

THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

ALE - Q3 2016 ALLETE Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 04, 2016 / 2:00PM GMT



## CORPORATE PARTICIPANTS

**Al Hodnik** ALLETE, Inc. - Chairman, President & CEO

**Steve DeVinck** ALLETE, Inc. - SVP & CFO

**Bob Adams** ALLETE, Inc. - SVP, Energy Centric Businesses & Chief Risk Officer

## CONFERENCE CALL PARTICIPANTS

**Paul Ridzon** KeyBanc Capital Markets - Analyst

**Chris Ellinghaus** Williams Capital - Analyst

**Bernard Horn** Polaris Capital Management, Inc. - Analyst

## PRESENTATION

### Operator

Good day and welcome to the ALLETE third-quarter 2016 financial results call. Today's call is being recorded.

Certain statements contained in this conference call that are not descriptions of historical facts are forward-looking statements such as terms defined in the Private Securities Litigation Reform Act of 1995. Because such statements can include risks and uncertainties actual results may differ materially from those expressed or implied by such forward-looking statements.

Factors that could cause results to differ materially from those expressed or implied by such forward-looking statements include but are not limited to those discussed in the filings made by the Company with the Securities and Exchange Commission. Many of the factors that will determine the Company's future results are beyond the ability of management to control or predict.

Listeners should not place undue reliance on forward-looking statements which reflect management's views only as the date hereof. The Company undertakes no obligation to revise or update any forward-looking statements or to make any other forward-looking statements whether as a result of new information, future events or otherwise.

For opening remarks and introductions I would now like to turn the conference over to ALLETE President and Chief Executive Officer Mr. Al Hodnik. Please go ahead.

---

### **Al Hodnik** - ALLETE, Inc. - Chairman, President & CEO

Thank you for joining us today. With me is ALLETE's Chief Financial Officer Steve DeVinck and ALLETE's Chief Risk Officer Bob Adams. As we announced recently Bob will succeed Steve as part of a planned and orderly ALLETE CFOs succession in the spring of 2017.

This morning we reported third-quarter financial results of \$0.81 per share on net income of \$40.3 million. Results for the quarter include an \$8.8 million after-tax or \$0.18 per share adverse impact relative to a regulatory outcome on October 18, 2016.

At that Minnesota Public Utilities Commission hearing the Commission adversely ruled on the allocation of North Dakota investment tax credits. While we are disappointed and will appeal this unfortunate decision we believe this is more of a one-time outcome.

Last year's results were \$1.23 per share which included approximately \$0.25 per share of profit from ALLETE Clean Energy's construction of a wind energy facility for Montana Dakota Utilities which was completed in late 2015. Results also include acquisition costs of \$0.02 per share.



First, I will make a few comments on our regulated businesses. I'm pleased to report that we are seeing improvement on Minnesota Power's industrial customer front. Two recent examples are Cliffs Resources' United Taconite mine restart and a \$65 million investment in new enhanced iron ore products. Secondly, in August our recently announced five-year agreement to supply electricity to United States Steel's Minntac and Keetac facilities.

And yesterday the Minnesota Public Utilities Commission approved Minnesota Power's new electric service agreement for Northshore Mining and United Taconite. This new 10-year contract with Cliffs extends through at least December 31, 2026 and is another indicator of the strength in Northeastern Minnesota.

According to the United States Census Bureau September 2016 year-to-date imports for consumption of steel products are down approximately 20% compared to August 2015. Consequently, we are pleased to report that the import share of the domestic steel market has fallen from a peak of 34% in March of last year to roughly 26% in September of this year.

Minnesota Power continues to make significant progress on its Energy Forward strategy and overall balancing of its energy supply. This strategy encompasses reliability and sustainability but must also take into consideration the unique nature of Minnesota Power's customer mix.

