

Purchase Option FAQ

Island, Fish and Whiteface Reservoirs



ShoreLand

Leaseholders on Island, Fish and Whiteface reservoirs may have the opportunity to purchase their lease lots from Minnesota Power.

What is the purchase option?

With regulatory approvals received in 2021 from the Federal Energy Regulatory Commission (FERC) and the Minnesota Public Utilities Commission (MPUC), Minnesota Power plans to offer existing leaseholders the exclusive opportunity to purchase their lease lot. Options to purchase the relatively few vacant lots that Minnesota Power owns will be made available to the general public.

Who would be eligible for the purchase option?

The purchase option for existing leaseholders would be available only to current leaseholders on Island, Fish and Whiteface reservoirs in St. Louis County, Minnesota. Current leaseholders on Rice and Boulder Lake reservoirs are not included in the regulatory approval process at this time and would not be eligible for purchase.

Why is Minnesota Power making this opportunity available to leaseholders?

There are three main reasons. Minnesota Power has determined that lease properties on these reservoirs are not needed for hydropower operations. Second, proceeds from any lease sales will help mitigate rates for Minnesota Power's electric utility customers. Finally, in Minnesota Power's experience, most leaseholders would prefer to own, rather than lease, the lot on which their home or cabin is located.

Why are the other reservoirs not included?

Most active hydropower reservoirs contain regulated lands that must be retained for the company's FERC license for generation of renewable hydropower energy. Rice and Boulder Lake reservoirs contain relatively few lease lots, and the reservoirs have certain characteristics that warrant additional study. Rice Lake Reservoir requires additional review of the existing project boundary for operational uses, while Boulder Lake Reservoir is largely reserved for environmental and recreational uses.

What is the "interim phase"?

This is the phase we are in now, where we intend to offer the lots for purchase but have not yet secured all regulatory approvals. While Minnesota Power has secured FERC and MPUC approvals, we still need to complete platting for some lots, and register all the plats with the Minnesota Department of Commerce (DOC). Once plats are recorded and registered with the DOC, we will move into the "purchase phase."

What is the "Early Time Frame"?

During the MPUC process, an "early time frame" was established to create a consistent basis for the purchase price for all eligible leaseholders. The basis for the sales price during the early time frame is the 2020 estimated market value (payable 2021) plus 4%.

The early time frame extends through Dec. 31, 2024. During this time, leaseholders will have one year from the date the lots are made available for purchase to accept and close the sale for the purchase price described above to apply.

What if I choose not to purchase my lease lot?

Leaseholders can continue to lease their lot under current lease terms until the lease expiration date. The earliest a lease will be terminated is 2028. After the lease expiration date, leaseholders who do not purchase the land would be able to sell their buildings

and other personal property to the new buyer for up to one year following lease termination. The new buyer would purchase the land directly from Minnesota Power. If the sale does not happen in this time frame, Minnesota Power will assume ownership of the property, including any remaining buildings and personal property, and will then sell the lot, buildings and personal property on the open market. The value of the buildings and personal property, as determined by the most current county estimated market value (EMV), will be returned to the former leaseholder following the sale, while Minnesota Power will retain the remaining value.

What is the timeline for purchasing?

The earliest any lots will be available for purchase would be spring 2022 for those lots along the southern shore of Island Lake Reservoir, as well as already platted lots on Whiteface and Fish Lake reservoirs. The remaining lots on Island Lake Reservoir, as well as on Fish and Whiteface reservoirs, would be available in the 2023-2024 time frame. The leaseholders will have one year from the date when the offers are made to accept and close the sale. Please note this time line is subject to local, county and/or DOC approvals, and to other changes which may be outside of Minnesota Power's control.

Why are lots available for purchase at an earlier date on some reservoirs?

In order to responsibly sell the lots, Minnesota Power must first survey and plat the lots to make sure they meet county standards and have marketable title. This process also ensures that the lot boundaries do not infringe on adjacent buildings not owned by the current leaseholder, and whenever possible contains appropriate acreage for primary and secondary septic systems. The high number of lots means that some reservoirs will be platted sooner than others. However, under the MPUC approval process, Minnesota Power worked with our regulatory agency to help ensure leaseholders have a consistent purchase price, regardless of where their lots are at in the platting process (see below).

What is the price of the lease lot?

The purchase price has been determined by the MPUC in a final order published Nov. 18, 2021. Minnesota Power is authorized to offer the lot for sale at a price of the 2021 payable EMV plus four percent (4%) during the early time frame and the most current finalized EMV after the early time frame.

Are the wells and septic systems paid for by leaseholders included in the purchase price?

No. EMVs are calculated by comparing sales data from raw land; septic systems, wells, power supply and other improvements are not included in EMVs.

Will money paid to secure leased lots be deducted from the sale price?

