January 26, 2006

IRON RANGE Resources
Advancing regional growth.

Christopher B. Clark
Assistant General Counsel
Xcel Energy Law Department
800 Nicollet Mall, Suite 2900
Minneapolis, MN 55402

**Re: Mesaba Energy Project Inquiry of January 20, 2006**

Dear Mr. Clark:

I am writing in response to your request for information regarding the Commissioner of the Iron Range Resources and Rehabilitation Board's decision to designate two sites within the Taconite Tax Relief Area under Minnesota Statute § 216B.1694, subd. 1(3). The Agency's task, as set forth in Minnesota Statute §216B.1694, subd.1(3), was to designate a project "that is located in the taconite tax relief area on a site that has substantial real property with adequate infrastructure to support new or expanded development and that has received prior financial and other support from the board."

In her November 7, 2005, letter designating the two sites, Commissioner Layman wrote:

> Based on this Agency's ongoing efforts in support of the Mesaba Energy Project and the analysis of Agency staff of the proposed site near Taconite, Minnesota (the "Preferred Site") and alternative site near Hoyt Lakes, Minnesota (the "Alternative Site") for two units of the Mesaba Energy Project, I hereby designate the Mesaba Energy Project as one that meets the requirements set forth in Minnesota Statutes, Section 216B.1694, Subdivision 1, Paragraph 3, whether it is located at the Preferred Site or the Alternative Site.

As background, in July of 2001 Iron Range Resources launched an energy initiative to explore and capitalize on opportunities in the energy field and to promote regional job creation and economic growth in this area. Since that time, the Agency has devoted a substantial amount of staff and financial resources toward developing expertise in the power generation field.

In order to designate the sites, the Agency assembled a team of staff to investigate and evaluate potential sites. Over roughly a two year period, staff members studied about a dozen sites within the taconite tax relief area that were being considered by Excelsior Energy Inc. Many of the sites that were reviewed did not meet the requirements set forth by the statute. However, of the original twelve sites, three sites emerged as having strong potential for the project in question. Included in those three sites were the Taconite Site and the Hoyt Lakes Site.

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Both the Taconite Site and the Hoyt Lakes Site have ample size and are situated within the taconite tax relief area. In order to determine if the sites had adequate infrastructure to support new or expanded development, the Agency combed through hundreds of documents, walked the sites, reviewed detailed site maps, consulted with various local, state and federal officials and met with project engineers and consultants. The Iron Range Resources site reviews were broad based, but specifically included an assessment of the environmental aspects of each site including the setting, communities and sensitive areas as well as an evaluation of each site's existing and potential infrastructure for rail, power transmission, gas, water, wastewater, and highway access.

In addition to the Agency's independent review process, staff also participated in the Excelsior Energy/United States Department of Energy site visits for two days in June of 2005. The site visits were very helpful in learning more about the two sites in question. Agency staff were able to review additional site maps, reassess the project sites, ask questions of engineers, consultants, company officials and federal, state and local officials, learn more about the licensing and permitting needs of the project, review the overall project needs, inquire about environmental concerns and evaluate project alternatives. Among the local and government officials the Agency consulted during the June 2005 site visits were the United States Department of Energy, the Minnesota Pollution Control Agency, the Minnesota Department of Natural Resources, the Minnesota Environmental Quality Board, the Itasca Development Corporation, and local city and county officials.

The Agency also confirmed that there was financial and other support from the board. This support came in a number of different forms, but is largely demonstrated by the $1,500,000 of project funding in 2002 and $8,000,000 of project funding in 2004.

Finally in November of 2005, after almost two years of investigation and information gathering, Commissioner Layman, in consultation with her staff, determined that the Taconite Site and the Hoyt Lakes Site meet the requirements set forth in Minnesota Statute § 216B.1694, Subd. 1(3).

Iron Range Resources is confident that its extensive review process more than met the requirements provided by statute. These sites are well suited for the Mesaba Energy Project. Iron Range Resources is eager to move forward with the planning and construction of this innovative energy project on the Iron Range. We hope this letter addresses your concerns. If you have any questions regarding the review process or need any additional information, please feel free to contact me.

Sincerely,

Brian Hiti
Deputy Commissioner