Consistent with the Energy Forward initiatives, late last month Minnesota Power announced it will retire two small coal-fired generators at its Boswell Energy Center located in Cohasset, Minnesota by the end of 2018. It is the latest step in the Company's Energy Forward plan designed to answer our nation's call for cleaner, less carbon-intense energy forms.

The retirement of these two small coal units in 2018 is an economical choice and the closure timing was made in the best interest of our customers and affected employees. This action results in cost savings for customers and lower carbon emissions while protecting affordability and ensuring reliability.

In addition to transforming existing-generation assets, we remain focused on making strategic investments in transmission and also adding renewables as well as complementary or renewable supporting natural gas to the fleet. Minnesota Power is investigating resource alternative for its generation mix that includes wind, solar and natural gas along with large customer demand side management. We believe natural gas is a necessary and supportive element for renewables as we further transform Minnesota Power's generation mix away from coal.

Grid reliability is critical. And natural resource or natural gas resource generation provides a logical base to back the intermittent nature of renewable energy forms. Final evaluation of results from the recent request for proposals being considered as part of Minnesota Power's broad Energy Forward strategy should be complete during the first half of 2017.

The Great Northern Transmission Line continues to attract national attention and support. Minnesota Power anticipates a final decision on the presidential permit from the Department of Energy before the end of the year. We look forward to updating you on this project with construction to commence shortly after receiving the permit.

Getting this transformative North American energy project to this stage has required outstanding leadership from many individuals, both internal and external. The Great Northern initiative will provide investment and growth opportunities through the end of the decade. This as Minnesota Power positions to move carbon-free hydroelectric generation from Canada.

On June 30, 2016 Minnesota Power filed a revised energy intensive trade exposed, or EITE, tariff petition with the Minnesota Public Utilities Commission. The revised petition included additional information on the net benefit analysis, limits on eligible customers and term lengths for the proposed EITE discount. On September 15, 2016 the Minnesota Public Utilities Commission approved a reduction in rates for EITE customers and determined that cost recovery will be addressed in a subsequent proceeding.

On November 2 Minnesota Power submitted a rate review filing with the Minnesota Public Utilities Commission which supports an increase in base retail electric rates. This request for increased rates is primarily driven by our need to adequately recover costs associated with significant investments made by Minnesota Power to enhance environmental performance, add resiliency to the region's electric system and bring new renewable energy to Northeastern Minnesota. Bob Adams will share more details on these regulatory rate filings in a moment.



We continue to execute our strategy and position ALLETE as a sustainable energy Company for the future. Minnesota Power's Energy Forward initiative in tandem with our energy infrastructure and related services businesses will drive ALLETE forward and keep our strategy intact to deliver shareholder value to earnings and dividend growth.

I will make some additional comments after Steve takes you through the quarterly financial results.

---

**Steve DeVinck** - ALLETE, Inc. - SVP & CFO

Thanks, Al, and good morning everyone. Before I begin I encourage you to refer to the 10-Q we filed earlier today for more details on the quarter.

For the third quarter of 2016 ALLETE reported earnings of \$0.81 per share on net income of \$40.3 million and operating revenue of \$349.6 million. This compares with \$1.23 per share on net income of \$60.4 million and operating revenue of \$462.5 million last year. Results for the third quarter of 2016 include an \$8.8 million after-tax or \$0.18 per share adverse impact for the regulatory outcome of an October 18, 2016 MPUC decision on the allocation of North Dakota investment tax credits.

Net income for the third quarter of 2015 included \$12.3 million or \$0.25 per share for ALLETE's Clean Energy's profit on the wind energy facility sold to Montana Dakota Utilities in the fourth quarter of 2015. Net income in 2015 also included acquisition costs of \$900,000 or \$0.02 per share.

We are disappointed in the MPUC's decision relating to the allocation of prior-period North Dakota investment tax credits. We believe they decided incorrectly in deviating from the long-standing regulatory precedent of the standalone methodology of accounting for income taxes, a methodology developed to protect ratepayers. Upon receipt of the final written order Minnesota Power will seek reconsideration with the MPUC and if not successful will consider all available avenues of appeal.

