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NEWS

Minnesota Power proposes new rate option for energy-intensive industrial businesses in Northeastern Minnesota

Proposal a result of new Minnesota law that responds to global competition impacting mining and forest product industries

Duluth, Minn.— Minnesota Power, a division of ALLETE, Inc. (NYSE: ALE), will file a rate plan today with the Minnesota Public Utilities Commission (MPUC) that will provide lower electric rates for up to a dozen critical industrial companies uniquely exposed to global competitive pressures.

The 2015 Minnesota Legislature enacted a law authorizing Minnesota Power to submit discounted rate plans for a limited number of its large industrial customers including taconite mines and forest product industries that meet state criteria as energy-intensive and trade-exposed (EITE) businesses. According to the legislation, “It is the energy policy of the state of Minnesota to ensure competitive electric rates for energy-intensive trade-exposed customers.”

“For these large industrial companies that employ thousands of people in our region, energy is one of their largest costs of doing business,” explained Dave McMillan, Minnesota Power executive vice president. “Global competition is intense and we need to do all we can to keep their energy costs as competitive as possible. Sustaining a healthy regional economy, which benefits everyone who lives here, is an important part of Minnesota Power’s mission.”

McMillan noted that for the past decade the Minnesota Legislature has been reforming the state's energy policy to increase the use of renewable energy, enhance reliability, reduce emissions and prioritize conservation. “Now, energy policy can help our mining and forestry industries in the global marketplace through modest rate relief, helping to keep them viable and retain jobs in Minnesota,” he said.

“Industrial customers’ rates have been set higher than the actual cost to serve them for many years—two decades or more,” McMillan continued. “They have been absorbing these costs not related to their electric service. Operating in a highly competitive commodity-driven global marketplace, these companies can’t simply absorb costs or pass them on to their own customers.”

Along with today’s filing, Minnesota Power is submitting commitment letters for the new rate plan from ten customers. Those customers are Verso Paper in Duluth; Sappi Mill in Cloquet; Boise Paper in International Falls; Blandin Paper in Grand Rapids; Mesabi Nugget in Hoyt Lakes; United States Steel, which operates Minntac Mine in Mountain Iron and Keetac in the city of Keewatin; United Taconite in Forbes and Hibbing Taconite, located in Hibbing, both of which are managed by Cliffs Natural Resources; ArcelorMittal which operates the Minorca Mine near the city of Virginia; and Mining Resources near Chisholm.



According to Wayne Brandt, executive vice president of Minnesota Forest Industries, the association representing Minnesota's major forest products companies, "We appreciate that the State acted to reverse a decades-long practice of requiring mining and forest products companies to pay higher rates than the actual cost of the electricity they use. With one-third of the forest products industry being lost in the past decade due in great part to global economic pressures, these companies can no longer pay such a premium for their electricity. We look forward to working with Minnesota Power and the PUC to develop a program that's so important to preserving thousands of jobs in northern Minnesota."

John Bastian, manager of Verso Paper in Duluth said, "Electric costs make up almost 15 percent of our total production costs. This plan will help our products be priced more competitively and will help keep our 300 Duluth-area employees working."

In the filing, Minnesota Power noted that EITE eligible customers are significant employers in the region. According to a 2012 University of Minnesota Duluth Study ("Labovitz Study") by the Labovitz School of Business and Economics, ferrous mining contributes approximately 4,500 direct jobs and 7,100 indirect jobs to the Northern Minnesota Region that includes St. Louis, Cook, Itasca and Lake Counties. The Labovitz Study also found that mining and forestry contribute 40 percent of Northeastern Minnesota's regional economy.

Craig Pagel of the Iron Mining Association, a trade organization consisting of iron mining companies, and suppliers and vendors, says iron mines are undertaking monumental efforts to control costs in an extremely competitive global market. Energy makes up 25 percent of the cost to produce iron ore pellets.

"These costs are not sustainable and give foreign competitors an unfair advantage in an already difficult market," Pagel said. "The iron mining industry is seeking equitable energy rates that will help local mines remain globally competitive, so they can continue to provide good paying, community sustaining jobs that stretch from the Iron Range to the Duluth area and along the North Shore. As the MPUC's review of this tariff proceeds, the iron mining industry will continue to work with Minnesota Power to ensure that the EITE rate delivers the competitive benefits envisioned when this tariff was authorized by the Legislature earlier this year."

What this means for customers

The proposed rate plan will result in a decrease of about 5 percent in electric costs for EITE customers. Other customers will see a new monthly charge on their electric bills. Business and commercial customers that do not qualify as trade-exposed will see a flat monthly charge of \$11.45 per electric service agreement. For residential customers, the increase will be based on the amount of energy used. For a customer who typically uses 750 kWh and pays about \$79 per month, the charge will add approximately \$11.45 or about 14.5 percent to the monthly bill. A residential customer who uses less energy will see a lower dollar per month increase. For example, a customer who uses 300 kilowatt hours will pay \$4.55 more a month.

Under the statute, low-income customers and energy-intensive trade-exposed industrial customers that are not eligible for the EITE rate will be exempt from the charge. In addition, the rate adjustments don't change the total amount of revenue collected, meaning that Minnesota Power will not financially benefit from the new rates.

"We recognize no one wants to see their bill increase," McMillan said. "However, our plan will not only help the region's largest industries compete and remain in the economy, it will bring rates closer in line to the actual cost of providing power to all customer groups. Also, by applying the rate adjustment based on energy usage, residential customers can potentially offset the increase with help from a variety of energy efficiency and conservation tools offered by Minnesota Power."

Interested customers can find ideas for saving energy and managing their monthly electric bills along with energy efficiency rebates, tips, and tools at <http://www.mnpower.com/save>

If approved by the MPUC, customers will begin to see these changes in their electric bills sometime in 2016.

Minnesota Power provides electric service within a 26,000-square-mile area in northeastern Minnesota, supporting comfort, security and quality of life for 144,000 customers, 16 municipalities and some of the largest industrial customers in the United States. More information can be found at www.mnpower.com.

The statements contained in this release and statements that ALLETE may make orally in connection with this release that are not historical facts, are forward-looking statements. Actual results may differ materially from those projected in the forward-looking statements. These forward-looking statements involve risks and uncertainties and investors are directed to the risks discussed in documents filed by ALLETE with the Securities and Exchange Commission.

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