



January 18, 2022

Dear Current Leaseholder,

I am writing today to update you on important developments regarding the opportunity to purchase your existing lease parcel. Due to successful regulatory outcomes on the state and federal levels, we have now reached the point where we anticipate lease lots will be available for purchase by current leaseholders on Island Lake Reservoir, Fish Lake Reservoir, and Whiteface Reservoir.

Minnesota Power (MP) recognizes that the opportunity to purchase your lot is the cause of excitement for some leaseholders and trepidation for others. We also know that changing interest rates and other factors can be significant stressors to you in regards to the availability of the lots for purchase. Our intent is to ensure all lease are available for purchase as soon as possible, while ensuring the ensuing transaction meets the long-term needs of MP and our leaseholders. We will also continue to strive to make reasonable accommodations for leaseholders who do not wish to purchase their lots.

Before the lots will be available for purchase, most of the lots still need to be platted and all lots still need to be registered with the Minnesota Department of Commerce (DOC). Platting is the formal process of subdividing land into lots and blocks by registered land survey, which is then approved and recorded by St. Louis County. A significant amount of surveying has already been completed, and some lots are already platted but not yet registered.

In 2022, we anticipate that lots on the south shore of Island Lake Reservoir, as well as certain lots on Whiteface on Fish Lake Reservoirs, will be platted, registered, and available for purchase. We expect that the remaining lots will be available for purchase in the 2023 timeframe.

Under the final order from the Minnesota Public Utilities Commission (MPUC) approving the lot sales, the following terms for the purchase have been established. Please note that this order is binding and these terms are not negotiable.

- 1) **The initial purchase price will be the land value determined by St. Louis County's 2020 Estimated Market Value (EMV), payable 2021, plus 4% to account for the lag in land value appreciation.**
  - a. This purchase price will remain unchanged and in full effect for all leaseholders who close on the purchase of their lease lot within one year of the lot being available for purchase (the "offer date").
    - i. You will be notified, in writing, when your lot is available for purchase. This will be the "offer date"
    - ii. MP will strive to have all lots available for purchase before December 31, 2024.
  - b. If leaseholders choose not to purchase within one year of the lot being made available for sale, leaseholders can still participate in the purchase option. However, at that point



AN ALLETE COMPANY

the purchase price will revert to the most current finalized EMV (the 4% additional fee will no longer apply; however, EMVs may be higher at that time).

- c. Real estate taxes will continue to be your responsibility.
  - d. Leaseholders are required to continue to pay a prorated portion of their lease rents through the date of closing.
- 2) **The offer extends only to leaseholders with an active lease.** There are no auctions for active leases. Leases will continue to be honored throughout the term of their lease.
- a. Leaseholders will have up to one year following lease termination to close on their purchase.
  - b. Leaseholders are free to sell their personal property and buildings at any time during their lease, extending to one year past the lease expiration date, on the open real estate market. However, the buyer must purchase the land directly from MP at the then-current EMV.
  - c. If you fail to purchase your lot or arrange for an outside purchase within one year of lease expiration, MP will assume ownership of your buildings and personal property and sell the lot and personal property on the open market. MP will retain the proceeds from the sale and return only the value of the buildings and personal properties, with said value based on the then-current EMV, to the former leaseholder.
  - d. Existing leases expiring in the 2023 timeframe can be renewed for five years, up to February 1, 2028.
  - e. None of the leases eligible for purchase will be available to lease after February 1, 2046.
- 3) **Those leaseholders who 1) directly paid MP an upfront payment to secure their lease, and 2) who choose to purchase their lot before December 31, 2024, will have the purchase price discounted accordingly:**
- a. The amount discounted is a prorated amount based on the upfront payment amount and the time remaining on the original lease. For example, if a \$10,000 upfront payment was made to MP to secure the current lease, and the lease is halfway through the term, the leaseholder would be eligible for up to a \$5,000 discount.
  - b. The amount is limited to no more than 5% of the most current finalized EMV. Using the example above, if the most current finalized EMV for the land was \$80,000, the leaseholder would be eligible for a \$4,000 discount off the purchase price, not \$5,000.
  - c. Your MP representative will notify you, in writing, when your lot is available for purchase. This will be the “offer date”.
  - d. For sales offers after December 31, 2024, Minnesota Power may not offer refunds for any upfront payments made by the leaseholder unless there are extraordinary circumstances.



AN ALLETE COMPANY

- 4) **Under the Federal Energy Regulatory Commission (FERC) Project Boundary approval, MP will be retaining three feet of upland ownership extending landward from the ordinary high water level.**
  - a. A permanent riparian easement will be granted to purchasers at no cost to you, which will allow access to the reservoir.
  - b. MP's FERC shoreland compliance obligations will remain in effect. Placement of permanent structures in the waterway remain prohibited due to our federal license requirements, in addition to existing local and state prohibitions. MP reserves the right to revoke access to the reservoir if leaseholders violate these requirements.
    - i. We anticipate revocation of reservoir access to be an exceptionally rare occurrence and completely avoidable if purchasers follow existing local and state requirements.
- 5) **Road ownership will remain in your control.** However, without underlying MP ownership of all the land, certain changes are necessary.
  - a. In order to ensure legal access to new landowners and ongoing leaseholders, the plats will include formalized access easements.
  - b. These access easements will be governed by the landowners and leaseholders and function in largely the same manner as the existing road owner associations.

Please know that as soon as your lot is available for purchase, MP representatives will be reaching out to you directly and will be able to share more details about the process. To that end, please ensure that our Shoreland office has your current and correct contact information. We will also be scheduling a series of public informational meetings in the spring to go over the process in person and answer any questions you might have.

In the meantime, please contact me at 218-343-9119 or Matt Hagelin at 218-269-7305 with any questions.

Best regards,

Jim Atkinson Environmental and Real Estate Manage