We believe this could be a larger industry issue. While we adamantly believe the Commission erred in this decision we do not believe it is indicative of the overall regulatory tone in Minnesota. For example, we have found the Commission to generally be constructive in working with Minnesota Power on current cost recovery.

Our strategy since our last general rate review has been to use rider recovery for our significant environmental renewable and transmission investments. And this year Minnesota Power will generate approximately \$100 million in current cost recovery rider revenue.

ALLETE's regulated operation, which consists of Minnesota Power, Superior Water, Light & Power and the Company's investment in the American Transmission Co. reported net income of \$45 million, an increase of \$1.2 million over 2015's third quarter. At Minnesota Power higher cost recovery rider revenue and increased levels of production tax credits were partially offset by higher depreciation expense.

Our equity earnings in ATC increased \$400,000 after-tax. Operating revenue from regulated operations increased \$3.1 million, or 1% from 2015 primarily due to higher kilowatt hour sales, pricing under wholesale power sales agreements, fuel adjustment clause recoveries, cost recovery rider revenue and FERC formula-based rates partially offset by the previously mentioned adverse impact of the regulatory outcome related to the allocation of North Dakota tax credits.

Higher kilowatt hour sales and pricing on our wholesale power sales agreements led to a \$6.5 million increase in regulated revenue. Sales to other power suppliers increased 8.5% in 2016, primarily as a result of more energy available for sale.

In addition, contractual pricing on some wholesale power sales agreements increased in 2016. Sales to our industrial customers increased 6.2% primarily due to the commencements of a long-term power sales agreement serving Cliffs Northshore mine.

Fuel clause recoveries increased \$6.5 million due to higher fuel and purchase power costs attributable to our retail and municipal customers. Cost recovery rider revenue increased \$2.1 million primarily due to the completion of the Boswell 4 environmental upgrade in the fourth quarter of last year. Revenue decreased \$15 million due to the mentioned adverse impact for the regulatory outcome on the allocation of North Dakota investment tax credits.

On the expense side, fuel and purchase power expense increased \$14.2 million, or 18% from 2015 primarily due to higher fuel costs and kilowatt hour sales compared to 2015. Fuel and purchase power expense related to our retail and municipal customers is recovered through the fuel adjustment clause. Transmission services expense increased \$2.7 million for the quarter or 19% primarily due to higher MISO-related expense.

Operating and maintenance expense decreased \$1.8 million or 3% from 2015 primarily due to lower salary and benefit expenses. Depreciation and amortization expense increased \$4.9 million or 15% from last year, primarily due to additional property, plant and equipment in service. Equity earnings in ATC increased \$600,000 or 11% from 2015 primarily due to additional investment in ATC and period-over-period changes in ATC's estimate of a refund liability related to MISO return on equity complaints.

Net income at ALLETE Clean Energy decreased \$12.2 million and revenue decreased \$136.4 million for the third quarter of 2016, primarily due to the construction sale of a wind energy facility to MDU in 2015. Results for 2015 included \$12.3 million of net income and \$135.9 million of revenue related to that transaction. 2016 results included a \$900,000 after-tax expense for the early repayment of debt.

Revenue at U.S. Water Services increased approximately 5% over the third quarter of last year. Revenue from chemical sales and related services increased 11% to \$31.1 million compared to \$27.8 million for the third quarter of 2015. Revenue from equipment sales and related services was \$6.7 million versus \$8.3 million in last year's third quarter.

Equipment sales can have more period-to-period variability than chemical sales. Net income for U.S. Water increased \$500,000 this year, reflecting lower expense related to purchase accounting adjustments. 2016 earnings reflect increased investments in back-office systems and support at U.S. Water Services as we create a platform for future growth.

