

**Minnesota Power
Standards of Conduct
Written Procedures**

Written Procedures

Pursuant to Section 358.4(e)(1), (2), (3), (4) and (5), Minnesota Power is in full compliance with the Standards of Conduct as of the September 22, 2004 effective date. Minnesota Power adopted and filed on February 6, 2004 a Plan and Schedule for Implementation of Order No. 2004 that included action items, milestone dates, and responsible persons. In compliance with that Plan, Minnesota Power posted the Plan on the OASIS on February 9, 2004. Standards of Conduct written procedures were distributed to employees of Transmission Provider and Energy Affiliates, as well as a wide variety of corporate support employees, in training sessions held on March 30 and 31, and April 1, 2 and 21, 2004. A videotape of a training session has been retained as a training aid for future employees of either the Transmission Provider or any Energy Affiliate. A copy of the written procedures and training materials is provided in Exhibit P. Affidavits of attendance were executed by employees attending the training sessions.

Plan and Schedule for Implementation of Order No. 2004

[Exhibit P Standards of Conduct Written Procedures](#)

Exhibit P Standards of Conduct Written Procedures

TABLE OF CONTENTS

1. Training Session Panel
2. Summary of Order No. 2004
3. Training Session PowerPoint Presentation
4. Federal Energy Regulatory Commission Regulations
Standards of Conduct Rules
18 CFR §§358.2 – 358.5
5. Chief Compliance Officer Contact Information
6. Affidavit of Standards of Conduct Training Acknowledgement
—To be completed and turned in at training session.

????????????????

Training sessions held March 30, 31 and April 1 and 2, 2004

Make-up sessions, as required

STANDARDS OF CONDUCT

TRAINING SESSION

PANEL

Thomas E. Ferguson

Vice President Power Delivery and Transmission

Thomas A. Sullwold

Transmission Contracts Engineer

Steven W. Tyacke

Assistant General Counsel

Bethany M. Owen

Attorney

Margaret Hodnik

Manager of Policy and Communications

SUMMARY OF ORDER 2004
Standards of Conduct for Transmission Providers*

General Principle:

Transmission function employees must operate independently of the marketing function employees and energy affiliates and all transmission customers must be treated on a non-discriminatory basis.

1. Public utilities must file their plans for compliance with Commission and post them on the OASIS or their website 60 days after the rule's publication in the Federal Register and they must be in compliance by June 1, 2004.
2. Applies the same Standards of Conduct to electric transmission providers and natural gas pipelines ("Transmission Providers").
3. Commission approved ISO's/RTO's are not subject to the Standards of Conduct. Utilities participating in an ISO/RTO may seek an exemption from the rule.
4. If a non-jurisdictional utility files a reciprocal OATT under Order No. 888, it must comply with the Standards of Conduct, but the Commission will continue to observe previously granted exemptions and partial waivers. Exemptions and waivers can be revoked if circumstances change.
5. The application of the Standards of Conduct is broadened beyond the current rule, which requires separation of transmission from wholesale merchant activities. The new rule applies to "energy affiliates". However, the definition of "energy affiliate" has several important exceptions including the following:
 - Can share information between affiliated transmission providers (electric – electric; gas – electric).
 - Holding and parent companies are not included as long as they do not participate in the market.
 - Foreign affiliates are excluded.
 - Retains bundled retail sale exception from Order No. 888; however, the new rules do not shield the bundled retail employee if the retail employee sells excess capacity into the market. This maintains current law.
6. The new rules adopt the Energy Affiliate approach (concentrating on corporate entities) over the Functional approach (concentrating on transmission and commercial functions). The new rule allows for the sharing of employees, including senior management, field/maintenance, risk management, legal, accounting, etc., but they cannot act as a conduit of information.

7. Requires transmission providers to designate a chief compliance officer who will be responsible for complying with the Standards of Conduct.
8. All employees must be trained in Standards of Conduct compliance and sign affidavits that they have been trained regarding the requirements.
9. The new rules opted for the “no-conduit rule” (the current rule for electric Standards of Conduct) over the stricter “automatic-imputation rule” (currently used for natural gas).
10. Allowing the sharing of top management and the adoption of the no-conduit rule will facilitate compliance with the corporate governance responsibilities of the Sarbanes-Oxley Act.
11. The new rules requires the posting on the OASIS of possible mergers after they are publicly announced.

* This summary does not address the rule as it applies to natural gas transmission providers.

STANDARDS OF CONDUCT

MINNESOTA POWER

RULES GOVERNING EMPLOYEE CONDUCT UNDER FERC ORDER 889

- SECTION 37.4 Provides that employees that are engaged in wholesale marketing functions are prohibited from having preferential treatment to any transmission-related information
- Employees engaged in transmission operations and those engaged in wholesale marketing shall function independently, except;
- Where safety & reliability are concerned, transmission operations employees may temporarily suspend the Standards to obtain assistance from Wholesale Marketing employees. Such events shall be posted on the OASIS and reported to FERC.

