



Michigan Operations

April 2013

MICHIGAN OPERATIONS

Tilden Mine



Type of ore: Hematite & Magnetite
Tilden began pellet production in 1974
2012 Production: 7.6 million tons
Through 2012, Tilden produced more than 225 million tons
Annual rated capacity: 8.0 million tons

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Empire Mine



Type of ore: Magnetite
Empire began pellet production in 1963
2012 Production: 3.2 million tons
Through 2012, Empire produced more than 260 million tons
Annual rated capacity: 5.5 million tons

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CLIFFS IN MICHIGAN

Economic Impact

	<u>2011</u>	<u>2012</u>	<u>2013(e)</u>
Employment	1,722	1,668	1,645
Payroll & Benefits	\$253 Million	\$259 Million	\$216 Million
Services & Supplies	\$702 Million	\$603 Million	\$564 Million
Electric Power	\$130 Million	\$120 Million	\$121 Million
Taxes	\$12.3 Million	\$16.2 Million	\$16.6 Million
Capex	\$141.30 Million	\$72.52 Million	\$16.68 Million
Total Impact (w/o Capex)	\$1,097 Million	\$998.2 Million	\$ 917.6 Million

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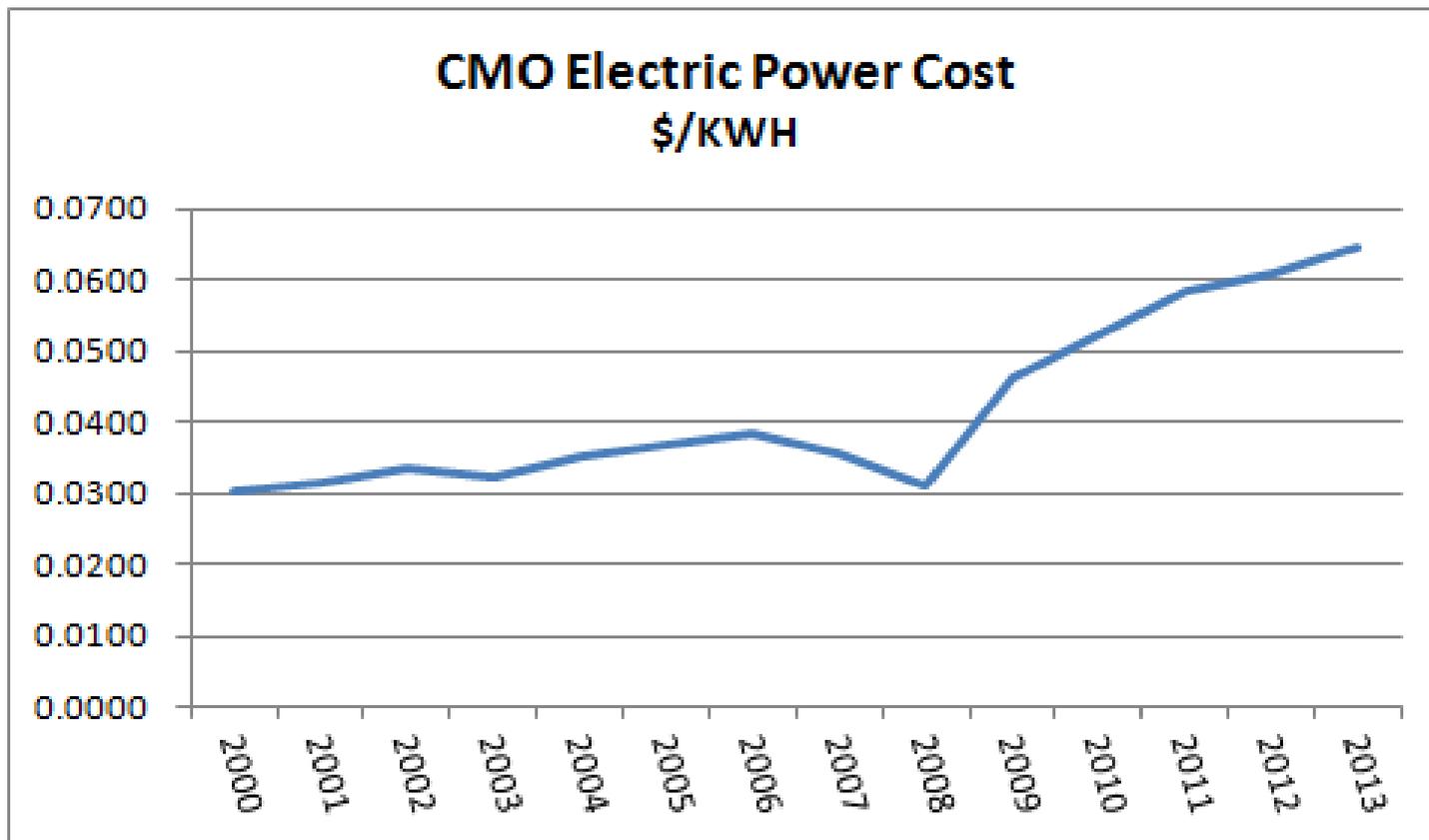
Cliffs Electric Service History in Michigan