Corporate and Other, which includes results from BNI Energy, ALLETE Properties and other miscellaneous corporate income and expenses, reported a net income decrease of \$9.6 million from 2015 primarily due to the \$8.8 million adverse impact for the October 2016 regulatory outcome for the allocation of North Dakota investment tax credits. ALLETE's effective tax rate for the quarter was 4% compared to 19% in 2015. The estimated annual effective rate can differ from what a quarterly rate would otherwise be on a standalone basis, and this may cause quarter-to-quarter differences in the timing of income taxes. We anticipate the effective rate for 2016 will be approximately 13%.

In August we indicated that our full-year earnings guidance will likely be at the low end of our guidance range of \$3.10 to \$3.40. That remains unchanged excluding the \$8.8 million or \$0.18 per share impact of the adverse October MPUC decision on the allocation of North Dakota tax credits.

ALLETE's financial position continues to be solid. Cash from operating activities was \$237.8 million and our debt to capital ratio was 45% as of September 30. We are an organization committed to financial discipline as we execute on delivering value to our shareholders.

I will now hand it off to Bob Adams for a few details on regulatory rate filings. Bob?

---

**Bob Adams** - ALLETE, Inc. - SVP, Energy Centric Businesses & Chief Risk Officer

Thanks, Steve, and good day everyone. On November 2, 2016 Minnesota Power filed a retail rate increase request with the MPUC seeking an average increase of 9% for retail customers. The rate filing seeks a return on equity of 10.25% and a capital structure consisting of 53.8% equity and 46.2% debt.

On an annualized basis the requested rate increase would generate approximately \$55 million in additional revenue. Once the filing is accepted as complete, interim rates of approximately \$49 million are expected to be implemented within 60 days subject to MPUC adjustment and authorization. We cannot predict the level of interim or final rates that may be authorized by the MPUC.

On a similar note, back on June 28, 2016 Superior Water, Light & Power filed a rate increase request with the Public Service Commission of Wisconsin requesting an average overall increase of 3.1% for its retail customers consisting of a 3.5% increase in electric rates, a 1.3% decrease in natural gas



rates and a 7.8% increase in water rates. The rate filing seeks an overall return on equity of 10.9% based on a capital structure consisting of approximately 55% equity and 45% debt.

On an annualized basis the requested rate increase would generate approximately \$2.7 million in additional revenue. The Company anticipates new rates will take effect during the first quarter of 2017. We cannot predict the level of rates that may be approved by PSCW.

---

**Al Hodnik** - ALLETE, Inc. - Chairman, President & CEO

Thanks, Steve and Bob for the financial updates. I have a few more comments and updates to make before Steve, Bob and I take your questions. ALLETE is a growing energy Company that provides sustainable energy solutions through initiatives at our regulated utility businesses and at our complementary energy infrastructure and related services businesses.

Abundant natural resources here in Northern Minnesota and proximity to energy-rich Canada and North Dakota provide ALLETE with a unique mix of business opportunities to fuel earnings growth and investment for the future. PolyMet's proposed copper, nickel and precious metal mining operation in Northeast Minnesota is making significant progress as it moves along in the permitting process. On July 11, 2016 PolyMet submitted applications for water-related permits with the state of Minnesota.

On August 24 an application for an air quality permit was submitted to the Minnesota Pollution Control Agency. This week PolyMet submitted its all-important permit to mine with the state of Minnesota. The permit to mine application is the last of the major permit applications to be submitted by PolyMet and represents a significant milestone in the development of the project.

The final record of decision on an environmental impact statement associated with the United States Forest Service land exchange with PolyMet is the next major step, a step which PolyMet is anticipating will be completed in 2016. Naturally, all required permits must be finalized before the company can begin to construct and operate their mining operation. Minnesota Power could supply between 45 and 50 megawatts of load under a 10-year power supply contract that would begin upon startup of operations.

