds [TRADE SECRET DATA BEGINS... ..TRADE SECRET DATA ENDS]. Additional capital investments to date associated with Mesabi Mining and Mining Resources total [TRADE SECRET DATA BEGINS...

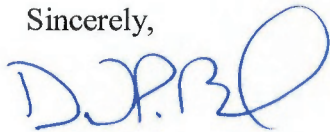
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**SECRET DATA ENDS]** We have been committed to moving the project out of the developmental phase, but we are closely evaluating all significant input costs, including the cost of energy.

In our recent negotiations with Minnesota Power, the parties evaluated service under Minnesota Power's Large Power Area Development Rider. Unfortunately, that rider only applies to new or expanding loads. Mesabi Nugget therefore doesn't qualify for service under the Large Power Area Development Rider. With this in mind, we focused our discussions on the EMSS tariff and our understanding of its applicability. We arrived at reasonable terms that reflect the spirit and language in the EMSS tariff. We set an effective date of January 1, 2014, to ensure seamless continuation of service under the EMSS tariff, provide for a full ten-year term, and facilitate the full benefits of the revised ESA. We firmly believe that this revised ESA under the amended EMSS provides the best platform for Mesabi Nugget to use in executing our vision to bring the project out of the developmental phase.

The Commission's support in this matter is one of the key components toward ensuring that Mesabi Nugget reaches a sustainable economic state. This is an important factor for not only the company, but for the Iron Range region. We look forward to continued dialogue with the parties in this docket and will send a representative to attend the hearing before the Commission.

Sincerely,



Dave Bednarz  
Steel Dynamics, Inc.  
Vice President – Iron Resources