Per the MPUC order, leaseholders who paid Minnesota Power directly (sometimes referred to as a "right-to-lease" payment) and who close in the early time frame, are entitled to receive a refund of a proportional share of their upfront lease payments negotiated with Minnesota Power, capped at 5% of the total 2020 EMV, payable 2021 plus 4%. However, any right-to-lease payments made from one private party to another private party will not be deducted from the purchase prices or accounted for in any way by Minnesota Power.

Will a history of longevity for a lease result in a credit for the leaseholder?

No.

My lease expires in 2023, and I might not know if a purchase option is available until shortly before that time. Can I have additional time to evaluate my options?

Minnesota Power will make special considerations for the approximately 40 leaseholders who have leases expiring in 2023. For those leaseholders, leases may be extended to 2028 to allow leaseholders sufficient time to decide whether to buy their lot or sell their personal property.

Can I extend my lease out to 2046?

Extensions not related to a transfer or financing need will not be extended out to 2046.

What if I want to sell my lot between now and when a purchase option is available?

Minnesota Power will continue to allow you to transfer your personal property and your lease to a buyer, with the buyer receiving a lease matching bank terms but no later than Feb. 1, 2046.

What if I want or need to transfer my lot to a close family member in the interim period or in the early time frame?

Partial transfers, where the existing leaseholder remains on the lease, may be transferred but will not be eligible for a lease extension. For full transfers to family members or close acquaintances sold at a reasonable value, Minnesota Power will match lease duration to bank terms but no later than Feb. 1, 2046.

What is a "reasonable value"?

Minnesota Power will continue to rely on current county EMV values for both land and personal property to help determine fair valuation.

What if I want to sell to a family member or friend at a discounted price in the interim period or in the early time frame?

This is allowed, however, the original lease terms will not be extended in this circumstance. Buyers purchasing a lease with a 2023 lease expiration date will continue to be eligible for a lease extension up to 2028.

What if I need a lease extension for financing reasons?

In the interim period or in the early time frame, Minnesota Power will work with the leaseholder and the lending institution as needed to develop appropriate terms. Once a purchase option becomes available, leases will not be extended for financing reasons.

Will there be changes to the roads currently maintained by the lake/reservoir association?

A key aspect of the platting process that is currently underway is ensuring property owners have legal access to their property once private ownership occurs. Minnesota Power is planning to create homeowners associations on behalf of our leaseholders for most of the plats or lease areas, which will function largely the same as current road associations. However each homeowners association will be a legal entity pursuant to Minnesota Statutes, Chapter 317A,

and will help ensure compliance with applicable laws (now and in the future). No action is needed from leaseholders at this time, and no significant changes to the function of road association or fees is anticipated once the transition to homeowners association is complete.

There is vacant Minnesota Power-owned land next to my lot. What will happen to this land?

In some cases, additional land may be added to lots to allow conformance with county standards. In other cases, the land will remain vacant to meet Minnesota Power's environmental, recreational or other goals. In certain instances, the land may become available for sale to adjacent landowners. Minnesota Power has no plans to create additional lots at this time.

Will there be logging or mining on these vacant Minnesota Power lands?

We will continue to manage our lands with a balanced approach for Minnesota Power, our utility and leaseholder customers and neighbors, and adjacent landowners. We have no current plans for mining development. Active forest management, including harvest, is a critical tool for ecological benefit, local industry, and wildfire protection and those practices will continue at Minnesota Power's discretion in a thoughtful and deliberate manner.

Will there be any changes to dam maintenance or water levels as a result of the lot sales?

No, Minnesota Power's operating and maintenance plans and obligations under our Federal Energy Regulatory Commission (FERC) license and St. Louis River Project (SLRP) operating plan remain unchanged.

What other regulatory or tribal entities has Minnesota Power engaged with as part of this process?

Please see the "Minnesota Power Engagement" PDF on the "Purchase Options for Lease Lots" page for a partial list of written, electronic and other engagements.

How has Minnesota Power considered the impacts of COVID-19 on the lease lot purchase option and its leaseholders?

To protect our employees and leaseholders during the pandemic, Minnesota Power followed state and company policy regarding social distancing, face masks and outdoor gatherings. Since March 2019, many of our engagements have taken place in virtual venues, through emails or letters, or outdoors as safe and effective avenues for ensuring engagement and education opportunities with our leaseholders and regulatory agencies.

Minnesota Power has adhered to the eviction moratorium from Gov. Tim Walz's executive order and has voluntarily waived late fees for leaseholders who were behind on their rent since April 2020 through December 2021. Based on the phase out of the eviction moratorium in August 2021, leaseholders who are not current with their lease payments will start accruing weekly late fees on their account balance as of the week following Feb. 15, 2022. Leaseholders facing extenuating circumstances can discuss the possibility of a payment plan with Minnesota Power or seek rental assistance from RentHelpMN.org.

Who should I contact if I have other questions about the purchase option of my leased lot?

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