Further construction on the Essar project remains on hold for now as the courts work through planned restructuring with the company, local units of government, vendors and the state of Minnesota. Although timing, ownership structure and targeted product decisions are yet to evolve the ore body and project site remain highly favorable for producing direct reduced iron pellets. With nearly \$1 billion already invested at the site DRI presents a real opportunity for regional mining entities such as Cliffs, United States Steel and Essar as the enhanced product is suitable for use in traditional blast furnaces as well as the expanding electric arc furnace market.

The project when completed could generate up to approximately 110 megawatts of new load in Minnesota Power's wholesale municipal segment once it reaches full production levels and by taking service from the Nashwauk Public Utilities Commission. Minnesota Power has a contract for electric service to Nashwauk through 2028.

ALLETE is very well-positioned relative to the clean energy landscape of the future. We believe ALLETE is strategically differentiated to its family of companies to provide sustainable energy solutions designed to meet resource scarcity concerns, changing societal expectations and more stringent regulation.

At ALLETE Clean Energy wind generation facilities added to its generation fleet in 2015 in Minnesota and Pennsylvania have broadened the Company's renewable energy footprint and are contributing to sustainable financial performance. ACE currently owns and operates 537 megawatts of fully contracted wind generating capability.

We believe the market for renewable energy in North America will remain robust, driven by several factors including environmental regulation, PTC tax incentives, societal expectations and continued technology advances. ALLETE Clean Energy is currently exploring additional investment opportunities using its core competencies and experience as a renewable energy operator and project developer.

The recent PTC extension has reenergized ACE's focus on build-own-transfer opportunities related to new wind facilities and also with regards to refurbishment opportunities for its existing wind fleet. ACE is well-positioned to move quickly and diligently as it executes on its strategy to be recognized as a meaningful force in the renewable energy landscape.

We remain excited about the prospects for U.S. Water Services, our newest member to the ALLETE family of businesses. While 2016 has been a year of building back-office support designed to scale the business further, U.S. Water continues to grow a solid and divergent mix of customers.

Late last month U.S. Water announced a tuck-in opportunity by acquiring West. West is a strong regional company located in a key California marketplace. Fully consistent with U.S. Water's strategy, West provides tailored water treatment solutions to a variety of industries including commercial and institutional facilities, the oil and gas industry and central heating and cooling plants.

We believe strongly in the nexus of energy and water. And similar to ALLETE Clean Energy, U.S. Water will further balance and complement our core regulated businesses while providing long-term earnings growth.

Thank you for your time and investment with us. At ALLETE we are confident in our ability to deliver sustainable shareholder value through earnings and dividend growth. At this time I will ask the operator to open up the lines for your questions.

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Paul Ridzon, KeyBanc.

---

### Paul Ridzon - KeyBanc Capital Markets - Analyst

Good morning. Ormond Crossing, how big was that and what's the remaining book value at properties?

---

### Steve DeVinck - ALLETE, Inc. - SVP & CFO

Hi, Paul, this is Steve. During the third quarter as we disclosed ALLETE Properties sold its Ormond Crossing and Lake Swamp parcels for about \$21 million. We received about 40% down in the form of ALLETE stock with the balance to be repaid in five years.

As you know, ALLETE Properties is our legacy Florida real estate investment which now consists of about 6,000 total acres. And our book value is disclosed in the Q and it's about \$32 million.

---

### Paul Ridzon - KeyBanc Capital Markets - Analyst

And it was 50 before this transaction?

---

### Steve DeVinck - ALLETE, Inc. - SVP & CFO

Yes, roughly the book value of what we sold was roughly \$14 million.

---

### Paul Ridzon - KeyBanc Capital Markets - Analyst

How long would it typically take for the Minnesota Commission to accept your filings so you can start the 60-day clock?



**Steve DeVinck** - ALLETE, Inc. - SVP & CFO

We expect the commission to have a hearing and a decision on our filing in mid-December. Which if our filing an interim request is approved, interim rates could start in early January.

