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To: Itasca County Regional Rail Authority

From: Bryan Adams PE Nashwauk Public Utilities Commission

Subject: Project Status Report Public Infrastructure to Support Essar Steel Minnesota

This project update provides information regarding the Nashwauk Public Utilities Commission's progress in their development of the following infrastructure elements:

- Natural Gas Transmission Pipeline
- High Voltage Transmission System Upgrades
- Electric Distribution Substations
- Electric Power Supply
- Water and Sewer

Natural Gas Transmission

ESML continues to review the viability of the gas pipeline project based on the up-dated budget and proposed gas pipeline routes by NNG with no final decision being made. ESML indicated a final decision should be made by year's end.

System High Voltage Transmission Upgrades

The NPUC on September 27, 2010, received the first draft of Facilities Construction Agreement drafted by MP. This document outlines the ownership and construction responsibilities, construction schedules, security requirements, payment responsibilities, and other contact terms and conditions. This document has been reviewed by the attorneys to determine issues that need further consideration and has been submitted to ESML for their comments. We are awaiting ESML comments.

The MPUC route permit for the 2 substations and 230 kV transmission lines has been obtained. Preliminary R/W work has been completed by Ulteig. Barr Engineering and MP have been under contract to perform the environmental work to obtain the necessary permits. All of the field

environmental work including threatened and endangered species, wetland delineation, and cultural surveys have been completed. We met with the Corp of Engineers on 9-10-10 on wetland issues and procedures. The Cultural Resources Study, Wetlands Delineation Report and Threatened & Endangered Species Study are complete and have been received by NPUC. These studies will be incorporated into a COE application that is now being assembled and will be submitted shortly.

The re-route permit for the 115 kV transmission line was issued by the Nashwauk City Council. Until an agreement between MP and ESML is finalized little engineering work on this phase of the project is being done. A change order was recently given to Barr Engineering to do the necessary environmental work for the 115 kV line as long as they were already doing the environmental work 230 kV transmission line. As you may recall, these two lines parallel one another in and around the ESML facility. The 115 kV reroute COE permit application will be submitted with the 230 kV application outlined above.

Electric Distribution Substations

The electric substations configuration will utilize two distribution substations serving the Crusher/Concentrator, and the Pellet Plant/Steel Plant. These substations are currently scheduled to be in-service by March 2012. Five-230 KV power transformers have been ordered from Waukesha Transformer in preparation to serve the phase 1 ESML facility at a 6 .5 MTA capacity

Black & Veatch continues the final design engineering for these substations. Now that the final design is farther along, the initial cost estimates are now being up-dated to reflect current design features. In November 2010, we were going to issue plans and specifications to secure bids to furnish, fabricate and deliver the 13.8 kV switchgear complete in a prefabricated metal building. ESML is reviewing the electrical design of their facilities and have determined that the majority of this proposed switchgear is already included in their facilities. With the addition of a couple of breakers to their equipment, the majority of switchgear in the substation can be eliminated. This will require NPUC to extend the secondary bus at the Steel Substation approximately 4000' to ESML taconite plant facility. The same is true for the Mine Substation but due to R/W constraints, the NPUC will not be able to own and construct this bus extension. This is a major change to the substation design and how State grant dollars are spent. We are currently reviewing the design and cost ramification associated to this change.

Rough grading contracts for both the Mine and Steel Substation were awarded. ESML will be doing the Mine Substation rough grading with their contractors and Utility Systems of America will be doing the rough grading for the Steel Substation. With the onslaught of winter, this work will be done next spring. ESML is currently clearing the Steel substation location of trees.

NPUC has had conversations with Itasca Co staff, Minnesota Power and ESML on ownership options of the 230 kV transmission system components and substation components and how best to utilize State grant dollars. We are proceeding with the concept of MP owning and maintaining the high voltage (MISO network facilities) facilities and NPUC will own the middle section and low voltage section of the substations. We are moving forward with the necessary agreements to make this a reality. The Facilities Construction Agreement mentioned earlier is the first agreement in this process. With ESML eliminating a large portion of the secondary switchgear, the concept remains the same but the dollars will change substantially.

Electric Power Supply

NPUC is preparing to re- issue the short term (Phase 1) power supply RFP. We are still waiting for ESML to firm up their power and energy estimates to be included in this REP. On a related issue, NPUC current power supply contract with MP will expire April 30, 2012. Due to pending rate increasing under this contract, we are in discussions with MP on these rate increases and expiration date of this contract. MP in these discussions, proposed a possible electric service agreement (ESA) including rate features that ESML may find desirable. We continue to have discussions with MP and ESML on this proposed Minnesota Power ESA.

Water/ Sewer

Hammerlund Construction continues constructing the pump house and Utility Systems of America (USA) is working on the water/sewer pipe extension to the ESML site. Good progress is being made on both of these construction projects. USA did encounter approximately 500' of ledge rock that will need to be blasted. An approximate \$36,000 change order was given to USA to carry out this work. This work is just now starting. Due to winter weather, the final testing for both USA and Hammerlund will be completed in the spring of 2011.

The remaining bid package which will include the water/sewer pipeline in the ESML corridor will be bid at a later date when ESML completes their necessary engineering.

In the process of demolishing the existing pump house to make room for the new facility, an unknown abandoned well under the old pump house was found. This well will need to be abandoned following the Minnesota Department of Health (MDH) guidelines using a certified well driller. Hammerlund Construction was awarded a change order to properly abandon this 8' square hand dug well using State grant and EDA funds. This phase of this work has been completed. The MDH now desired the 16" well casing within the 8' square hand dug well to be drilled out and grouted. This work will be done next spring. MDH has provided a grant to help fund this portion of the work.

The water/sewer service agreement has been revised to reflect the language contained in the master development agreement. With the completion of the technical aspects of the water/sewer project, NPUC can proceed with finalizing the water/sewer service agreements.