Order 889 - Rules Governing Employee Conduct

- Prohibitions
- Transfers
- Information Access
- Disclosure
- Implementing Tariffs
- Documentation

Order 889 - Prohibitions

Any employee engaged in wholesale marketing functions is prohibited from:

- Conducting transmission operations
- Conducting reliability functions
- Having access to the control room including:
 - RECC lower level areas dedicated to transmission operations
 - System Performance Engineering area
 - EMS systems related to operations

Order 889 - Transfers

- Any employee transfer from Power Delivery (transmission operations or reliability functions) to a wholesale marketing function or vice versa shall be posted on the OASIS for 90 days
- Transfer can not be used as a means to circumvent the Standards of Conduct

Order 889 - Information Access

Any employee engaged in wholesale marketing functions:

- Shall have access to only that information (pertaining to the transmission system) which is posted on the OASIS and made available to all non-affiliated marketers at the same time
- Is prohibited from obtaining information about the transmission system such as:

ATC (Available Transmission Capacity)

Price

Curtailments

Order 889 - Disclosure

Power Delivery employees shall not provide any information to wholesale marketing employees:

- Relating to MP's transmission system, or
- Relating to the transmission system of others, or
- Relating to marketing information from potential transmission customers,

than is otherwise posted on the OASIS. If a disclosure occurs which is contrary to the Standards of Conduct, the Transmission Provider must immediately post such information on the OASIS

Order 889 - Implementing the Open Access Tariff

Power Delivery employees shall:

- Strictly enforce Tariff provisions (where there are no provisions for discretion)
- Apply the Tariff in a fair and impartial manner (where there are provisions for discretion)
- Keep a log whenever discretion was exercised
- Not give preference to wholesale purchases
- Offer discounts on transmission service to all customers on the OASIS equally

Order 889 - Documentation

- Accounting and records regarding transmission operations shall be maintained by Power Delivery separately from those of a marketing entity
- The Standards of Conduct shall be maintained by Power Delivery, filed with FERC, and be made available to all Transmission Customers

Changes since 1996

- MPEX / Split Rock Energy no longer located at RECC

- FERC Order 2000 RTO - Regional Transmission Organizations

Purpose was to establish independent transmission system operators to provide non-discriminatory Open Access Transmission Service while ensuring reliability

Changes (continued)

- Midwest ISO

Minnesota Power joins MISO in 2001

MISO began system security function Dec 2001

MISO began Tariff Administration Feb 2002

MP retains physical control of MP transmission system under the direction (functional control) of MISO

MP no longer provides Point-to-point or Network Transmission Service

Most Recent Change

- FERC Order 2004 (issued late 2003)

Applies to both electric and natural gas industries

Expanded Standards of Conduct to apply to all Transmission Provider "Energy Affiliates"

Retained exemption allowing the use of the same employees for interstate transmission business and retail sales business. However, if these employees engage in any wholesale activity, separation of functions shall apply.

Order 2004

■ Definitions

Transmission Provider : Any public utility that owns, operates, or controls facilities used for transmission of electric energy in interstate commerce

Energy Affiliate : Any affiliate of the Transmission Provider that

- a) engages in transmission transactions
- b) buys, sells, or trades natural gas or electric energy
- c) engages in financial transactions relating to sale or transmission of nat. gas or electric energy

Order 2004

- Definitions (continued)

Marketing, Sales, or Brokering : A public utility's energy sales unit, unless such unit engages solely in bundled retail sales (The rules do not shield a bundled retail employee who sells excess energy into the market)

Transmission Function : An employee, contractor, or consultant of the public utility who conducts transmission system operations and/or reliability functions

Order 2004

- Key Elements

Functional Separation : A Transmission Provider's transmission system operations employees must function independently from the Transmission Provider's marketing employees and those employees of any energy affiliate

Exception : During emergencies where safety and reliability are jeopardized, Standards of Conduct may be suspended. Such events must be reported and posted.

Order 2004

- Key Elements (continued)

Disclosures by transmission system operations employees of transmission-related information not posted on the OASIS to marketing employees or energy affiliate employees are prohibited

Information Access : The Transmission Provider must ensure that marketing or energy affiliate employees have access only to information that is on the OASIS and available to all on a non-discriminatory basis

Order 2004

- Key Elements (continued)

Shared employees : The new rule clarifies an Order 889-A provision allowing the sharing of employees such as field/maintenance, legal, risk management, accounting, and senior management, etc; but they can not act as a conduit of information.

The new rule opted for the “no-conduit rule” over the “automatic-imputation rule” (currently used for natural gas).

Order 2004

- Implementation

“Plan and Schedule of Implementation” was filed with FERC on 2/6/2004

Distribute written procedures to all targeted Transmission Provider and energy affiliate employees

Targeted employees of the Transmission Provider must attend training and sign an affidavit certifying that they have been trained regarding the Standards of Conduct requirements

Order 2004

- Implementation (continued)
 - Post Organizational Charts, Departmental relationships, job titles and descriptions

Designate a Chief Compliance Officer

Comply by June 1, 2004

Summary

- From FERC's perspective, goal of Orders 888 and 889 is to promote competition in a fair and impartial manner to all marketers in the country
- Eliminate / minimize any before-the-fact access to transmission information that would lead to an unfair advantage in the market place
- FERC Orders 2000 + 2004 enhances goals of Orders 888 + 889 by further separating transmission operations from wholesale marketing and energy affiliate functions.

CHIEF COMPLIANCE OFFICER CONTACT INFORMATION



Thomas E. Ferguson
Vice President – Power Delivery and Transmission

Rowe Energy Control Center
3217 Persons Street
Duluth, MN 55811

Phone: 218 720-2662
Cell Phone: 218-590-8704
Email: tferguson@mnpower.com