---

**Paul Ridzon** - KeyBanc Capital Markets - Analyst

And do you typically book to whatever they grant or do you reserve some? (multiple speakers)

---

**Steve DeVinck** - ALLETE, Inc. - SVP & CFO

So as you know the interim rates which are ultimately approved are subject to refund. So as we go through 2017 and monitor developments in the case it could require us to do some reserves.

---

**Paul Ridzon** - KeyBanc Capital Markets - Analyst

And then, Al, what's your latest view on when PolyMet could actually start taking megawatts?

---

**Al Hodnik** - ALLETE, Inc. - Chairman, President & CEO

Well, they've got more work to do Paul. Obviously, with their permitting in 2017, of course, there will be submittals that will go through their course. The permits this time, though, are on a different clock and timeline than the EIS.

As you know, the EIS was much more of a long process than the permits. They have a defined runway of when the agencies, both federal and state, need to act. But assuming they can get those permits in place and break ground on construction next year then 2018 would be a construction year and then some sort of electricity flow then thereafter.

---

**Paul Ridzon** - KeyBanc Capital Markets - Analyst

I guess just to follow up on properties what level of interest are you seeing on the remaining assets?

---

**Steve DeVinck** - ALLETE, Inc. - SVP & CFO

There is some interest. I would say is probably similar to what we've seen in the last year or so.

---

**Paul Ridzon** - KeyBanc Capital Markets - Analyst

Thank you very much.

---

**Operator**

Chris Ellinghaus, Williams Capital.

---



**Chris Ellinghaus** - *Williams Capital - Analyst*

Hi, good morning guys. Not to beat a dead horse, but some more details on the Ormond Crossing sale. Was there a benefit to the third quarter recorded as a result of that?

---

**Steve DeVinck** - *ALLETE, Inc. - SVP & CFO*

There was. That transaction resulted in a gain of approximately \$3 million after-tax.

---

**Chris Ellinghaus** - *Williams Capital - Analyst*

Okay, great. And as far as the ongoing drag of \$5 million or so a year, how does this transaction affect that?

---

**Steve DeVinck** - *ALLETE, Inc. - SVP & CFO*

This transaction does not affect that. The ongoing drag, as you refer to it, is really fixed costs around assessments and property taxes on the acres we hold. The properties that we did sell here did not have any material assessments or property taxes.

---

**Chris Ellinghaus** - *Williams Capital - Analyst*

Okay great. Al, I think you said that the RFPs would be resolved in the first half of next year. I thought that would be sooner, can you give us a little color on that?

---

**Al Hodnik** - *ALLETE, Inc. - Chairman, President & CEO*

Well, we are sorting that out right now. At Minnesota Power these RFPs are complicated, as you can imagine. There is a wind component, there is a solar component, demand-side component and so on and so forth.

So they are complicated their own right to sort out and then when you look at them in aggregate. So just suggesting the first half of the year I would suspect that would be more in the first quarter than later in the summer, if you will, but it is complicated to sort out. We want to make sure that we are looking objectively at all of them and we will report out to you again sometime in the first quarter.

---

**Chris Ellinghaus** - *Williams Capital - Analyst*

Okay great. Thanks for the details guys.

---

**Operator**

(Operator Instructions) Bernard Horn, Polaris.

---

**Bernard Horn** - *Polaris Capital Management, Inc. - Analyst*

Yes, good morning. A couple of quick questions.

On the real estate sale it looks like I'm just curious who the entity was that they would have 100,000 shares of ALLETE stock to provide, I'm kind of curious what the background is on that, who they were and why would they make a down payment with ALLETE stock? And then the second part



of that question is whether the balance on the receivables it looks like if you take the \$21 million minus the \$8 million it doesn't -- is that just a discount at present value of the receivable on the balance sheet?