- ❖ From first pellet production in 1963, until sale of the Presque Isle Power Plant in 1987, the Empire & Tilden Mines essentially provided their own electrical power. Presque Isle Power Plant was developed and owned by the Upper Peninsula Generating Company (a predecessor of Cliffs Natural Resources) to serve the Mines.
- ❖ In 1987, Cleveland-Cliffs, in a massive restructuring to avoid bankruptcy, sold the Presque Isle Plant to Wisconsin Energy for \$283.6 million.
- ❖ As a part of the sale agreement, Cliffs entered into a ten year (with provisions for a 10 year extension) power purchase agreement with Wisconsin Energy for electric service to the Mines. The contract was extended after the first 10 year term, and expired in 2007.
- ❖ With the expiration of the purchase power agreement, the Mines are now served under Wisconsin Electric Power Company's CpLC tariff.

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The effective electric power cost to the Mines has increased nearly 110% under the CpLC tariff in a 5 year time frame

CLIFFS MICHIGAN OPERATIONS RATE HISTORY



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LEGISLATIVE IMPACTS: PUBLIC ACTS 286 AND 295 OF 2008

- ❖ Use of projected test years in ratemaking.
- ❖ Self implementation of rate increases.
- ❖ Energy Optimization, while beneficial, will ultimately become a tax. 1% savings annually is not achievable in perpetuity, and may not be achievable once in new facilities. (Advise achieving a level and sustaining gains).
- ❖ Administration of the EO program is ineffective.

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MISSION: MICHIGAN PUBLIC SERVICE COMMISSION

The mission of the Michigan Public Service Commission is to grow Michigan's economy and enhance the quality of life of its communities by assuring safe and reliable energy, telecommunications, and transportation services at reasonable rates.

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ACTIONS VS. MISSION

While the MPSC's Mission is clearly stated, its actions seem to be contradictory, at times. Our observation is that actions are focused on "keeping utility providers healthy," as opposed to ruling with the intent of growing Michigan's economy and assuring reasonable rates.

- ❖ Cumulative effect of rate case and pscr approvals has been an increase in electric power costs of over 100% in the last 5 years. Michigan seems to be the "land of perpetual rate case", with little accountability being placed on the utilities.
- ❖ Lack of application of "Used and Useful" doctrine to leased generating assets. (ERGS and Port Washington).
- ❖ Granting waiver of Elm Road Generating Station performance standard effectively voids the standard.
- ❖ Allowing WEPCO to recover Wisconsin RPS compliance costs in Michigan rates.

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SUMMARY OF EFFECTS

- ❖ Electric Power at the end of the power purchase agreement constituted an expense of **\$6.50 per ton** of pellet produced.
- ❖ Electric Power in 2012 constituted an expense of **\$11.09 per ton** of pellet produced.
- ❖ Current plans are to indefinitely cease pellet production at the Empire Plant in 2014.
 - ◆ An estimated 694 jobs will be lost.
- ❖ Fundamental economics are the primary driver at Empire. We live in a globally competitive market. Imports and new competitive production in other states (with lower electric power costs) affect our operations and our decisions here in Michigan. Electric power cost and rate are basic to the decision to idle Empire.
- ❖ Empire is presently Cliffs' highest cost pellet producer, worldwide. Justification for continued operation has been increasingly difficult. Power rate is, again, fundamental in the decisions and justifications.

CONCLUSIONS

- ❖ **Electric power costs in Michigan have risen at an alarming rate and are on an increasing trend, which is negatively impactful to the business climate.**
- ❖ **The Energy Optimization (EO) program has been successful in driving behaviors (at least at Cliffs Michigan Operations). Need to consider “off ramp” at some point and need to consider exemption for new facilities.**
- ❖ **Need to streamline administration of the EO program to increase effectiveness.**
- ❖ **Need to systemically hold utilities accountable to effective and credible management of cost.**



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