---

**Steve DeVinck** - ALLETE, Inc. - SVP & CFO

With respect to the first question we typically don't disclose buyers of our property.

---

**Bernard Horn** - Polaris Capital Management, Inc. - Analyst

Would it be a related entity that would have --

---

**Steve DeVinck** - ALLETE, Inc. - SVP & CFO

No, no it was not. No, it was not. The second question I guess I'm not --

---

**Bernard Horn** - Polaris Capital Management, Inc. - Analyst

Okay. (multiple speakers) why they would use ALLETE stock to make the down payment?

---

**Steve DeVinck** - ALLETE, Inc. - SVP & CFO

Well, that's what they had. I will tell you that we were able to monetize that stock, so we were indifferent.

---

**Bernard Horn** - Polaris Capital Management, Inc. - Analyst

Okay.

---

**Steve DeVinck** - ALLETE, Inc. - SVP & CFO

It was really indifferent to us. It was the same as cash. I'm sorry, the second question I didn't follow.

---

**Bernard Horn** - Polaris Capital Management, Inc. - Analyst

The second part of that question is that if you take I think it was \$21 million that you announced that was the price, and if you take \$8 million out of that it provides about \$13 million. But the receivable that you recorded looks like it was a \$11.6 million. So the difference between \$13 million and \$11.6 million, is that just a present value of the \$13 million left to be paid?

---

**Steve DeVinck** - ALLETE, Inc. - SVP & CFO

I'm just giving your round numbers. So it could be in the rounding. The precision that you are referring to.

---

**Bernard Horn** - Polaris Capital Management, Inc. - Analyst

Okay. And then just not being a specialist utility analyst I'm curious on the decision by the Commission to have to pass through the \$8 million tax credit that you earned through to the ratepayers.



Is that are there any other examples that this has been the kind of regulatory position on these types of tax credits? And then if so, what's the implications for what you paid or I think the Bison assets that you built some of those. I'm not sure that you paid for them.

But if you have paid for them, I'm assuming that you may have worked into your price the availability of the investment tax credits. And if you no longer have the benefit of that because they are going to the ratepayers, does that have broader implications on the pricing of these kinds of assets?

---

**Steve DeVinck** - ALLETE, Inc. - SVP & CFO

To answer your first question, we believe that the regulator has deviated from a long-standing precedent. So we are not aware of the decision they made being applicable anywhere else.

In answer to your second question there really isn't any economic impact to this. These Bison facilities were constructed by Minnesota Power between 2010 and 2014 for about \$800 million. These North Dakota credits in the overall scheme of thing to that project are not that material. So really while we are disappointed in this decision it really doesn't have any impact to the overall economics of that investment.

---

**Bernard Horn** - Polaris Capital Management, Inc. - Analyst

I see. Okay. But it does deviate from -- when you would have -- if you would have put those assets, that \$800 million of assets into your rate base, was it gross assets that you put in or was it minus the tax credits that you received or is that effectively the purpose of this decision?

---

**Steve DeVinck** - ALLETE, Inc. - SVP & CFO

Gross. It's gross is what goes into rate base. Tax credits are just flowed currently as they are recognized or realized depending on the situation.

---

**Bernard Horn** - Polaris Capital Management, Inc. - Analyst

Okay. All right. Thanks very much. That's all I had.

---

**Operator**

At this time I am showing no further questions. So with that said, I would like to turn the conference back over to the President and CEO Mr. Al Hodnik for any further remarks.

---

**Al Hodnik** - ALLETE, Inc. - Chairman, President & CEO

Well, Steve, Bob and I thank you again for being with us this morning and, of course, for your investment and interest in ALLETE. We look forward to seeing many of you at the upcoming EEI Financial Conference in Arizona. Thanks and have a good morning.

---

**Operator**

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program.

You may all disconnect. Everyone have a wonderful day.

---

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2016, Thomson Reuters. All Rights Reserved.